



RESEARCH HIGHLIGHTS

February 2003

Home\$ave 

BUILDING INVESTMENTS IN HOUSING ASSETS

INTRODUCTION

The research undertakes a national consultation to evaluate *Home\$ave*, an asset-based approach to antipoverty using housing as a catalyst. The main objective of this research is to determine if an asset-based strategy through housing is a viable solution to poverty elimination.

A common assumption is that lower-income households cannot save. In 1991, Dr. Michael Sherraden of Washington University in St. Louis illustrated the Individual Development Account (IDA) concept. IDA rewards the monthly savings of lower-income households who are trying to buy their first home, pay for post-secondary education, or start a small business. This reward or incentive is provided through the use of matching funds that typically come from a variety of private and public sources. The hypothesis is that individuals who have an incentive to accumulate assets will do so. Asset accumulation should alter specific behaviours and lead to self-sufficiency, thereby allowing individuals to exit poverty.

In January 2002, Canada Mortgage and Housing Corporation (CMHC) and Human Resources Development Canada of National Secretariat on Homelessness (NHS) commissioned Social and Enterprise Development Innovations (SEDI), a non-profit organization in Toronto, to undertake a national consultation to evaluate *Home\$ave*. This consultation is to validate the assumption that low-income individuals will respond to financial incentives to engage in a range of activities related to housing.

Two reports are presented at the end of the *Home\$ave* national consultation. The first, *Home\$ave: Background Report – Study of Individual Development Accounts for Housing* details relevant background information. The second, *Home\$ave: Main Report – Study of Individual Development Accounts for Housing* summarizes major conclusions and key findings.

This research highlights summarizes the *Main Report*.

IDAS IN THE U.S.A.

The American Dream Demonstration

The *American Dream Demonstration* (ADD) is an on-going IDA demonstration that has been operated by the Corporation for Enterprise Development (CFED) in the U.S. since 1997. CFED is a non-profit organization located in Washington, D.C.

Participation in ADD is limited to households with income at or below 200% of the poverty line, single mothers, former welfare recipients and working poor families with children. Maximum annual savings range from \$240 to \$7,500 depending upon the State. And participant savings are matched from 1 to up to 7 dollars for every dollar saved. The authorized uses include home purchase, micro enterprise development, post secondary education and home repair.

Among the 2,500 participants, the average deposit is \$19.07 per month. Of those who have made matched withdrawals, about 33% of the participants have used it for home purchase and 20% for home repair. For those who have not made matched withdrawals, they intend to use the money for home purchase (58%) and home repair (4%).

Assets for Independence Demonstration

The *Assets for Independence Demonstration* (AFI) project was established through the Assets for Independence Act of 1998, the first U.S. federal law to support IDAs. The Act authorizes the Department of Health and Human Services to transfer a maximum of US \$125 million over five years to local non-profit organizations to support nationwide 30,000 to 40,000 IDA programs. Grants are made on a competitive basis to local organizations.

The AFI project allows only savings deposits from earned income. Savings are further matched by a rate of 1 to 8 dollars to a maximum of \$2,000 per households. The authorized uses include home purchase, small business capitalization and post-secondary education.

IDAS IN CANADA

Calgary: Fair Gains & Owen Hart Homeowners Program

MCC Employment Development has operated this program since 1999. The first-stage, one-year *Fair Gains Program* requires the participants to save a minimum of \$15, to a maximum of \$45, every month. These savings are matched at a rate of 3:1. Participants are expected to attend regular workshops, peer group meetings, and one-on-one counselling. The authorized uses include savings for adult or child education, business start-up or expansion, and home purchase.

The second-stage *Owen Hart Program* is devoted to homeownership. Participants who continue into this second one-year program save only for home purchase. The minimum and maximum monthly savings of \$45 and \$90 are matched at 4:1. Participants are required to attend education courses specifically designed for homeowners.

As of early 2002, five of the one hundred participants have purchased a home.

Winnipeg: Housing IDA Program

Winnipeg's *Housing IDA Program* has been operated by the Alternative Financial Services Committee, North End Community Ministry, Assiniboine Credit Union, Mennonite Central Committee, SEED Winnipeg and United Church Conference partnership since October 2000. Participants are required to save a minimum of \$15 to a maximum of \$250 every month. Savings are matched at a rate of 3:1. Attendance of money management course is required.

To date, three of the 40 program participants have purchased homes and a number of participants have cashed out partially or fully for home renovations. The average monthly saving is \$75.

learn\$ave National Demonstration

learn\$ave is the on-going, nationwide demonstration project that examines the use of IDAs for adult education in Canada since 2001. This \$35 million project is supported by the Applied Research Branch of Human Resources Development Canada (HRDC) and is currently administered by SEDI. Contracted Community Partners administer the project in Vancouver (BC), Calgary (AB), Winnipeg (MB), Grey-Bruce Counties (ON), Toronto (ON), Kitchener-Waterloo (ON), Montreal (PQ), Fredericton (NB), Halifax (NS), and Digby and Annapolis County (NS).

Participation is limited to households with incomes of no more than 120% of the LICO (low-income cut-off) and financial assets not exceeding 10% of their income or \$3,000. Participants are allowed to save up to \$1,500 over a three-year savings period and they are matched by an average rate of 3:1. The authorized uses include post secondary education, skills development, micro-enterprise capitalization, associated supports to learning (like computer purchase), and disability supports.

As of January 2003, over 2,000 participants have opened accounts in *learn\$ave*. The intended uses of the matched contributions include education (62%), skills training (12%), and small businesses (26%).

The eight-year demonstration project will be evaluated and completed by the Social Research and Demonstration Corporation (SRDC) in 2009.

HOME\$AVE

The proposed *Home\$ave* program encourages participants to save toward one of the following housing related goals:

- Obtaining enough money for first and last months rent (or first month rent and damage deposits as required in the province of Quebec);
- Savings for the downpayment on first homes;
- Savings for home repairs;
- Savings for the additional expenses associated with home purchase and home maintenance (legal fees, survey costs, land transfer tax, utilities, property taxes, etc); and
- Any combination of the above.

In this program, low-income individuals would set up an IDA, have their savings matched up to pre-established limits and within a specified time frame. The matched savings could only be withdrawn for the above-approved purposes.

A) NATIONAL CONSULTATION

Consumer Input:

The national consultation on *Home\$ave* consisted of five consumer focus group sessions in Winnipeg (MB), Saskatoon (SK), Toronto (ON), Montreal (PQ) and Halifax (NS). The participants were chosen based on their income levels, savings and desire to purchase a home.

Of the 79 participants interviewed, the concept of *Home\$ave* was well received. They consider the matched savings to be a strong incentive and recognize that savings could enhance their long-term prospects. However, participants with lower income levels are concerned they would never be able to save enough for a downpayment or meet the income qualifications for a mortgage because the cost of living is higher and they lack savings discipline. They acknowledged the benefits of a financial training course.

Stakeholder Input:

The national consultation on *Home\$ave* also sought multi-sectoral stakeholder feedback to an asset-based antipoverty strategy using housing as a catalyst in the above five cities. They anticipate that *Home\$ave* would provide:

- Positive and valuable impact on the “quality of life”, not only for the homeowners and their families, but also for the associated neighbourhoods and the community at large;

- Another way of creating much-needed affordable housing, particularly for those without access to social housing or unable to buy market-rate homes;
- A more cost-effective way of providing affordable housing than assisted rental housing because the amount of public investment is smaller while the perceived dividends are greater; and
- An indirect way of helping the rental situation by freeing up existing units at a time that little or no rental housing is being built.

They also note the following concerns:

- In Toronto, and possibly other high-priced markets, the cost of housing could adversely affect the program. The high cost of owning a home will significantly increase both the income and downpayment requirements. Also, the high cost of rental housing will limit the savings potential of the participants;
- National demonstration projects appear to impose various research and monitoring requirements that are restrictive and costly;
- There are special challenges with aboriginal peoples related to treaty rights, tax treatments and possibly individual concerns about wanting to deal with only their own agencies;
- Charitable organizations might not be able to support local IDA programs from tax-receipted contributions because many of the participants in the programs might not fall within those income groups eligible for charitable assistance;
- The administration of the accounts could be burdensome for the lending institution, and costly relative to any profit that might be derived; and
- The matched contributions could be taxable in some jurisdictions, thereby reducing the benefit derived from this assistance.

B) DEMONSTRATION PROJECT

The main report recommends a *HomeSave* national demonstration and outlines the following programmatic issues and considerations:

- *Taxation of matched contributions.* It will be important to resolve the tax status of the matched contribution so that the benefits are not reduced thereby creating a disincentive for participation in the *HomeSave* project.
- *Provincial income and asset caps.* All provinces strictly regulate the amount of cash and other assets that Social Assistance Recipients (SARs) can possess while receiving benefits. Since the matched contributions from *HomeSave* could exceed the regulated asset caps, it is important to make sure that SARs can participate fully in this demonstration project.

- *Eligibility and screening criteria.* The participants should be selected based on (i) medium household income for a family of four less than or equal to \$50,000; (ii) not currently owning a house; (iii) having a desire to save; (iv) having financial assets of no more than 10% of their income; and (v) having manageable debts.
- *The allowable uses of the HomeSave account funds.* The final report recommends that accountholders should be able to put their personal savings and matched funds towards another use such as RESPs or RRSPs should home purchase be unattainable. In addition all personal savings should remain the personal property of each participants.
- *The match rate, savings maximum and savings periods.* IDA programs are considered to be more generous the higher the match rate, the higher the personal savings maximum and the longer the savings periods. For example, the *learnSave* demonstration offers a 3:1 match rate to a maximum of \$1,500 over a three-year savings period. A more benevolent match rate, savings maximum and savings period combination is also suggested to accommodate the higher cost of homeownership in metropolitan areas such as Toronto, Montreal and Vancouver.
- *Financial literacy course.* This includes economic literacy courses, periodic counselling, the co-ordination of peer support activities and ancillary services such as transportation and childcare. Its purpose is to prepare *HomeSave* participants for homeownership responsibility and post-purchase difficulty. All current American and Canadian IDA programs provide such services.
- *Strategic partnerships.* The partnerships should include funders, an intermediary or chief executing organization (technical consultant), a research and evaluation team, financial institution partner(s), site or delivery partners and consultants on an “as needed basis”.
- *Research design, evaluation strategy and measurement tools.* In terms of evaluating the efficacy of the *HomeSave* demonstration project, the final report suggests the following measurement of outcomes: attitude and information; savings amount; accommodation acquisition; housing stability; and economic participation. The techniques include case studies, cost-benefit analysis and tradeoffs evaluations vs. costs.

The suggested timeline for a *HomeSave* demonstration project is seven to ten years, with a Project Start-up Phase (one year), Participant Enrolment Phase (one to two years), Savings Period Phase (three to five years) and Evaluation Phase (two years).

C) LIMITATIONS

The main report identifies limitations within the concept of *HomeSave*, including:

- *The poorest of the population will not qualify.* Low income is a major obstacle to savings because there is a minimum consumption level a person must maintain in order to survive.
- *Participants must save enough to make HomeSave meaningful.* This is because the program requires participants to meet monthly savings target within the specified savings period in order to achieve their goals.
- *The lack of affordable housing supply.* The nationwide lack of affordable housing supply may prohibit low-income individuals from purchasing an appropriate accommodation.
- *Need for liquid assets.* The poor are often in desperate need of liquid assets (*i.e. cash in the bank*) to deal with financial emergencies. However, the matched savings in *HomeSave* account can only be withdrawn for approved purposes.
- *Saving and applying a matched contribution towards first and last months rent is not considered “asset-building”.* While there are advantages to utilizing the IDA methodology for individuals and families to access the private rental market this would have to be undertaken separate and apart from a home purchase IDA project. SEDI has completed a separate concept paper on this and coined the term Independent Living Accounts (ILAs) for this purpose.

For more information please visit our website at www.sedi.org