

IDA Home Purchases in a High-Cost Area

Introduction

Home ownership is the most common goal among low-income families entering AFI Projects as participants. Data through September 2006 show that about 38 percent of those who had made their asset purchase used their Individual Development Account for purchasing a home. Nothing says “having a piece of the American Dream” like owning one’s own home. In many parts of the country, however, buying is hard to achieve, given the very high cost of housing in general and the low numbers of affordable units.

Fairfield County, Connecticut, is one such area, and metropolitan Stamford-Norwalk ranks as the second most expensive region in the country. The median income for the Stamford-Norwalk metropolitan area is \$111,600. In Stamford itself, the median family income is \$69,337. The median home value in Stamford is \$362,300, a little over half that for the metropolitan area. In Stamford, 5.4 percent of families live below the poverty line. In some neighborhoods, the poverty level approaches 25 percent, a statistic made worse when considering the Federal level is a national figure, not adjusted for high-cost areas like this one. As Alex Knopp, Mayor of the City of Norwalk, Connecticut, describes it: “Most states have a lot of wealthy suburbs and a lot of poor cities, but Fairfield County is unusual in that it has both wealthier suburbs and poor urban areas located within single municipalities. It is why we say there are really two Connecticut.”

CTE’s Approach: Tapping Into Other Homeownership Assistance

CTE’s AFI Project uses three strategies to help IDA participants purchase homes in this high-cost area: 1) fostering partnerships with first-time homeownership programs to leverage additional down-payment resources; 2) offering extensive financial and homeownership education; and 3) encouraging creative options for home-ownership. As of July 2005, 20 CTE [<http://www.ctecap.org/>] participants had purchased homes in the Stamford/Greenwich/Norwalk area, tapping into many of these strategies. Collectively, they had saved over \$200,000 and received an equal amount in IDA matching funds and some added help from other assistance programs. Homes purchased ranged in price from \$170,000 to \$520,000, with a combined asset value of \$5,000,000.

Fostering Partnerships with First-Time Homeownership Programs

In high-cost housing markets, IDA savings and match money alone are not enough for an adequate down payment. CTE links with other sources of down-payment assistance, making IDA money part of the “funding pie” to help low-income families become homeowners. Among these are:

- **The Housing Development Fund (HDF):** up to \$10,000 in an interest-free loan secured by a second mortgage)

- **U. S. Department of Housing and Urban Development, HOME Investment Partnership Program:** \$450,000 available each year from the City of Stamford for no-interest down payment loans up to \$20,000
- **Stamford Housing Authority:** assistance to public housing or Section 8 recipients of up to \$25,000 in the form of down-payment assistance as a zero-interest loan, due only at the end of the 30-year loan.
- **The SmartMove Homeownership Program:** low-interest, 20-year second mortgages of up to 20 percent of the purchase price to defray down-payment costs, cover mortgage insurance, and lower monthly payments. CitiMortgage, the City of Stamford, the Connecticut Housing Finance Authority, First County Bank, and the Savings Bank of Danbury are partners in this project.

In addition, Citibank offers an additional \$2,000 match to 20 IDA participants. Normally, CTE's IDA participants save \$4,000 and are matched \$4,000. Using the Citibank funds, the higher match rate is \$1.50 to \$1.00: A participant who saves \$4,000 can receive a maximum match of \$6,000, yielding a total of \$10,000 for the asset purchase. The additional \$2,000 provides a much-needed boost to participants' quest for homeownership. To receive the enhanced match the participant must be saving for a first home, must have been in the IDA program for at least two years, must have at least a 90 percent attendance rate for all financial education and asset-specific training, must have adhered to their savings plan and be on target with their savings goal, must have taken part consistently in case management sessions, and must have exhibited cooperation, enthusiasm, and a willingness to share information with other participants in the program.



Offering Extensive Financial and Home Ownership Education

CTE's IDA Program Manager provides financial education to participants and collaborates with several other first-time homeownership programs to provide advanced education and training for IDA participants saving for a home. The Housing Development Fund, itself a Community Development Financial Institution; HDF's subsidiary, Adopt-A-House; the Urban League; Citibank; and Mutual Housing, a local first-time homeownership agency, all work with CTE to give IDA participants the best information on home buying and homeownership that is available in the area.

Financial knowledge is especially important for IDA participants, who often have borderline credit scores and weak credit histories. Lending and purchase options and avoiding financial pitfalls are critical topics. With a credit score of less than 680, a person might not be considered a good bank risk and might go to a subprime lender for financing—not always a bad option as their interest rates might be more competitive. In the Stamford area, some mortgage companies will consider applicants with credit scores as low as 620. Banks usually will loan up to 2.5 times the buyer's annual earnings; mortgage companies may consider 3 or 3.5 times, but with a higher interest rate. While this flexibility expands homebuyers' options, it also makes it even more imperative to consider and understand all aspects of their present and future financial condition. Many mortgage companies are reputable, but there is an increased risk of a buyer succumbing to predatory lending as they move outside traditional banks and credit unions and use sub-prime lenders. Education is key: Homebuyers must understand the lending landscape and know what they can afford; not just what the lender will give them.

Encouraging Creative Alternatives for Homeownership

Most IDA participants come into the program with a dream – a one-family house, with a yard and picket fence. Reality can get in the way, however. A condo might be a more realistic first step to enable the family to build equity, benefit from the home's increase in value, and buy a single-family home in the future. Some other creative alternatives to help IDA participants buy a home are:

- Purchase a multi-family home and rent out part of the house. This gives the family additional income that can be used toward the mortgage. Also, 75 percent of projected income from a rental property can be counted when the lender is determining the size of a mortgage for which a borrower qualifies.
- Purchase a multi-family property with a relative or friend. If an IDA participant chooses this option, it is important to counsel them to enter into an official business partnership and contract with the relative or friend. Education for participants considering this option should include contracts, deeds, and wills. Legal advice is critical in this case.

Recommendations for Other IDA Programs

Successful leveraging of other resources requires productive relationships with other programs and agencies that can complement IDA work. In a high-cost area, IDA funds must be supplemented – with both educational and financial resources – to ensure successful home purchases. First-time home ownership programs, Community Development Block Grant programs, city and county governments, housing authorities, financial institutions, and other funders – all can be approached and encouraged to join as partners in the common goal of homeownership for low-income families.

CTE President and CEO, E. Phillip McKain, an early proponent of IDAs, describes CTE's success this way: “We have shown that even in a high-cost area, where you wouldn't think that low-income families would be able to save and purchase assets, a well-run IDA program can give participants an incentive to save. This, coupled with targeted lessons in financial education and linkages to additional resources, can help our participants become homeowners. It used to be said that ‘A job is the best anti-poverty program.’ IDAs have shown that it can also be said that ‘Having assets is the best anti-poverty program!’”

