In February 2008, CFED informally surveyed 27 Individual Development Account (IDA) programs around the country about the state of the homeowners who had purchased homes through their programs in the past five years. We were interested in examining whether these low-income, first-time homebuyers were still in their homes or if they had been a part of the wave of foreclosures during this crash in the subprime mortgage market. IDA savers, the majority of whom are minority and earning less than $24,000 a year,[1] are members of the communities most at risk for getting a subprime mortgage.[2] Eighteen programs from 11 states responded to our survey, providing data on 1,212 homeowners. While these homeowners are not necessarily a representative sample of the almost 8,000 families who have used an IDA to help purchase their first home, the results of the survey can help us get a sense of how IDA savers have been faring during this subprime mortgage crisis.

Of the 1,212 IDA savers who purchased a home in the past five years, programs estimated that the majority (perhaps as high as 85% overall, but 97% or more in two-thirds of the programs) were able to get conventional, fixed-rate mortgages. In addition, there were only three defaults and four foreclosures reported. Only a few of the programs had hard data on the default and foreclosure rates among their participants, but respondents still had a strong belief that the overwhelming majority of participants were still in their homes. The smaller programs were still in fairly close contact with participants, so they were more confident in their assessments. Given the current market conditions, they believe people are doing as well as can be expected, although one program did mention an increase in property taxes was causing participants to budget more stringently. ECDC Enterprise Development Group in Virginia was concerned for families that had purchases in 2005 or 2006 and were currently seeing their home equity decrease. Lenders for Community Development (LCD) had counseled a number of California families facing mortgage difficultly, but none of those who called for help had purchased their home with their IDA. Either they were homeowners before entering the program, or they had been referred to LCD for help.

Respondents attributed the low foreclosure and default rates to a combination of financial education and homeownership counseling throughout the pre- and post-purchase process. Some programs provided the counseling in-house and others referred participants to reputable partners. This counseling and education provides the participant with the information they need to make an informed decision about which house to buy and which mortgage they can afford. LCD believes that the financial education and participation in the IDA program has helped people understand the true costs of homeownership. Many families have delayed their home purchases and instead invested their IDA funds in an IRA, which will allow them to use the funds for a home in the future. To ensure that participants can be successful in reaching the goal of homeownership, they are working to provide participants with better information on all available programs and services, more in-depth counseling, as well as stricter entry criteria for those saving for homeownership.

Half of the programs also believed that low default and foreclosure rates were due to trained staff carefully reviewing the mortgage documents and not allowing IDA funds to be released for an unreasonable loan. Many programs had restrictions on the type of loans that were acceptable: adjustable rates, high fees, prepayment penalties, or excessive interest rates were a few of the reasons a loan could be rejected. A few even had restrictions on which financial institutions could provide the mortgage. The First State Community Loan Fund in Delaware didn't have restrictions on mortgage terms initially but put them in place when they began to see participants getting predatory loans. The New Hampshire Community Loan Fund had a participant drop out of the program because a partner discouraged the participant from getting what they believed was a predatory loan. The loan later fell through because the lender "changed his story," and the participant is once again trying to work with the program to obtain a reasonable and affordable mortgage.

[1] CFED, 2005 IDA Survey

[2] "Paying More for the American Dream: The Subprime Shakeout and Its Impact on Lower-Income and Minority Communities." March, 2008. A joint report by California Reinvestment Coalition, CRA-NC, Empire Justice Center, Massachusetts Affordable Housing Alliance, NEDAP, Ohio Fair Lending Coalition, and Woodstock Institute.