



Case Study #X: Individual Development Accounts: A Model for Innovative Partnerships between Family Self Sufficiency and Assets for Independence Programs

New York State Division of Housing and Community Renewal

Summary: Housing authorities can play a unique and important role in supporting the implementation and use of Individual Development Accounts (IDAs). Nowhere is this more evident than in New York State’s Division of Housing and Community Renewal (DHCR) which has successfully partnered its Section 8 Housing Choice Voucher program with an Assets for Independence Act (AFI) grant to facilitate the use of IDAs across the state of New York. Through these blended programs, participants receive financial literacy, homebuyer education, assistance with credit problems, and a \$4:1 savings match. DHCR’s comprehensive service model serves as a prime example of housing authorities’ ability to successfully promote the use of IDAs on a state-wide level.

Background

The New York State Division of Housing and Community Renewal (DHCR) are tasked with the supervision, maintenance, and development of affordable low- and moderate-income housing throughout the state of New York. One of DHCR’s major initiatives is its Section 8 Housing Choice Voucher (HCV) program¹. With a goal of helping over 38,000 low-income individuals and families rent or purchase housing in the private housing market, DHCR administers its Section 8 HCV program through contracts with local administrators in 50 counties across the state, including metro-NYC and rural areas. To date, over 260 Section 8 voucher holders, located in various rural and metro-counties, have converted their voucher rental subsidies to home ownership assistance.

Through its work with Section 8 voucher holders, DHCR has identified four common barriers to this population’s successful achievement of homeownership, all of which also apply to AFI participants, underscoring the value of blending the two programs administratively: 1)

¹ The Section 8 Housing Choice Voucher (HCV) program provides rental and homeownership assistance to low income household in the state of New York. Through federal funding from the U.S. Department of Housing and Urban Development, public housing agencies provide eligible households with vouchers to rent or purchase a house in the private housing market. The voucher assistance is paid directly to the landlord or mortgage lender on the family’s behalf and then the family pays the difference between the actual rent or mortgage and the amount subsidized by the program.

low credit scores and the lengthy time-frame necessary to reduce debt-to-income ratios, satisfy past-due bills, and address other negative credit issues; 2) lack of “affordable” housing stock in decent (habitable) conditions; 3) lack of the down-payment required by most mortgage lending products; and 4) lack of home-buyer education classes (as required by U.S. Department of Housing and Urban Development rules) in all local areas.

In order to address these identified barriers, DHCR implemented a number of new policies and program options into its Section 8 HCV program. DHCR addressed the first barrier (low credit scores) by introducing a new policy into its Family Self-Sufficiency (FSS) program. This new policy enables participants with a stated goal of homeownership to partially draw down their escrow² funds in order to pay off any debt negatively affecting their credit score or mortgage-readiness. Additionally, at the end of the program, participants can draw down all but \$100 of their FSS escrow for homeownership purposes. The second and third barriers to home ownership (lack of affordable housing stock and lack of a down-payment) were addressed through DHCR’s successful application for an AFI grant offered through the U.S. Department of Health and Human Services (HHS). As discussed in more detail below, through the AFI program, DHCR was able to provide a down-payment resource on a state-wide basis that was previously non-existent for DHCR Section 8 voucher holders who wished to pursue homeownership. Finally, to address the fourth barrier (lack of educational classes) the housing field in New York, including DHCR, developed a Coalition for Excellence in Homeownership Education (CXHE). This collaborative attained a small NeighborWorks® America grant to study the status of housing counseling in New York State³. Results from this study lead the coalition to adopt the national industry standards developed by NeighborWorks® America’s National Homeownership Center. CXHE is currently in the process of forming a 501(c) (3) nonprofit to focus on expanding housing counseling capacity and strengthening the standards for homeownership education through certification. DHCR also addressed the lack of educational classes by partnering with the Federal Deposit Insurance Corporation (FDIC) to train local administrative staff and their program partners in two counties on the use of “Money Smart”, FDIC’s financial education program⁴.

² The Section 8 voucher holder that voluntarily joins FSS is entitled to earn escrow funds during his or her 5-year FSS “Contract of Participation”. Generally, the escrow accumulates through a pre-established formula based on annual or interim increases in earned income. Head of household income determines the family share of the rent versus the subsidy amount to be paid to the landlord. Over time, as the Section 8 head of household increases income contributions, a monetary credit is posted to his or her escrow account. When the head of household fulfills self-sufficiency goals as stated in the contract, a graduation occurs and he or she is entitled to the balance in the escrow account.

³ A copy of this study, entitled *The Current State of Homeownership Education and Counseling Services in New York State* can be found at <http://cxhe.wordpress.com>. The national industry standards for home ownership counseling can be found at www.homeownershipstandards.com

⁴ <http://www.fdic.gov/consumers/consumer/moneysmart/>

Program Description

DHCR's AFI program, which targets low-income individuals, is a down-payment matched-savings program originally designed for Section 8 voucher holders who wished to pursue homeownership. While the program has since expanded to include non-Section 8 clients, it maintains its original goal of helping low-income residents of the state become first-time home buyers.

DHCR's AFI program is administered through funding from the HHS AFI grant and a non-federal match of \$1 million derived from Section 8 administration fees. By not using financial institution resources as the non-federal match, Section 8, as well as non-Section 8, AFI participants are able to shop for affordable mortgage products that best meet their needs, including USDA-Rural Development, State of New York Mortgage Agency, and FHA. It should be noted that an alternative source of funding that would also enable AFI participants to select their own mortgage product is the Community Development Block Grant (CDBG) program. While DHCR recruited Chase Bank as its statewide IDA savings account administrator, in part, as a result of its prior history serving Section 8 voucher holders, this does not commit AFI participants to selecting Chase Bank as their mortgage lender.

Given restrictions on the use of program funds for administrative services, DHCR selected to implement its AFI program through its preexisting partnerships with local administrators, particularly the FSS and Home Ownership Coordinators.

At the state level, DHCR has one AFI Project Director who has prior experience in Section 8 management including FSS and Home Ownership, and is currently responsible for administering the AFI program. This individual conducts all of the AFI case management and ensures the program's overall functioning. This individual has also developed the universal intake and programmatic forms used for AFI as well as the marketing materials that are posted on the DHCR web site at www.nysdhcr.gov, making them readily accessible to consumers. The local administrators use these materials to advertise the program. Recognizing the limited capacity of a single AFI Project Director, DHCR has successfully utilized technology such as e-mail and video conferencing in communicating and ensuring consistent training of all AFI partners.

The local administrators, who do not receive any funding through the AFI grant, have been trained on the AFI program and on how to conduct AFI screenings. These local administrators (generally the FSS or Home Ownership Coordinators) carry out the on-the-ground, day-to-day client contact for the program. This includes pre-screening applications, conducting intakes, counter-signing and submitting the applications, and following up with individuals when DHCR notifies them of their missing savings deposits or other program needs.

The AFI program requires participants to set a personal savings goal with a match rate of \$4:1 and a grant value of up to \$7,500. Therefore, participants can save \$1,875 and be matched at \$7,500 giving them a total grant of \$9,375. This matched-savings can be paired with other non-HHS funded matched-savings programs, such as First Home Clubs offered by Federal Home

Loan Bank members, thus increasing participants' abilities to expand the return on their savings. Program participants can also open their savings account with an Earned Income Tax Credit (EITC)⁵ lump sum equivalent to up to half of their goal. This "lump-sum" policy provides the savers with an alternate, yet more realistic and affordable monthly savings plan. In many instances, the FSS or Home Ownership Coordinators work to ensure that participants gain the most from the AFI program by partnering with the local Creating Assets, Savings and Hope (CASH) and Volunteer Income Tax Assistance (VITA) Coalitions sponsored by local United Way agencies.

Participants in the AFI program also attend financial and money management classes as well as homeownership educational classes. These classes are designed to help participants acquire or enhance personal and financial skills such as household budgeting, credit repair, and savvy consumer habits.

All AFI program participants are required to participate in FSS with homeownership as one of their stated goals. The goal of FSS is to provide services or referrals for services that assist heads of households in attaining full-time gainful- or self-employment that pays a living wage. Since the AFI rules require that money deposited into the matched-savings account come from earnings, gainful- or self-employment is a mandatory component of the AFI program, similar to FSS' requirement for successful completion and graduation from the program. DHCR amended its policies so that program participants who have previously graduated FSS can re-enroll with a revised goal of homeownership. Additionally, DHCR implemented a policy whereby FSS participants are required to take financial education classes and be banked (i.e., hold a savings account at a bank of their choice) upon program completion. Therefore, AFI program participants must complete FSS' program requirements in addition to the AFI program requirements.

Most program participants take between 12-36 months to complete their AFI matched-savings goal, attend the required home buyer education class, and become mortgage-ready. Once AFI program participants have attained their savings goal, these funds can be used for most expenses involved with purchasing a home including down-payment, closing costs, application fees, and homeowners insurance. While Section 8 vouchers restrict home purchases to single family homes, AFI allows program participants to purchase multi-family homes that can house up to four families. This feature enables home-buyers to rent out portions of their home as a means to generate future income. AFI participants who choose to purchase a multi-family unit as their first home must attend landlord-tenant related training. In addition, the home must pass a "Housing Quality Inspection" and/or program participants must arrange and pay for a professional home inspection before any subsidies or grants are provided.

⁵ The Earned Income Tax Credit (EITC) is a refundable federal income tax credit for low to moderate income working individuals and families. This credit reduces the impact of the payroll and income taxes for low and moderate income workers and supplements the earnings of very low-wage workers. For tax year 2009, a family with one qualifying child can receive a maximum credit of \$3,043 and a family with two qualifying children can receive a maximum credit of \$5,028.

The Section 8 HCV program contains a built-in mobility feature commonly known as “portability”. Voucher holders can utilize their portability options to purchase homes outside of the DHCR jurisdiction. Portability is also an important feature of the AFI program where AFI clients can access their savings accounts plus matching grant funds to be disbursed anywhere in the state. Furthermore, a non-DHCR Section 8 rental voucher holder who wishes to pursue home ownership can apply to DHCR for permission to “port-into” and be absorbed by the DHCR voucher program since the home ownership option is offered on a statewide basis. This means non-DHCR Section 8 voucher holders have a vehicle to access AFI matched-savings while sustaining their voucher assistance.

Recognizing that the AFI program is conducted exclusively through the voluntary participation of local administrators and that some communities are more engaged than others, in January 2009, DHCR decided to open the program up to all income eligible applicants, regardless of their Section 8 housing status. This program expansion is being conducted in partnership with approximately 55 local non-profit organizations including Community Action Agencies, Community Housing Development Organizations, Weatherization, and H.O.M.E. (Housing Opportunities Made Easy) program providers. The new homeowners are often referred to these agencies to leverage additional resources such as down-payment grants and/or energy conservation assistance. Any combination of these additional resources is mutually beneficial to the AFI consumer especially since the AFI matched-savings does not require a lien to be placed on the home. While the full benefits of this program expansion have yet to be realized, Habitat for Humanity, in particular, has proved to be one of DHCR’s strongest partners. Habitat for Humanity offers affordable housing options not often available on the public housing market. It also provides a number of supportive services that AFI program participants are able to take advantage of. The flexibility of AFI program policies at DHCR allow program participants who are selected for a Habitat home to modify their Savings Plan Agreements (i.e., increase their monthly savings amount and/or shorten the savings term) in order to align completion of their saving goals with the estimated construction completion dates. With a number of AFI participants interested in obtaining housing through Habitat for Humanity, two program participants have been selected to receive Habitat homes and an additional family had successfully closed on a Habitat home. DHCR anticipates continued and growing partnership between the AFI program and Habitat for Humanity.

With a goal of 200 AFI program participants, as of August 2009, DHCR has enrolled 50 clients representing geographic diversity throughout the state. As is typical of most start-up AFI programs, adaptation to new administrative procedures, particularly integrating FSS with AFI, has been slow but steady. Integration of the two programs, the essence of the innovation, however, has been demonstrated under varying local community and agency conditions. Most program participants hear about and become interested in the program through their interactions with the local administrators. Of the current participants, nearly half have opted to save the maximum amount of \$1,875, and one participant has successfully closed on a new house.

Future Efforts

In the future, DHCR anticipates being able to offer the AFI program to 200-400 individuals and families. The AFI Project Director recently obtained approval to set aside 30 slots to receive a \$6:1 match bringing the total grant value to \$11,250. This subset of program slots will be designed to align with the Neighborhood Stabilization Program (NSP), which rehabilitates and resells foreclosed homes, 25% of which must be dedicated as low-income. These 30 slots will target multi-family home purchases, which, as discussed previously, will provide rental income to property owners. Participants in this program will be required to complete all of the requirements of the AFI program as well as additional landlord training. Since landlord training is not available throughout the state, the AFI Project Director is considering providing virtual training through video teleconference.

Lessons Learned:

- Housing authorities can play a unique role in facilitating first-time homeownership by implementing new policies and aligning their current programs with AFI. The infrastructure and requirements of the Section 8 HCV program and AFI complement each other in a variety of ways that supports their mutual goal of first-time homeownership.
- Pre-existing administrative infrastructure can be used to support the use of IDAs. In the state of New York, DHCR successfully implemented its AFI program through its preexisting partnerships with local administrators representing numerous federal and state programs. It should be noted, however, that this successful implementation resulted from DHCR conducting significant adaptations to the administration, policy, and operational components of the infrastructure.
- As DHCR demonstrates, a common infrastructure can be used to support the use of IDAs among diverse geographical populations across a state.
- Database compatibility between the housing authority and AFI programs is critical to reducing administration burdens. DHCR has assessed the automated databases of the Section 8 HCV program and AFI and found them compatible, and is exploring the design of a beta test process.
- Although the focus on the innovation is on integrating policies for Section 8/FSS and AFI IDA participants, DHCR has demonstrated the general applicability of the model to a variety of organizations, including a collaboration of several smaller housing authorities or other non-profits. It has also demonstrated the general applicability of a number of its program and policy options, such as portability of IDAs intra-state and potentially inter-state, a longstanding goal of such programs. Additionally, this model could be applicable to IDA programs focusing on other asset building areas such as business or college education.

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