RESEARCH REPORT

HOMESAVE: BUILDING INVESTMENTS IN HOUSING ASSETS: BACKGROUND REPORT

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BACKGROUND REPORT

Study of Individual Development Accounts for Housing
– A National Demonstration Project –

Home$ave
Building Investments in Housing Assets

Study Prepared for:
Canada Mortgage and Housing Corporation and the National Secretariat on Homelessness

By:

Social & Enterprise Development Innovations (SEDI)

February 2003

PREFACE

This project was funded by Canada Mortgage and Housing Corporation (CMHC) and Human Resources Development Canada (HRDC). The contents, views and editorial quality of this report are the responsibility of the author and CMHC and HRDC accept no responsibility for the contents, views and editorial quality or any consequences arising from the reader's use of the information, materials and techniques described herein.

Cette recherché a été finance par la Société Canadienne d'hypothec et de logement (SCHL) et Developpement des ressources humaines Canada (DRHC). La qualité rédactionnelle de ce rapport, son contenu et les opinions qui y sont émises sont de l'auteur. La SCHL et DRHC ne saureaient en assumer la responsabilité pour la qualité redactionnelle, le contenue et les opinions et se dégagent de toute obligation rélativement aux conséquences resultant de l'utilisation que le lecteur pourrait faire des renseignements, des matériaux ou des techniques qui y sont décrits.

SEDI is thankful to all of those in the asset-building and related fields who provided valuable insights, professional contributions and welcomed encouragement for this project.

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1. INTRODUCTION

The report contains the background information collected and reviewed as part of the field work undertaken to identify the possible resonance and appropriateness of a potential national demonstration project aimed at testing "Individual Development Accounts" (IDAs) to provide lower-income households with greater access to affordable housing. The project itself has been called *Home***$ave.**[1]

This study was sponsored by Social and Enterprise Development Innovations (SEDI) using funding provided by Canada Mortgage and Housing Corporation and the National Secretariat on Homelessness. SEDI is a non-profit organization engaged in exploring social policy innovations, particularly in the asset-building field.

The major conclusions and findings for this study are presented in the accompanying ***Main Report: Study of Individual Accounts for Housing, A National Demonstration Project – Home*****$ave- February 2003.**

The research on the consumer market response to the *Home*$ave concept is contained in a separate document: ***Home$ave Participant Consultative Research (Final Version)***, April 2002.

1.1. Outline of Report

This report contains documentation that was reviewed and thought pertinent to include as supporting information to that contained within the aforementioned ***Main Report: Study of Individual Accounts for Housing, A National Demonstration Project – Home*****$ave- February 2003.** This report can be read in conjunction with the main findings if additional information or detail is sought.
The documentation within this background report is presented in 7 sections and commences with a review of existing IDA programs in both Canada and the United States. Section 3 provides additional information on Canadian Government homeownership programs that adds support to the premise that housing is seen as an appropriate means to accumulate assets. Section 4 provides details of the Stakeholders meetings that took place in March and April of 2002 and the results of the discussions undertaken on the items related to IDAs for greater access to affordable housing. Section 5 identifies details of six rent bank programs and the effect of the administration and related disbursement of the contribution tot eh individual/families involved. Section 6 provides details the background and experience of Homebuyer Education and councelling programs both in the US and Canada and Section7 ends by assessing the various poverty measurements utilized today in Canada.

The report concludes by providing a list of participants who attended, and provided input at the Stakeholder meetings held in Halifax, Montreal, Toronto, Winnipeg and Saskatoon, as well as a

[1] *Home***$ave** is the project name trademarked by SEDI in October 2002.

list of references used to compile information for this study. Additional information relating to the various aspects of IDAs for housing can also be gained from these sources.

2. IDA PROGRAMS

2.1. Existing Demonstration Projects in the US and Canada

The following provides details of existing IDA demonstration programs in the US and Canada.

IDA programs in the US are supported by two on-going demonstration projects namely the *American Dream Demonstration* (ADD) initiated in 1997 by the Corporation for Enterprise Development (CFED) and the *Assets for Independence Demonstration* (AFI) initiated by the federal government in 1999.

In addition, since 1993, 36 states and the District of Columbia have started programs to support IDAs, and 32 states have included them as part of their welfare reform plans.

No survey has been undertaken of the local IDA programs. There are 392 programs registered in CFED's network. According to staff, virtually all of them are involved in asset development for education, micro-enterprise as well as homeownership; but very few have extensive experience in or are exclusively devoted to housing. Many of these are housing organizations that have included IDA as one of the ways available to address affordable housing. Most are social service or business development organizations that have adopted IDAs.[2]

*learn***$ave** is a Canadian nation-wide demonstration project which commenced in 2001 and is examining the use of IDAs for adult education. The project, originally initiated, designed and currently administered by SEDI, is being supported through $35 million provided by the Applied Research Branch of Human Resources Development Canada (HRDC). The local programs are being administered by non-profit organizations in ten communities namely Calgary, Toronto, Winnipeg, Montreal, Vancouver, Halifax, Fredericton, Kitchener-Waterloo, County of Grey Bruce, and Digby and Annapolis County.

2.1.1. American Dream Demonstration

The *American Dream Demonstration* (ADD) is the first large-scale test of IDAs. The Corporation for Enterprise Development (CFED) was responsible for initiating and coordinating the project [Schreiner, 2001]. The Center for Social Development (CSD) at Washington University in St Louis is responsible for its evaluation.

CFED is a non-profit organization based in Washington DC that promotes asset-building approaches, primarily in low-income and distressed communities, as a strategy for creating economic opportunities.

[2] Mills, Gregory *et al*: *Evaluation of Asset Accumulation Initiatives, Final Report*; Abt Associates: prepared for the US Dept of Agriculture: 29 February 2000. Available at: ***http://www.fns.usda.gov/oane/MENU/Published/FSP/FILES/Program%20Design/AssetAcc.pdf***

CFED raised approximately $18 million, for the project from 11 private foundations. Some of the local organizations also have subsequently secured additional funding from the federal program and/or various local sources, including state programs that support IDAs.

Out of this funding, CFED matches the participant savings in the IDAs on a 1:1 basis up to $500 per account per year. It also provides annual operating grants of $25,000 to all of the participating organizations, except for the largest operation, Community Action Project of Tulsa County (CAP TC) in Oklahoma, which received $100,000.

In coordinating this project, CFED also conducted a competitive selection of the participating local organizations, provided technical assistance, undertook policy development and research, hosted annual conferences, opened a web-based network, and published numerous reports.

In ADD there are 14 IDA programs that have been designed, implemented and operated by 13 local organizations across the US. The organizations are located in a range of urban, small cities, small towns and rural areas. CAPTC is responsible for about 1/4 of the participants in this project.

The project was opened to new enrollments in July 1997, and these were allowed to continue until the end of 1999. The project will run until the end of July 2002, after which CFED will no longer match any new deposits (There is one exception to this: CAP TC will run for one more year because the recruitment of participants in this large program took a year longer than expected.) The on-going evaluation of the project is expected to continue for two years after that until at least mid-2004.

After the end of July 2002 (July 2003 for CAP TC), the accounts must be closed or taken over by the local organizations. Those local organizations who have raised federal and local funding will most probably will continue under their auspices. Where that is not possible, and the participants have not utilized the matching funds, they will be permitted to roll over their savings and the matching funds to an Individual Retirement Accounts (IRAs).

These programs share the following main features:

- In all of these programs, the matches are available for withdrawals from the IDAs when used for home purchase, post-secondary education and micro-enterprise development. Some of the programs also match deposits when used for home repair, retirement and job training.
- The match rates in these programs range from 1 to 7 dollars for every deposited dollar withdrawn for an approved use. The average match was just under 2:1.
- Eligibility is limited to households earning no more 200% of the poverty line. This criterion is considered explicitly to target the "working poor" rather than the poor.
- All of the participants are required to receive some financial education. The time provided varied, but the average was about 10 hours.

a) Summary of Results

The following is a summary of the final evaluation report (Schreiner *et al*, 2002) prepared by the Centre for Social Development (CSD), St.Louis, MO. It is based on data collected from 1997-2001, although participants accessed their matched withdrawals until June 30, 2002.

Participation

Nearly 2,400 participants had opened IDA accounts in 14 IDA programs across the United States. Approximately 56% of participants are considered *savers*, meaning they saved more than $100 as of Dec. 31/2001. The average length of participation was 24.5 months.

These participants are not representative of the low-income population as a whole in the US. In comparison, they contain a higher portion of females (80%), African-Americans (47%), unmarried people (75%), and those with a secondary or higher education (75%), a regular full-time job (58%), and a bank account (79%). These differences likely reflect the explicit targeting to the "working poor" by these programs, and also the populations served by the various local organizations running the programs.

On average, the participants in ADD earned 116% of the poverty line. About 12% were over 200% of the poverty line.

Savings

The average monthly deposits were $33.81 for *savers* and $19.06 for all participants. With the matching funds, the average active participant accumulated assets in IDAs worth $2,755.

The average savings rate was 1.6% of the monthly income.

The average net deposits for the average participant was $528.

About 32% of participants made matched withdrawals. The money was used mainly for home purchase (28%), micro-enterprise (23%) and post-secondary education (21%). Among those planning their matched withdrawal between Jan. 1 and June 20th, 2002, their asset goals included home purchase (55%), micro-enterprise (18%) or post-secondary education (14%).
The matched withdrawals in total amounted to $662,127, or $1,245,818 with the matching funds. The total assets withdrawn with matching funds totalled $3,648,149.

About 64% of the participants made an unmatched withdrawal. The average amount removed without a match was $169.

To give some perspective to these figures, the median illiquid assets — mostly homes (19% ownership) and cars (67% ownership) — were $2950 (although skewed by one response), debt was $2,875 and mean net worth was $4,039.

Costs

Taken from the 2001 Evaluation Report (Schreiner *et al*, 2001) prepared by the Centre for Social Development (CSD), St.Louis, MO. It is based on data collected from 1997-2000. Final cost estimates will not be completed until 2003.

The average cost for running these programs (excluding the matches) was $70.38 per participant per month, or $2.77 per $1 of net deposits. The costs have declined over time. The average cost was $117.58 through mid-1999, and $43.66 from mid-1999 to mid-2000.

These costs probably overstate the eventual cost of running these programs. They include various short-term or special costs, including those related to starting-up the programs, providing the technical assistance to other IDA programs, collecting data for the evaluation, and being involved in policy development. They also do not reflect the savings that will come as the programs grow in size and experience.

Most of the remaining and more immutable costs in these programs are associated with their service-intensive features, particularly the one-on-one involvement and counselling. These are seen to be key features in enhancing the outcomes of these programs, and reducing them might present a challenge.

b) Other Findings
(Schreiner *et al*, 2001 and Schreiner *et at* 2002)

- Rate of unmatched withdrawals and exits: The size and frequency of the unmatched withdrawals, despite the loss of the matching funds, has been one of the biggest surprises in ADD. It indicates that saving is difficult for at least some participants, even in a supportive context like IDA.

- Impact of match rates: The higher match rates seem to reduce the incidence of unmatched withdrawals, but they do not seem to lead to larger deposits. There is some anecdotal evidence that suggests that higher matches also attract participants to the IDA programs.

- Impact of financial education: Financial education improves the savings but only to a point. Each hour up to 10 hours was associated with large increases in savings, but hours after that had little effect.

- Extent of asset shifts: Most IDA deposits probably came from both new savings as well assets converted from other forms, but the extent of each is unknown. There is some indication that many participants worked longer hours or tightened their household budgets to produce savings. On the other hand, because of the matches, some also may have reduced their other savings, borrowed to fund the savings or repaid debts more slowly than otherwise.

- Impact of other factors: Those with a higher education were found to save more under this program, but employment was not significantly associated with any savings outcome. Those with higher incomes saved more, but the percentage of their income saved was less than those with lower incomes.

2.2.2.Assets for Independence Demonstration

The *Assets for Independence Demonstration* (AFI) project was established through the *Assets for Independence Act* of 1998, the first federal law enacted specifically to support IDAs. The demonstration project was allocated $125 million over 5 years to support 40-50,000 new IDAs across the country. It is operated under the auspices of the Office of Community Services of the US Department of Health and Human Services.

Under this program, grants are made on a competitive basis to non-profit community-based organizations, local governments and tribal bodies that are currently operating, or planning to implement, an IDA initiative. Federal dollars must be matched at least by an equivalent amount of local dollars.

The funds must be used within these limits:

- a maximum of 85% for savings matches;
- a minimum of 2% for data collection;
- a maximum of 5.5% for financial education; and
- a maximum of 7.5% for project administration.

The funds can be used to match savings when applied to these purposes:

- post-secondary education;
- first-home purchase; and
- business capitalization.

To be eligible, the household income must not exceed one of the three measures of poverty that are used by local organizations. Those limits are defined in the following ways:

- 200% of federal poverty level.
- The maximum for receiving assistance under the Temporary Assistance for Needy Families (TANF) program, which is part of the federal government's welfare support system.
- The maximum for receiving assistance under the Earned Income Tax Credit (EITC), which is one of the federal government's main anti-poverty programs.
- The households must also meet asset limits, and must have a "Savings Plan Agreement"
- The minimum permitted match rate relative to the savings is 1:1, and the maximum is 1:8. The maximum federal match available for each household is $2000.
- The housing programs can be integrated with other local first-time homebuyer, lease-purchase, and construction or rehabilitation programs.
- The program was appropriated $10 million in both of the 1999 and 2000 fiscal years. $9.4 million was awarded to 40 organizations in 1999, and $4.5 million to 25 organizations in 2000. $20 million was appropriated in 2001, $13 million for new competitive grants and $7 million for supplemental grants to past grantees.

2.2.3. ***learn*$ave**

learn$ave is an on-going Canadian demonstration project examining the use of IDAs for adult education. SEDI conceived, designed and organized the project, and now oversees its operation. It is being funded by a $35 million commitment from the federal government through Human Resources Development Canada.

The project is being operated through a network of local non-profit organizations in ten communities: Vancouver BC, Calgary AB, Winnipeg MB, County of Grey Bruce ON, Toronto ON, Kitchener-Waterloo ON, Montreal QB, Fredericton NB, Halifax NS, and Digby and Annapolis County NS.

The local partners are responsible for recruiting and screening the participants, providing them financial training and case management support, and monitoring the results.

The financial services are being provided by a national financial institution in nine of the communities, and by a local credit union in the other.

The results of this demonstration project will be closely monitored and evaluated by an independent organization, the Ottawa-based Social Research and Demonstration Corporation.

a) Parameters

In this project, IDAs will be made available to 3675 participants having limited incomes and assets. Specifically, their household income cannot exceed 120% of the LICOs, and their financial assets 10% of their income or a maximum of $3000. Up to 25% of the accounts in certain communities, and up to save 75 in the others, will be available to people receiving provincial social assistance.

The participants will be able to save up to $1500 (or $40 per month on average) over a three-year period. The deposits will be matched generally at a rate of 3:1. This will allow for a maximum matched contribution of $4500, and a total maximum accumulated deposit of $6000. Financial management training, case management and peer support also will given be to most of the participants. Some the conditions, such as match rates, savings periods, and financial training, have been varied in different places in order to test their effect on savings behaviour.

The matched funds can be used only for post-secondary education, skills development, micro-enterprise capitalization, associated supports to learning (like computer purchase and tools of trade), and disability supports.

The project will be conducted over an eight-year period. New accounts are being opened over a two-year period starting in June 2001. The participants will be given 3 years to save. After this five-year operational period, the project will be evaluated for a further two years and completed in 2009.

The participants will be required to adhere to certain protocols, including minimum and maximum savings periods, minimum and maximum monthly savings, and restrictions on withdrawals for non-authorized uses and missed deposits.

b) Results

Data from December 2002 provides the following results:

- 1976 participants have enrolled.
- Approximately 1530 of those participants have opened an account.
- 62% of the participants are saving for education, 12% for skills training and 26% for micro-enterprise development.
- The participants have saved a total of $555,115.82 available for matched credits.
- The participants on average have had their accounts for just over 4 months.
- The average monthly savings available for match is nearly $55.94

Several hundred participants have taken part in financial management training courses offered by community partners. Anecdotal reports suggest that participants find the training useful, due both to the information conveyed and the peer interaction.

2.2. Other US IDA Initiatives

2.2.1. Savings for Working Families Act

This bi-partisan bill was introduced in the US Congress in early 2000. It has been passed at various times by various committees, mostly recently in mid-2002 in a modified version by the Senate Finance Committee.

As originally proposed, the act would support up to 900,000 IDA accounts, using $1.2 billion or more in federal tax credits over nine years, and going mainly to the participating financial as a way of encouraging their funding the operations and the matches.

The financial institutions would be eligible for two tax credits:

- a 90% federal tax credit (limited to $90 million/year for each institution) for all matching funds provided; and
- a 50% federal tax credit to help cover financial education, monitoring and administrative costs (limited to $1.5 million/year for each institution).

Also, in separate provisions meant to encourage other community participation, a 50% tax credit would be available to any corporate or individual taxpayer investing in qualified non-profits, credit unions and community development financial institutions administering IDA programs. The funds received could be used for matches, financial education, monitoring and program administration, but at least 70% must be used for matches. The credit is capped at $5 million/year for each taxpayer.

The bill proposes to provide a 1:1 match, up to $500/year for each person for savings into an IDA account from earned income. Allowable uses would be first-home purchase, post-secondary education and small business start-up. Households at or below 80% of the area median income would be eligible.

The Senate Finance Committee approved a modified version of this bill as recently as mid-2002. It would provide $450 million over nine years for the creation of up to 300,000 new IDA accounts. It also included measures to ensure that these accounts are distributed across the country, and the accounts are properly managed.

2.2.2. State-Sponsored Programs

A number of IDA programs have been created in response to state-level supports. These supports and a sample of the local programs were examined in a recent study [Abt, 2000].

a) State Supports

Many states have started to support IDAs for low-income households, generally as part of their welfare reforms. The support was initially introduced in the early 1990s through waivers given by the federal government to individual states that enabled them to experiment with welfare reforms. Later, cross-the-board flexibility was introduced through the comprehensive welfare reform legislation passed in 1996.

The 1996 legislation helped in two other important ways. It allowed states to use federal funding given to local welfare systems such as their Temporary Assistance to Needy Families (TANF) block grants, to fund IDAs. It also allowed states to remove restrictions preventing welfare recipients in accumulating assets.

By the end of 1999, 32 states had supported IDA initiatives through funding and/or enabling legislation. Out of these, however, only 7 states had established fully operational programs. These were Illinois, Indiana, Iowa, North Carolina, Ohio, Pennsylvania and Vermont.

Two states had established programs provided funding in excess of $1 million annually. Pennsylvania provided $1.25 million annually in 1997 and 1998, while Indiana provided $720,000 and $1.4 mil in 1998 and 1999 respectively.

The state funding varied widely. Most provided matching funds but some did not. Some had established permanent funding, but others only for a limited time. Some also supported administration, and others did not.

This activity as the state level did not reflect the impact of *Assets for Independence Act* of 1998, which had triggered a considerable amount of pending legislation in many states.

b) Local Programs

As part of this study, a survey was made of 16 active local IDA programs in the supportive states.

The programs, which had been operational for 8 months up to 4 years, had differing origins and characteristics. For example, they had considerably different requirements regarding the minimum size and frequency of deposits, minimum participation periods before qualifying for matching funds, and extent and nature of education and counselling.

Organizations
The local programs were typically run by local non-profit organizations that folded the IDAs into their existing operations and used them to assist the clientele that they already targeted.

Although they all generally worked within state-established guidelines as a condition of receiving IDA-targeted state funds, there were indications that they sometimes bent the rules to accommodate suitable applicants that might otherwise be ineligible.

Participants
The participants were overwhelmingly female, and a significant portion was African-American. The majority of female participants were heading households with children. The vast majority was working at least part-time.

The income restrictions placed on about half of these programs imply that almost all of their participants would be eligible for some public assistance.

Many of the states specified that the IDA deposits must be from earned income, implying that the participants must be employed. The overwhelming majority of the deposits were from earned income, both in programs that explicitly required this and those that did not.

Income Eligibility
The income eligibility requirements were based on one of these thresholds:

- a maximum of 150 or 200% of the federal poverty level; or
- 80% of the local area median income.

Eligibility for TANF also made the recipients eligible for the IDA programs in many states.

A few respondents claimed that 150 or 200% of poverty level was unrealistically low and should be raised to make IDAs more accessible to those with enough money to consider saving.

Authorized uses
Nearly all of the programs included home purchase, business start-up, and education as authorized account uses. Some also included retirement, credit repair or emergency withdrawals, home improvements, child care during education, and car purchase or repair.

Most of the local programs had a particular specialization. Those focusing on home purchase were these:

- Ft Wayne Neighborhood Housing Partnership in Ft Wayne IN;
- Muncie Homeownership and Development Center in Muncie IN;
- Affordable Housing Coalition (Asheville and Buncombe Counties) in Asheville NC;
- Passage Home (Wake County) in Raleigh NC; and
- Forsyth County Housing Program Experiment in Self Reliance in Winston-Salem NC.

Of these only the Raleigh program was exclusively for home purchase.

More than half of participants in all 16 programs were saving for homeownership.

Some of the survey respondents indicated that having a range of allowable account uses could be important because it gave participants alternatives when their original purpose — particularly, home purchase — proved difficult to achieve.

Matching Provisions
The state-funded match rates ranged from 15-25% of the clients' deposits up to 300%. Because of the additional funding raised by many of the local organizations, their match rates overall ranged from 30-50% to 400%.

In some cases, the local organizations had used the additional funds also to provide matches to populations ineligible for state money.

Some match rates varied by income level, with lower rates going to higher income levels.

2.3. Other Related US Proposals

Various other IDA proposals have been made in the US. The most notable are those made by President Bush. During the 2000 presidential campaign Bush pledged to create 1.3 million IDAs using $1 billion in tax credits to financial institutions that operate IDAs and provide matching funds. He also cited IDAs in his 2000 State of the Union address.

In related provisions, the president more recently has proposed a program supporting "retirement savings accounts". Funded by a proposed $54 billion over 10 years, it would provide matching contributions for savings made for retirement. The match rates would start at 2:1 for families earning less than $25,000, and be phased out at $80,000. Although focused on retirement, after five years of savings the provisions would allow pre-retirement withdrawals for first homes and college or medical expenses. The program would provide no formal role for non-profits, financial education, or the private sector. It would be financed through tax credits to the financial institutions and employers.

2.4. Canadian Programs

There are two recent IDA programs in Canada, one in Calgary and the other in Winnipeg, that promote savings for home purchase.

2.4.1. Calgary's Fair Gains & Owen Hart Homeowners Program

These two IDA programs have been developed and are operated by MCC Employment Development in Calgary. MCC is non-profit agency of the Mennonite Central Committee that was established in 1991 to address the needs of low-income people in Calgary. As part of that mandate, it also operates a security deposit program and is a Community Partner administering *learn***$ave**.

Fair Gains, started in 1999, combines developing money management skills with saving for asset development. The savings can be used for training or education toward a career, education for a child, starting and expanding a business, and purchase of a home.

The Owen Hart Homeowners Program, started in 2000, is devoted to preparing the participants for and saving for homeownership. In order to qualify for this program, the participants must pass through Fair Gains.

United Way is a partner with MCC in both programs.

a) Fair Gains

The participants are required over one year to deposit a minimum of $15, and allowed to deposit a maximum of $45 per month. After one year, their savings are matched at a ratio of 3:1 toward asset development.

Their minimum savings in the year would amount to $200, which would be matched by another $600. Their maximum savings would be $600, matched by another $1800.

Over that year, in order to develop their money management skills through, the participants are expected to attend regular workshops, peer group meetings and one-on-one consultative sessions. This process involves each in about 30 hours of educations, and costs the organization about $2000 per participant.

Participation is limited to those with an income below LICO, and with minimal savings and investments.

For the first three years, the program took in 20 participants per year. This year that number has been increased to 40. Roughly, about 3/4 of the participants enter the program with the intention of buying a home, but only about 1/4 of the total enter the Hart program. About 1/4 drop out of Fair Gains, and about 1/2 use their savings and matches for another purpose. Many of the latter find home purchase is premature or inappropriate for them personally, mainly because of insufficient income.

b) Owen Hart Homeowners Program

Under this program, the participants over one year are required to save a minimum of $45, and allowed a maximum of $90. These savings at the end of year are matched at a 4:1 ratio.

They are also expected attend about 10 hours of education.

Combining the savings and matches from the two programs, the participants at the end of two years can save a minimum of $740 (then matched by $2,760, for a total of $3,500) and a maximum of $1,680 which is matched by $6,120, for a total of $7,800.

So far under this program, all five participants from the first year have purchased homes. Five more are in the program and another five will be starting shortly. Of the five purchasers, 3 qualified for a mortgage (one through a co-signer) and 2 assumed existing mortgages.

The participants in the program so far have saved at or near the maximum. This can be ascribed to various reasons. The selection to the second stage is limited to those most able to take advantage of it; and by that time, the participants have "learned the tricks" to saving.

In addition, although the incomes of the initial participants are at or under LICO, virtually all of those that continue into this program have had an increase in income. Those at LICO probably would not be able to qualify for a mortgage.

Observations

The high match rates are seen to be important for attracting people to the program and reducing attrition, but the relation developed between providers and participants over time is also very important their completing home purchase because of the time and obstacles involved in the process.

By having the year-long education program prior to deciding on homeownership, the providers are able to select with some certainty the candidates that will succeed. The merit of not having the savings in the initial program tied exclusively to homeownership means that those participants that find home purchase inappropriate are still encouraged to continue saving because they have alternative ways to use their accumulated assets.

2.4.2. Winnipeg's Housing IDA Program

Winnipeg's IDA program was operationally started in October 2000 by the Alternative Financial Services Committee, a partnership of five organizations: the Assiniboine Credit Union, Mennonite Central Committee, North End Community Ministry, SEED Winnipeg, and United Church Conference of Manitoba and NW Ontario. The North End Community Ministry is responsible for operating this program as well as participating as a Community Partner in the *learn$ave* project.

The committee was established in 1996 in response to the recognized need for accessible and affordable financial services as well as money management training for low-income families. For example, the committee now offers free tax preparation services to low-income residents, and has been investigating other alternative financial services like pay-day loans, cheque cashing and consumer lending circles.

Funding, amounting $250-300,000 for a three-year contract, was provided by the province, United Way and local foundations and anonymous donors.

a) Project Conditions

This IDA program is based on the following parameters:

- A match rate of 3:1

- Minimum savings of $15 per month and a maximum of $250. (The original maximum was $45, but this was raised to be consistent with *learn$ave*.)
- Maximum saving period of 3 years.

It is open to all low-income residents of Winnipeg, but recruiting focuses on those in the Inner City and North End, the two most distressed areas of the city.

The maximum eligible household income is 120% of the LICO. This maximum is considerable reasonable for qualifying for a mortgage loan to buy a house in Winnipeg.

Money saved by the participants is be matched by contributions to a parallel account on a 3:1 ratio. Participants are not able to withdraw money from their matched account without prior approval.

The matched funds can be used for the purchase or renovation of a home. When initially conceived, the program also was to include investments in small businesses as well as education and training. This was changed with the advent of the *learn***$ave** program.

All participants are required to attend a comprehensive money management program, which is provided through seven workshops over 2 months. They also are provided with one-on-one counselling.

b) Participation

The one-time intake (December 2000) for this program was 40 participants. To date three participants have purchased homes[3] and a number of participants have cashed out partially or fully for home renovations. The average monthly savings has been $75.

These participants have saved over 1½ years on average about $500, or $25-30 per month. At this rate, over the full three years, they each will save $1,000, which will be matched by another $3,000 from program. $4,000 is considered to be an effective downpayment for a house in Winnipeg.

2.5. Local US Programs

This section summarizes the findings of a series of interviews conducted with administrators of local IDA programs in the US that target exclusively or mainly homeownership. The interviews were conducted by telephone in September-October 2002.

2.5.1. Methodology

The programs were identified through two sources:

[3] According to Andrew Douglas, IDA Coordinator, Northend Stella Community Ministry/Seed Winnipeg, the homes purchased ranged from $45,000 to 79,000 and the participant's incomes ranged from just under $20,000 to $25,000.

- a previous survey of a sample of local IDA programs [Abt, 2000] that identified a small number of homeownership IDA programs (see section 2.5); and

- the *IDA network, a* website that identifies about 400 IDA programs across 44 states, but does not distinguish those targeting on homeownership. To find relevant organizations, a search was made for programs that had 'housing' or 'homeownership' in their name in the largest states, and those generally most active in supporting affordable housing.

A total of 23 programs in 14 states were identified. Interviews were conducted with operators for 13 of these programs. Limited information was obtained on another program, which was temporarily suspended while being re-organized. Two other programs were found to be defunct.

The interviews were held with the administrator or manager of the IDA program, or failing that, head of the agency or the manager of the education and counselling. In many cases, more than one person was interviewed. When available, information was taken from their websites and/or faxed brochures.

The following provides the jurisdictions and names of these organizations:

- Columbus OH: Columbus Housing Partnership
- Montgomery MD: Montgomery Housing Partnership
- Westmount County NJ: Housing and Economic Opportunity Inc
- West Sacramento CA: Mercy Housing CA
- Bunscombe County and City of Asheville NC: Affordable Housing Corporation
- Medina OH: Medina Metropolitan Housing Authority
- Forsyth County NC: Experiment is Self-Reliance
- Ft Wayne IN: Ft Wayne Neighborhood Housing Partnership
- DuPage IL: DuPage Homeownership Center
- Cape Cod MA: Housing Assistance Corporation of Cape Cod
- Bremerton WA: Bremerton Housing Authority
- Denver CO: Hope Communities Inc, El Norte Neighborhood Development Corporation, Rocky Mountain Mutual Housing Association, and Mile High United Way

2.5.2. Organizations

All of the organizations are non-profit, none are government agencies but two are independent housing authorities established and funded by government.

a) Background in Affordable Housing

All but one of the organizations were originally involved in some way in providing, managing or supporting affordable housing.

The single exception is an organization that is involved primarily in asset-building. It is part of the nationwide network of Community Action Agencies, and operates a broad range of programs directed at helping lower-income people to become socially and economically self-sufficient.

All of the others have their roots initially in one of the following fundamental activities:

- building or rehabilitating affordable housing, mostly for rent but sometime for homeownership, and mainly in run-down urban areas;

- operators of homeownership centers, which promote homeownership for lower-income households through advice, referrals, education and support services, but do not develop housing;

- providers of housing assistance, such as downpayment assistance, "soft" second mortgages, low-interest financing and rental housing subsidies; and

- managers of non-profit rental housing.

Having started in one activity, many of these organizations over time have extended the range of their activities into other fields, including homebuyer education and counselling.

Three of the IDA programs were started by organizations managing non-profit rental properties. The smallest of these properties has 50 units, and largest has 800 units. (In one case, the organization is one of three local non-profit housing owners that jointly run the program.) The programs have been established solely for the benefit of their tenants. They are seen as a way of assisting their tenants build equity, and perhaps buy a house. They potentially have the second benefit of freeing up rental units.

b) Consortia

Some of the organizations run the IDA programs through a collective arrangement and basically have formed a consortia for operational purposes..

In one program, the organization leading the program operation is part of a long-standing partnership of 13 non-profit agencies that offers a housing range of housing-related and community-based services. In this case, the education and counselling, and also the business development and adult learning components, are handled by other organizations within the partnership.

In three other programs, a consortium of existing agencies was established to operate the IDA program collectively. In the cases, the agencies typically had different roles — intake, education and counselling, accounting, fund-raising and so on.

The latter approach has been taken by the largest organization interviewed, where it was considered a successful working model. It was also used by one of the organizations winding down, and where it was not considered successful. The difference in the experience of the two largely lies in how well they kept the expertise and roles from overlapping.

In two of these programs, this approach seemed to be used so that the direct contact with participants could be handled by local agencies in the separate and disparate communities, but the overall administration and accounting as well as the education and counselling could be handled centrally.

c) Experience with Education and Counselling

Most of these organizations had previously provided education and counselling — in one notable case for nearly 20 years, and others for 10 or more years, before they adopted IDAs.

These organizations started using IDAs as an extension of the services they provided to their existing clientele. For example, organizations providing affordable housing or housing assistance for lower-income homebuyers started education and counselling after too many of these buyers defaulted on their mortgages.

One group of organizations had no previous experience with education and counselling. These are the managers of rental housing. Two established their education and counselling services as part of their IDA programs, while one relies upon another existing education and counselling program provided by another agency. One other small organization also relies upon another existing program.

In most cases, these courses are open to the general public. They are not exclusively for the IDA participants, nor are they even exclusively for lower-income households. In some case, priority is given to potential IDA participants where there is a waiting list.

Most of the programs break down their educational courses into distinct components. The participants typically start with financial literacy training. Following that, the participants are streamed into separate courses devoted either to first-time home buying, or higher education or business development if appropriate. Sometimes, these different courses are given by separate organizations that specialize in those subjects.

d) Permanence

Only roughly half of these IDA programs can be presently considered permanent and on-going programs. The others were variously described as trial or temporary programs or programs with one-time funding. Two of these were presently winding down. One had been temporarily extended, and three others might be temporarily extended. As noted, another had been suspended and its future was uncertain.

Many of the organizations had changed over their brief existence. Although not certain in all cases, the main reason seems to revolve around financing, either the initial funding ran out and/or the costs of operating the program were higher than expected.

2.5.3. Uses for Savings

Only 5 of the programs are devoted exclusively to providing for homeownership. The remainder allow for two or three alternative uses. These include higher education (7 examples), business development (5), car purchase (2) and home repair (1).

In the one example, home repairs are limited to certain prescribed essential repairs, and not "cosmetics". The use of the savings is subject to obtaining three quotes for the work, and getting prior approval of the IDA administrator.

In some programs, the other uses are included mainly to give the participants an alternative if they were unable to buy a home. In other programs, they are the result of requirements imposed by a major funding source.

Even in those programs with alternative uses, most or nearly all of the participants are saving for homeownership.

All of the programs allow the matched savings to be used for downpayments toward home purchase and also for the associated closing costs. Indeed, because other downpayment assistance and favourable mortgage terms are often available, most or all of the savings in many programs are used for the closing costs only. (Mortgages with 3% downpayments appear to be available in all of these jurisdictions, and mortgages with 0% downpayments for some homebuyers.)

Furthermore, in one notable case, because of the other downpayment and closing cost assistance available to all participants, the savings in one program have been used often to reduce the mortgage principal.

Some of the program have either expanded or contracted the options. Two programs that initially allowed for education and micro-business as well as homeownership are now focusing only on homeownership, one because its latest funding source required this, and the other because it considered homeownership to be the greatest need. Conversely, one program initially focusing solely on homeownership has expanded its options due to its latest funding source, and another is considering the same in order to provide more flexibility for its participants.

There was very mixed response when the operators of homeownership-only programs were asked about what would happen to those participants that could not buy a home. At least two operators felt that this would be unfortunate, but also felt the participants would still benefit considerably from the education and counselling aspects of the program. At least one, as indicated above, is looking into adding an alternative use for these participants. Two others felt that solution lies in proper screening so that only those households likely to succeed were given entry into the program. (As noted later, other operators were concerned about attempting to screen in this way.)

2.5.4. Details of Programs

The largest of these programs has had 420 accounts, including both active and cashed-out accounts. For the other organization, there are three with roughly 150, 100 and 75 accounts respectively; four with 25-50; and five with 5-25.

Some 165 participants had purchased homes in the largest of these programs. All of the remainder together had supported so far roughly about 75 home purchases.

Six of the programs set their maximum matchable savings at $1000. The other maximums are $600, $800, $900, $1200, $1320, $1650, and $2000.

With the maximum matches available, the total potential matches are $2400 (2 examples), $2700 (1), $3000 (3), $5000 (5) and $6000 (1).

The maximum savings periods range from 2 to 3 years, with the majority at 2 years. The main exception is one program that allowed the savings to be made over a 10-month period.

a) Savings Rates

Most of the programs allowed for maximum saving rates of $40-55 per month on average. The two highest rates were $100 and $70.

At least two programs place a limit on one-time deposits as a way of encouraging consistent deposits over a long term, and discouraging participants in taking advantage of tax rebates. These limits are set at $250 and $150.

In virtually all of these programs, strong emphasis is placed on making consistent savings over a long period of time. This consistency was seen as evidence of that the participants were taking control of their household budgets, and would become good credit-worthy customers for mortgage loans. As noted later, the amount of the monthly savings would have agreed by the participants at the outset of the program.

One small incipient program stringently requires the participants to make all monthly payments. Any failure is considered grounds for removing the participant from the program.

Virtually all of the other programs are more tolerant. They generally will allow the participants to miss one or two consecutive months, but they will expect them to provide a reasonable explanation and make up the missing amounts. Missing a payment in some programs will trigger a counselling session.

b) Match Rates

The basic match rates for these programs range from 1:2 up to 1:4.

One notable anomaly is the 1/3:1 match rate used by one of the tenant programs. (In other words, for a maximum saving of $1000, it provides a match of $333.) The program expects to increase this to 1:1 in the near future.

At least two of these programs provided different match rates for residents of different areas or income levels. These differences are the result of the criteria imposed by different funding sources.

One of the effects of the different criteria and match rates is accounting complexity. One administrator noted that this added a considerable administrative burden.

Two of the programs have been given funding which they can at their discretion to increase the match rate from 1:2 up to 1:8 and 1:4 respectively for participants with special needs.

Four of the programs have just or are expecting to increase their match rates. In all cases, the reason given was the need to provide more assistance in the face of high and/or rapidly rising house prices. (In at least two of these jurisdictions, the house prices had increased over 50% within the short period of the program.) One will be increasing the match from 1:3 to 1:6.

c) Eligibility Requirements

Five of the programs use 80% of local area median income (AMI) as the upper income threshold. Four use 200% of the poverty level, which seems to translate to 50%-70% of AMI in the different jurisdictions. Three respectively use 65%, 60% and 50% of AMI. Although not certain, the income thresholds appear to have been imposed by the funding sources.

There is one notable exception. One program has no income threshold because it operates in a revitalization area, where homeowners with a mix of incomes are being sought.

One program lowered its threshold from 80% of AMI to 200% of the poverty level due to changes in its principal funding source. As a consequence, it noted a significant increase in the participants needing more support and assistance to achieve homeownership.

Some of the programs also use various other requirements. Many require the participants to reside within the local jurisdiction. Three, as indicated earlier, require them to be tenants in their housing developments. Some require them to be employed. One program requires them to be on welfare.

d) Admission Process

The IDA participants must complete a prescribed educational and counselling program before being accepted in the IDA program.

Before starting the IDA program, the participants generally are also interviewed. At this time, their income and assets are checked, and their credit problems, work history, and household budgets typically are also reviewed. In most programs, the participants then are also expected to set monthly savings targets for themselves, and to sign a contract committing to those targets.

Two of the IDA programs rigorously screen the potential participants in order to accept only those likely to be able to buy a home.

Most of the programs do not pre-screen their participants in this way. Indeed, two administrators felt that it would very difficult to identify those participants likely to fail or succeed. One was also concerned about the potential for prejudice possibly affecting the decision.

2.5.5. Sources of Funding

Funding for these programs came from wide variety of sources. Four have one funding sources; in three of those cases, it is from the state or county. Most rely on multiple sources. Many have changed their funding sources over time.

Four programs receive funding from the *Assets for Independence* Demonstration (see section 2.2). One of the conditions of receiving this funding is that it must be matched at least by equivalent local funding. There were numerous complaints about this funding source; it was considered to inadequately support operational needs, and to impose restrictive eligibility requirements.

Three programs use funding from the Federal Home Loan Banking system. This was considered to be a relatively generous and flexible source of funding. (The background to this funding source was not pursued, but it apparently comes out of the S&L clean-up. As a result, banks in FHLB system are now required to put aside 2% of their profits into an affordable housing funding pool, which support IDA programs and other special projects.)

The funding has also come from all levels of local government, including states (6 examples), counties (5) and cities (3). Although not known in all cases, all or most of this funding was likely to have originated as federal block grants either for housing (through the HOME or CDBG programs) or welfare (under the TANF program).

Local community or family foundations provided funding in four of the programs. The amounts were relatively small and one-time for "capacity-building". (This is consistent with the practice of most US foundations, which generally do not engage in on-going assistance.)

Other singular sources of funding include these:

- Neighborhood Reinvestment Corporation and Enterprise Foundation, which are two national intermediaries that typically provide "capacity-building" support to help in starting community-based organizations or initiatives, but not on-going support;
- A state non-profit capital corporation, which uses tax credits to finance the affordable rental housing and has established a funding pool for special projects for the tenants of these projects;
- A special state fund using one-time surplus welfare monies resulting from recent welfare reforms;
- The local board of realtors; and
- The local mortgage bankers association.

The banks are not significant Funders. They provided money in only two cases and in one case, it was described as a "stipend".

The United Way is a fund-raising partner in two of these programs.

There were various comments about funding for matches being easier to secure than funding for operations. There were also other indications that the operational aspects were under funded.

2.5.6. Use of Housing Assistance

Nearly all of the administrators expected that most of the participants would utilize some form of other government assistance in purchasing a home. While this was not always necessary for households earning 80% of the area median income, the need for additional assistance increased for households with more limited incomes.

Two of the administrators felt that they had an obligation to ensure that participants received housing assistance if needed to achieve homeownership. Most of the others only expected to make participants aware of options and make referrals for them, but not to be involved in securing that assistance.

About half of the organizations are either directly involved in providing some form of housing assistance, or in a consortium with other partners that do.

The most common forms of housing assistance appear to be interest-free deferred second mortgages and downpayment assistance in the form of forgivable loans. One or both appeared to be available in a majority of the jurisdictions where the IDA programs were operating. New or rehabilitated ownership, provided at a reduced price through government assistance, also appears to be available in some areas, particularly as part of revitalization programs.

In at least three jurisdictions, low-interest financing is available for mortgages from a funding pool supported by a number of local banks.

In another recently approved and potentially important source of assistance, tenants receiving rental assistance from the federal government through Section 8 vouchers are now permitted to use that assistance toward purchasing a home.

2.5.7. Involvement of Banks

All of the organizations have established an effective relation with one, and sometimes two or more banks, that hold the accounts. One administrator, however, did note having considerable difficulty in finding an interested bank.

In general, the banks waive service charges and minimum deposit requirements. A few have trained their tellers and staff to deal with the IDA participants. At least one had nominated and trained one staff member to handle any special problems.

In many of the programs, the lenders provide mortgage pre-qualification for the IDA participants as part of one of educational or counselling sessions. This enables the participants to determine if they are likely to get a mortgage before they start the savings program, and if necessary, to address any credit or other problems.

Outside of these activities, the involvement of the banks is relatively limited. In some cases, bank representatives participate in the homebuyer or literacy courses, particularly to explain the lending criteria and various mortgage products. In two cases, as noted, the banks have provided some funding support. In two cases, the bank representatives sit on the advisory board for the program or one of the organizations.

In all of these programs, the banks do the underwriting for the mortgage loans. One of the IDA organizations was asked to undertake this service by a local bank, but refused as it did not want to associate the program with one potential lender. (Another one of these organizations does the underwriting for a separate low-interest financing program funded by a consortium of local banks.)

Some of the programs have intentionally limited the participation of the banks. The administrators are concerned about associating the program with any single institution. They see promoting any single bank as contrary to training their participants to become knowledgeable consumers and to seek the best deal for themselves.

The reason for the bank involvement, as described by many of the operators, is that they want the additional business, not only for the mortgage loans but also car loans and other needs. Some of the operators felt that the Community Re-investment Act also was likely to be an important factor. (The bank's assistance would be a positive factor whenever their bank charter was subject to review.)

Many of operators, nevertheless, said that the bank also had to have some understanding and sympathy for purpose of the program.

Many of the programs use so-called "custodial accounts", which gave them control over the deposits. As a consequence, they also receive the monthly statements that can be used to monitor the savings. Two administrators, however, questioned the appropriateness of using these type of accounts in a program that is directed at developing self-sufficiency.

2.5.8. Monitoring

Most of the programs do not monitor the participants after they complete their education and counselling programs, nor their IDA programs. Only two of the programs undertake post-purchase monitoring and pro-actively intervene with counselling when there is a risk of mortgage default.

Many of the organizations have tried to monitor but stated that they do not have adequate operational funding. Post-purchase monitoring also was considered to be particularly difficult and time-consuming, especially as the participants do not readily respond to surveys or enquiries.

Many of the organization provide default prevention counselling, but only when the participants volunteer to come forward. In general, this was not considered adequate because the participants often waited too long before seeking help.

At least two organizations offer post-purchase education courses. These deal with such aspects as maintenance, budgeting and predatory lending practices.

2.5.9. Impact on Mortgage Defaults

Many of these organizations, even though they do not monitor the participants, have hard evidence about the impact of homebuyer education and counselling on mortgage defaults. As noted earlier, the organizations started education and counselling services after having operated various other programs assisting homeownership, such as selling units and providing loans. The impact of these services was to reduce the number of mortgage defaults in their programs from an excess to none/nearly none.

All of the other administrators associated with long-standing education and counselling programs, but which did not have corresponding direct evidence, also strongly felt that these programs significantly reduced default rates. Most also said that the participating banks also agreed with that view.
Because of the more limited experience with IDA programs, less information is available on their impact on reducing defaults specifically, or changing behaviour generally.

While this question was not specifically asked, two of the administrators indicated that they had more confidence in the effectiveness of education and counselling than in IDAs as a way of supporting homeownership by lower-income households. This could be taken to reflect their longer involvement with the education and counselling than IDAs.

Two administrators also emphasized that the peer involvement and support are also particularly important for the outcome of these programs.

2.5.10. Special Programs

Two special IDA-type programs were identified in the course of the interviews.

One is an employee-assisted IDA program, which now involves a hospital and is expected to include a school board, a major tourist-based industry and also the municipality. The hospital has agreed to provide a 2:1 match for savings up to $1250 made by employees toward downpayment. It is seen as an employee retention program in a high-priced area where employees have difficulty buying homes.

The other is part a downpayment program being started by a local bank. It will provide a 2:1 match for up to $960 in savings as insurance against mortgage default. The savings will be disbursed when there is a major crisis that interrupts mortgage payments.

3. CANADIAN GOVERNMENT HOMEOWNERSHIP PROGRAMS

This section describes the current federal, provincial and municipal government programs that support home purchase in Canada.

3.1. Federal Programs

3.1.1. RRSP Home Buyers' Plan

This program is a provision of the federal *Registered Retirement Savings Plan*. It allows those with registered retirement plans to withdraw money from them in order to assist in buying or building a home. The withdrawn money is not taxed, provided it is repaid in equivalent installments over a maximum of 15 years starting in the second year after the withdrawal.

The plan is available to individuals or couples who have not owned a home that has been occupied as a principal place of residence in any of the past five calendar years. Each spouse having a registered plan is able to withdraw up to $20,000, for a maximum total of $40,000 per couple.

Both existing and newly built homes are eligible, provided they are located in Canada, and occupied as a principal place of residence within one year after buying or building it. Shares in co-operative housing corporations also qualify.

The plan was introduced by the federal government in 1992. The first-time buyer restriction was added in 1994. Since 1999, the plan has been opened to certain existing homeowners namely, previous and fully paid-up users of the plan purchasing a home designed for disabilities for themselves or a dependent relative.

The plan has proven to be a viable method of helping first-time home buyers to generate enough savings to afford to purchase a home. Since its introduction, according to data reported by CMHC, over one million Canadians, amounting to one third of first-time buyers have used the program.[1] According to CCRA figures reported by CMHC, the withdrawals have averaged nearly $10,000.[2]

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[1] *"Home Buyers' Plan Helps Turn Homeownership Dream into Reality";* CMHC Housing Facts; Vol. 5, No 4; 10 April 2000 and "Home Buyers' Plan Turns Home Ownership Dream Into Reality"; CMHC New Release, 29 March 2001.
Can be found at: http://www.cmhc-schl.gc.ca/en/News/nere/2001/2001-03-29-1400.cfm

[2] Ibid

The RRSPs, like the other tax deferral savings programs, are not targeted to the poor. Because they promote individual savings through deductions to income tax, these vehicles are designed for and primarily used by middle- and upper-income households in the higher marginal tax brackets.

3.1.2. CMHC's 5% Down Program

This program (formerly called *First Home Loan Insurance Program*) was opened in 1992 to assist first-time homebuyers in obtain financing for purchasing a home when they have sufficient income to carry the mortgage debt, but insufficient savings or other resources for making the conventional downpayment of 25% of the sales price. The program limits the risk to the mortgage lenders by providing default insurance for mortgages secured with as little as a 5% downpayment.[3]

The insurance premium paid by the homebuyer depends on the amount of the loan as a percentage of the lending value (known as the loan to value ratio). For example, for a $200,000 mortgage loan secured with a 5% downpayment, the cost of the premium is $7,500. The premium may be added to the mortgage (see table on next page).

This program was created as a temporary measure, but was extended twice and then made permanent in mid-1998.

Other changes were introduced in mid-1998. The program is now no longer limited to first-time buyers; repeat home purchasers are now eligible under certain conditions. The premium for a insurance covering mortgages over 90% was also raised to 3.75% from 2.5%. The other rates stay the same.

There are restrictions on the house prices and maximum gross debt service ratios as a way of ensuring the homebuyers do not over extend themselves. The price ceiling is currently $300,000 for homes located in the City of Toronto and Vancouver areas, $250,000 in various other high-priced centres as well as northern areas and $125,000 to $175,000 elsewhere. The ceilings are subject to review and change.

Under the current program maximums, buyers may use up to 32% of their gross family income for payments of the principal, interest, property taxes and heating, and the total debt loan cannot exceed 40% of the family income. Their downpayment must come from their own resources, such as savings, sale of investment and family gifts that need not be repaid.

[3]Similar default insurance on low-downpayment mortgages, or high ratio mortgages, is now also offered by GE Capital Mortgage Insurance Canada.

CMHC Premium Schedule

Loan-to-Value Ratio	Premium (% of loan)
Up to 65%	0.50%
75%	0.75%
80%	1.25%
85%	2.00%
90%	2.50%
95%	3.75%

[Note: These rates are for a single advance. Progress advances are subject to a premium surcharge of 0.5%.]

According to CMHC, in the first year more than 64,000 households used the program to purchase a home. This represented approximately 1/3 of CMHC's total homeowner insured loans in this period. As of mid-1998, 610,000 Canadians have purchased their first home using a 5% downpayment. About 70% of those buyers could not have purchased their homes without this program.[4]

3.2. Provincial Programs

3.2.1. Ontario Home Ownership Savings Plan

The *Ontario Home Ownership Savings Plan* (OHOSP) was established to help lower-income first-time homebuyers in purchasing a home. (Two similar programs in Quebec and Nova Scotia have been terminated.)

The plan provides assistance in the form of a refundable tax credit for savings made in an account dedicated to this purpose. The tax credit is based on the amount deposited into the plan each year, and household income for that year (see table on next page). It is provided for annual contributions of up to $2,000 per person, or $4,000 per couple. The maximum that can be claimed annually is $500 per person or $1000 per couple. That amount declines for persons or couples with higher incomes, or making smaller deposits.

[4]Toronto Real Estate Board: "RRSP Home Buyers' Plan"; May 1998. For more information please see: ***http://www.mls.ca/boards/treb/gov_prog/rrsp.htm*** ***(this link will give you general info on how to use RRSP's toward the purchase of a home).***

Tax Credit available for a $2000 deposit under OHOSP

Net Income	Tax Credit
Individuals	
Up to $20,000	$ 500
$25,000	$ 375
$30,000	$ 250
$35,000	$ 125
$40,000 and over	$ 0
Couples	
Up to $40,000	$1000
$50,000	$ 750
$60,000	$ 500
$70,000	$ 250
$80,000 and over	$ 0

The plan is available for individual earning less than $40,000, or couples jointly earning less than $80,000. The participants also must be Ontario residents and 18 years or older; have never owned an eligible home; nor used OHOSP before.

The tax credits can be claimed in each of the first five calendar years of the plan. The funds must be used, and the plan closed, within seven years.

The plans are administered by participating financial institutions across the province. The claims are made through the annual federal income tax returns.

A refund for first-time purchasers of the Land Transfer Tax, which was a component of the original OHOSP program, has not been continued.

OHOSP has been used by more than 250,000 homebuyers in Ontario.[5]

[5] Ottawa Real Estate Board: *Ontario Home Ownership Savings Plan, 2002*. Article available at: ***http://orebweb1.oreb.ca/frm_info.html***

3.2.2. New Brunswick's *Home Ownership Program*

This program offers financial assistance to low and modest-income families buying or building a modest first-time home.

It is available to families and individuals resident in the province, and who are first-time homebuyers or living in a substandard housing unit. Their total income must be below $35,000, and they must be able to secure private financing and have a 5% downpayment for home purchase.

The maximum income threshold has been adjusted over time. The most recent has been determined through consultations with credit unions, and attempts to separate those households that should be able to affordable market housing without the assistance from those that cannot.

The assistance is available only for housing meeting certain criteria regarding "modest" size and amenities. No explicit limit is placed upon the price of the house.

The assistance is in the form of a repayable loan amortized over a period not exceeding 25 years, and subject to terms of one year.

When purchasing an existing unit, the loan is limited 20% of the purchase price of the unit. The amount of assistance available is based on a sliding income scale that is a percentage of the purchase price.

When building a new unit, the loan is limited to 50% of the total construction costs up to a maximum of $40,000.

In both cases, households earning less than $20,000 will be charged no interest on the loan. For each $1000 of income above $20,000, the interest rate will be increase by 0.5% until it equals the provincial borrowing rate. The household income is assessed annually, and interest rate adjusted accordingly.

3.2.3. Saskatchewan's Neighbourhood Home Ownership Plan

Saskatchewan introduced this program in 1998 to provide housing assistance for families with limited incomes when purchasing homes in designated inner-city areas within four cities.

The funding is limited to families with dependent children, and earning a maximum gross income of $30,000 annually. They also must be capable of qualifying for a conventional mortgage for the balance of the appraised value of the house.

The assistance is provided principally through an interest-free equity loan of 30% of the appraised value of the home up to a maximum amount of $13,500. The provincial government is responsible for up to $11,250 and the participating municipality for up to $2,250. A renovation grant is also available for any emergency repairs.

The loan generally must be repaid over a maximum of a ten-year period. Depending upon family income, all or a portion of the equity loan might be forgiven at the end of five years or extended at no-interest for a longer period.

The program is being operated through Quint Housing Co-op in Saskatoon, New Beginnings Co-op in Prince Albert, Hope Housing Co-op in Regina and a similar organization in Moose Jaw.

The families must initially form and work together through a housing cooperative. The housing co-operative purchases the property and holds the mortgage on an interim basis for a minimum of five years. The renovations are organized through the co-operative, using the equity loans and renovation grants on a pooled basis. During this period, each of the families leases their units from the co-operative, and is expected to help in renovating and maintaining the property. After that time, they are able to assume the mortgage and title of their home, subject to fulfilling all of the program requirements.

This program makes housing more affordable by providing no-interest short-term loans that serve to reduce the amount of money that must be borrowed through a mortgage. This, in effect, reduces the minimum income threshold for home purchase.

3.3. Municipal Programs

3.3.1. Surrey's Home Ownership Assistance Program

Surrey BC started this temporary program in mid-2002 in order to financially assist families not able to buy a home due to their limited income. The assistance is for first-time buyers living in Surrey and having a gross annual income 10% below the city's average household income. That translates to a maximum of $49,000 in 2002.

Assistance will be provided through an interest-free loan toward the purchase of a newly constructed home located in Surrey. The amount of the loan will be determined by the lesser of $15,000 or 15% of the market price of the home. The assistance must go toward reducing the first mortgage, and not the downpayment.

The loan will be registered on title as a 'silent' second mortgage. Up to 50% of the second mortgage will be incrementally forgiven over the first 5 years of occupancy at a rate of 10% per year, provided the owners continue to reside there. The remainder will be recovered after 20 years, or upon resale of the home or if the owners cease occupancy.

3.3.2. Winnipeg's Rent-to-Own Program

This program (details of which have been supplied verbally by Linda Ring, RRAP Co-ordinator for the City of Winnipeg), is supported by the three levels of government through grants of up to $18,000/unit from the federal *Rental RRAP* Program, and $10,000 from both the province and the city. The assistance is available only in certain inner-city revitalization areas. It is being currently provided through two community-based non-profit development organizations, which are responsible for purchasing and renovating existing houses, and for renting and then selling them to income-eligible tenants.

The non-profit organizations must retain title for five years after renovation. (This represents a reduction to the conventional 15-year *RRAP* requirement.) During that period, the rent paid by the tenant goes towards paying the property taxes, insurance and mortgage. The rent paid during this period goes to an equity build-up used as the downpayment for home purchase if desired. After that period, the tenant has the option to purchase the house for the initial purchase price, prior to improvements, equal to the outstanding balance of the of the first mortgage.

When the unit is sold after five years, the non-profit organization will hold, for a further ten years, a silent second mortgage, for the value of the government improvement grants. The value of these grants will be forgiven incrementally over that time. The second mortgage also will give the non-profit organizations the first right to re-purchase the unit during that time.

The tenants are limited to households earning within the RRAP guidelines. The rents are set by the Housing Income Limits determined annually by CMHC and based upon the median of rental market for the city.

3.3.3. Winnipeg's Housing Opportunity Partnership

The Housing Opportunity Partnership (HOP) was established as a privately non-profit organization in late 1997, in large part due to the efforts of the Winnipeg Real Estate Board (WREB). Its purpose is to support homeownership in the rundown inner-city neighbourhoods of Winnipeg as part of wider efforts promoting neighbourhood improvement and stability.

HOP established a revolving fund initially through contributions from two sources:

- $600,000 over four years provided by the provincial government from the interest earned on real estate broker accounts; and

- $500,000 over three years from the Home Equity Program established under the Winnipeg Development Agreement.

Support also has been provided from other sources. Members of WREB contributed $25,000 in initial start-up funding to HOP, and they also provide real estate services and other assistance at no charge. The Winnipeg Housing and Homelessness Initiative provided $200,000 in additional funding in mid-2002.

The fund is used to purchase and renovate existing houses in the inner city area. After renovation, the units are sold at a market-rate, with intent of at least recovering its costs. The resale proceeds are returned to the fund, and used again in the same way.

Contrary to its intent, HOP has been losing money upon the resale of these units. It has been recently selling the renovated homes, worth approximately $80,000, after the comprehensive renovation (and allowing for various interim expenditures like administration, utilities and taxes), for about $70,000. The market gap is approximately $10,000 per unit. This market gap has been financed by contributions from the Winnipeg Housing and Homelessness Initiative [Drdla 2000].

The homebuyers must meet NHA requirements under CMHC's mortgage insurance program and have the necessary income to qualify for a 95% mortgage loan. Applicants have been encouraged to contribute towards the downpayment through sweat equity, which could count for up to half of the minimum 5% requirement. This provision of the program has been difficult to administer and seldom used. As a consequence, HOP has recently arranged to provide financial assistance out of its fund for downpayments also for up to half the minimum requirement. The assistance will be limited to households earning less than $42,500 [Drdla 2000].

3.3.4. Montreal's *Domi-cible Program*

The city along with the provincial housing corporation, the Société d'habitation du Québec (SHQ), initiated this program in February 2001. Its purpose is to support the purchase and renovation of the existing plexes in targeted central neighbourhoods surrounding the downtown core [Wexler, 2002].

This program, which is part of the city's revitalization strategy for these central neighbourhoods, has these specific objectives:

- to increase the number of owners, and particularly resident-landlords, and
- to promote and facilitate sustainable homeownership for modest-income households.

The Domi-cible program has both a grant component and an education and training program component.

A third component, a renovation subsidy provided through the separate Rénove Atout program, was initially part of this program but is no longer available because it was oversubscribed.

The grant ranges from $3,000 to $8,000, and is available for purchasing a plex in the targeted neighbourhoods. The cost of grant is shared by the provincial government and the city at a 70:30 ratio respectively. The grant is based on creating greater parity between purchasing a single-family house and a plex. The amount of the grant was calculated to reduce the downpayment to roughly 5% for the average sales price in these neighbourhoods in 1999.

To qualify, the purchaser must agree to live in the building for at least three years. The building must meet these criteria:

- it must be exclusively residential and have two-five dwellings only;
- it must have been built before January 1991; and
- the value of land and building must not exceed certain limits (ranging from $135,000 for a 2-dwelling unit to $205,000 for a 5-dwelling unit).

To assist in sustaining ownership, a five-course program is being provided by two community-based groups. The courses address various pre-purchase (household budgeting, purchase financing and the purchase process)and post-purchase (property management and maintenance, landlord-tenant relations, and available subsidies) issues. In addition, personal counselling is also being offered [Wexler, 2002].

This particular program is part of wider efforts to support ownership in these areas that includes renovation grants to owners that are more generous for owner-occupied dwellings; grants to developers providing new dwellings through either new construction or conversion of nonresidential buildings; and modest tax credits to the purchasers of new dwellings [Wexler, 2002].

3.4. Affordable Housing Agreements

Ten provinces and territories have signed affordable housing agreements with the federal government within the last year. Out of these, seven contain provisions specifically for new affordable homeownership programs. These include the agreements signed by Alberta, Saskatchewan, Ontario, Nunavut, the Northwest Territories, Manitoba and Nova Scotia. British Columbia, Quebec and Yukon also have signed agreements, but without reference specifically to homeownership.

These agreements have been signed under a framework finalized on 30 November 2001 by the federal, provincial and territorial governments. It includes these provisions:

- Provinces and territories have the primary responsibility for design and housing program delivery;
- Provinces and territories require flexible programs to address their needs;
- The initiatives must create affordable housing for low-to moderate-income households;
- Units funded will remain affordable for a minimum of 10 years; and
- Provinces and territories are required to match federal contributions.
- The federal government will provide capital grants — up to a maximum of $25,000 per unit on average overall — to increase the supply of affordable housing.

Under these agreements, the funds will be used for the following programs related to affordable homeownership:

- In Saskatchewan, for a 'Home Ownership Plan' that will support new construction and major renovations for low- to moderate-income families;

- In Alberta, for an 'Affordable Housing Partnership' that will provide stable, affordable rental or ownership housing for low-income families, seniors and individual with special needs;

- In NWT, for an 'Independent Housing Program' that will enable low income families to access modest housing through homeownership;

- In Nanavut, for a 'Downpayment Assistance Program' that will help first-time buyers purchase or construct a new home;

- In Ontario, for 1) an affordable urban home ownership program that will assist rental households to purchase newly-built affordable homes in urban neighbourhood revitalization areas and 2) an affordable remote housing program to create or rehabilitate ownership or rental housing in remote areas;

- In Manitoba, for 1) a downpayment assistance program for first-time buyers of new or existing homes, and 2) a new homeownership supply program for neighbourhood revitalization and remote areas;

- In Nova Scotia, for a new home purchase program to facilitate homeownership for low-to-moderate income households through new construction or conversion.

Affordable housing with respect to homeownership means housing that sells at or below average market price in the community or area. The provinces and territories are responsible for defining any income limits for the programs.

In urban areas, only up to 25% of the total federal funding can be used for homeownership, and it can be used only in neighbourhood revitalization areas. In remote areas, there are no such restrictions for affordable homeownership programs.

4. STAKEHOLDERS' MEETINGS

The following is a summary of the main observations made at a series of stakeholders' meetings held in Saskatoon, Winnipeg, Toronto, Montreal and Halifax in May and June of 2002.

The purpose of these meetings is to obtain local and independent input on the appropriateness and potential viability of utilizing Individual Development Accounts (IDAs) to improve the access of lower-income individuals and families to affordable housing.

At each of the stakeholders' meetings, the discussion initially focused on the potential for using the IDA savings to provide assistance towards downpayments and other initial costs associated with first-time home purchase. Subsequently, the discussion was shifted to exploring other housing-related uses for the savings.

Approximately 15 stakeholders were selected for each of the meetings to represent a range of sectors including provincial and municipal governments, local foundations and charities, financial institutions, community-based organizations, housing agencies and others (see Appendix 1). The stakeholders were selected because they were involved in some capacity in the provision of affordable housing, and particularly in the provision of affordable homeownership whenever possible.

Do to the relatively new introduction of this concept to many of the participants, no attempt was made at this time to discuss the detailed design and operational aspects of the potential project/program.

In preparation for these meetings, an information package was sent in advance to all of the stakeholders.

4.1. Homeownership Assistance

Two overarching conclusions came out of the discussions in all of the cities. First, there was broad support for using government assistance to help lower-income households achieve affordable homeownership. Secondly, within that context, there was also was strong interest in exploring the use of IDAs as a way of providing this assistance. This support and interest came from all of the sectors involved in these meetings.

Affordable homeownership was supported because it was seen as providing many benefits. As identified in all or most of the meetings, affordable homeownership was particularly seen as providing the following:

- positive and valuable effects on the "quality of life', not only for the homeowners and their families, but also for the neighbourhoods and the community at large;

- another way of creating much-need affordable housing, and particularly for those not having access to social housing nor able to buy market-rate homes;

- a more cost-effective way of providing affordable housing than assisted rental housing because the amount of public investment was smaller while the dividends were greater; and

- an indirect way of helping the rental situation by freeing-up existing units at a time that no or little rental housing was being built.

Within this context, IDAs were considered to represent a particularly useful tool that potentially could supplement their existing efforts or perhaps operate as a stand-alone program.

Offsetting the support and interest just noted, there were these two notable caveats:

- In Toronto, the stakeholders were generally more cautious about the potential for effectively assisting homeownership, due in large part to the high cost of housing in the city.

- In many of the meetings concern was expressed that any assistance for affordable homeownership would reduce the assistance for badly-needed rental housing and for families in greater need. As one stakeholder noted, assisting homeownership may not be the best way to spend scarce government dollars for creating safe and secure housing.

The support and interest was strongest in Saskatoon, Winnipeg and Montreal. It is notable that these three cities already have been actively engaged in providing affordable housing, and also ownership housing for lower-income households. As noted earlier, the affordable homeownership programs in these cities include the following:

In Winnipeg, there is the Housing Opportunity Partnership (HOP), Rent-to-Own Program and Winnipeg Housing IDA Program.

In Montreal, the city currently operates the Domi-cible, and has previously assisted home ownership through property tax rebates, and in specific mixed-income redevelopment areas.

In Saskatoon, the city takes advantage of the province's Neighbourhood Home Ownership Plan (NHOP), and provides other assistance through its Housing Reserve Fund, the Saskatoon Housing Initiatives Partnership and the Affordable New Home Development Foundation.

Saskatoon, which has been successfully promoting homeownership in their inner-city neighbourhoods, is beginning also to develop a wider range of homeownership initiatives. The objective is to make homeownership accessible to all working households in the community, and possibly even those on welfare.

In Halifax, there are no affordable ownership programs currently active. Consideration of affordable homeownership appears to have emerged only relatively recently. Nevertheless, various precedents were identified, including the federal Rural and Native Housing Program, the province's "Little House Program" (also know as "Hearth Homes"), and an earlier co-operative self-build program.

As an indication of the potential support, it was noted that the Quebec government had recently proposed using some of the funding made available through the new federal affordable housing program for providing as much as $45,000 per unit towards affordable homeownership. This support was eliminated however, due to an effective lobbying effort of social housing advocates.

While expressing an interest in affordable homeownership, many of the stakeholders in Montreal were also interested in the potential for using an IDA-type approach to enable tenants in co-op housing, and even possibly social housing, to accumulate personal savings.

4.1.1. Target Population

The stakeholders recognized that an IDA homeownership program on its own would be capable only of generating relatively limited assistance that could be used toward a downpayment and the associated initial costs of home purchase. As a consequence, it would be of use only to those households having sufficient income to qualify for a conventional mortgage.

The preliminary figures,[6] as shown on the following table, were presented and reviewed (but subsequently revised to reflect the input of the stakeholders). The figures were generally considered to be a useful starting point for identifying the potential minimum income and downpayment requirements. Among other things, it clarified the wide disparity in requirements caused by wide house price disparity among the various cities.

The main revision made to these figures related to the house prices. The figures were revised upwards by $10-$20,000 because the lower figure was thought likely to include units needing additional costly improvements before they could be occupied.

It was recognized that the house prices are for resale units, and not new homes. The stakeholders noted that condominiums might be available at a lower price in some markets, but also recognized that any cost advantage may possibly be mitigated by the associated condo/maintenance fees.

There was general support for allowing the IDA savings to be used for the other transactions such as legal and moving costs associated with home purchase in addition to the downpayments. One stakeholder also recommended that certain incidental costs such as the purchase of essential appliances should also be permitted.

In light of these figures, strong interest was expressed in Montreal, Saskatoon and Winnipeg for combining an IDA program with local resources to make homeownership affordable to households lower than those indicated.

In Toronto, some stakeholders felt that targeting households earning over $50,000 or more would not have political and public support. It was thought that any affordable homeownership programs would have to serve those earning $40,000 or less, but there were no indications at the meeting that local resources could be marshaled to achieve this. It was also noted that a household earning over $50,000 should be able to save effectively through a *RRSP Home Buyers' Plan.*

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[6] In this preliminary assessment, the lowest-priced homes were based on units identified in the MLS listings in each of these cities in March of 2002. For reasons of convenience, the assessment pertains to closings only on two-bedroom homes. The minimum household income needed to afford this particular housing was calculated, assuming a minimum 5% downpayment and a borrowing ratio of 2½:1 for house price to household income. In addition to the minimum downpayment, an additional allowance, based upon 50% of the downpayment, was included to cover other initial costs associated with home purchase.

This was recognizably a simplistic preliminary assessment, but it did provide an adequate basis for these early discussions. A more comprehensive analysis would need to include at the very least the price of smaller and larger units suitable for other households, other factors affecting the potential loans (like the current interest rates and household debt load) and the provincial variations in legal costs and transaction charges.

Initial Affordability Analysis

	Winni-peg	Sas-katoon	Tor-onto	Mon-treal	Hali-fax
Min House Price*	$70,000	70,000	140,000	110,000	70,000
Mortgage Loan	$66,500	66,500	133,000	104,500	66,500
Min Household Income:	$26,600	26,600	53,200	41,800	26,600
Downpayment (5%)	$ 3,500	3,500	7,000	5,500	3,500
Other Closing Costs	$ 1,750	1,750	3,500	2,750	1,750
Total Up-Front Costs	$ 5,250	5,250	10,500	8,200	5,250
Average Monthly Savings**	$ 35	35	70	55	35

* lowest-priced two-bedroom houses on market (MLS, March 2002)
** based upon a three-year period and 3:1 match.

NOTE: For reasons of simplicity in this initial calculation, the minimum household income needed to afford this particular housing was calculated assuming a minimum 5% downpayment and a borrowing ration of 2.5:1 for the house price to household income. These figures were revised for the final main report using more precise affordability calculations.

4.1.2. Eligibility Criteria

There was general support for setting eligibility limits to ensure that the assistance did not go to households that would be capable qualifying for a mortgage without the assistance.

It was recognized that the eligibility criteria must reflect the house prices in the individual cities where they were applied. Various stakeholders indicated that this country lacked suitable definitions and standards for measuring housing affordability and eligibility in homeownership programs and that the Core need income threshold(CNIT)/, Housing Income Level (HIL) and LICO thresholds specifically were not appropriate for this purpose.

Some stakeholders cautioned that the income eligibility thresholds should not be defined too tightly. Many of the households potentially benefiting from this program could be already carrying a high debt load. Therefore, to qualify for a mortgage, they effectively would need a higher household income than otherwise required.

Some stakeholders also noted that the eligibility criteria should not be based solely on one income. Assets should be considered and adjustments must be made for household size.

4.1.3. Subsidy Protection

There was a mixed response to the need for protecting the public (and, possibly, even the charitable and other local) contributions to the matching deposits.

Some stakeholders, generally in Halifax, were concerned that the public funds used in this way would be private gain. It was indicated that these programs would not be acceptable to the public or the government, unless the funds were eventually recovered in some way.

Others, generally in Saskatoon, Winnipeg and Montreal were not or less concerned about this issue. In certain cases, this response was most likely due to the assumption that the public money would be relatively modest and/or the benefits would clearly outweigh the costs.

Many of the stakeholders were looking to use the IDA program as part of municipal revitalization efforts. Under these circumstances, the public investment was seen as readily defensible due to the perceived public benefits. Furthermore, it was considered that homeowners buying in these areas were themselves taking a financial risk, and were unlikely to make a windfall profit for the foreseeable future.

Some stakeholders also noted that providing new homebuyers with this sort of assistance was not much different than other widely accepted practices, such as providing developers with a subsidy for the development of affordable rental housing, or providing individuals with economic aid to start new small businesses.

If safeguards were included to recover the money at some time, some stakeholders cautioned that it must be done in a way that would allow the homeowner to acquire and retain a reasonable equity stake. Reference was made to the second mortgage used by Habitat for Humanity and the "share of the gain" clause used in the Rural and Native Housing Program.

Some stakeholders were more concerned about securing the long-term affordability of the housing than recovering the public investment. Securing the affordability of the housing was considered to be a critical objective that was important but difficult to achieve.

It was indicated that local contributors to these programs, such as the charitable foundations, could possibly require similar protections before they would participate in these programs.

4.1.4. Public and Political Support

According to the stakeholders, government assistance for homeownership was more likely to be supported by the public and politicians when certain criteria were met. Among the criteria that were identified at the different meetings, and not necessarily universally supported, were these:

- The assistance should be carefully targeted to those with a valid and demonstrated need.
- The assistance in the case of new construction should focus on modestly sized and "no-frills" housing.
- The homebuyers should have personal financial equity in the housing.
- The assistance should target households needing a "small boost" or a shallow subsidy.
- The assistance should focus on areas needing revitalization.
- The assistance should be recoverable, or used only for housing that remains affordable for a long period.

The one notable contradiction in these comments related to the subsidy amount. Principally in Halifax, but also to some extent in the other cities, providing only a shallow subsidy was seen as critical to garnering public and political support. In Montreal and Saskatoon, there was an indication that there would be support for deeper subsidies to help households in greater need. In Toronto, there were indications that a shallow subsidy would not be acceptable because it would help only households with relatively high incomes, but there were no indications that deeper subsidies could be made available to reach those with lower incomes.

As indicated by their experience, assistance for affordable homeownership used as part of revitalization efforts was considered to receive public and politician support most readily. Many stakeholders noted that the community and family benefits were generally perceived to clearly outweigh the public costs associated with these efforts.

One aspect of an IDA program that was particularly important to many of the stakeholders was that the recipients of the matching funds first had to make a commitment through their own savings. These stakeholders felt that commitment of this nature (or through sweat equity or other means) was necessary to ensure that the property was properly maintained. They referred to earlier homeownership programs that failed because they "gave" housing without any such commitment.

Various suggestions were made about how best to sell the program. Some stakeholders focused on the homeownership aspects. They felt that the public should be educated about the benefits of homeownership and informed of the various safeguards used in the program, such as the criteria used in selecting the participants and the commitment that must be made by them.

Others focused on the asset-building aspects, and saw this program and others like it as being part of a comprehensive approach to alleviating poverty. To be successful, the concept had to be promoted in terms of its "global" benefits, such as its impact on public health, job creation and community revitalization.

One stakeholder (who supported affordable homeownership program) noted it is important not to argue that ownership is better than rental housing. It should be promoted as a way of providing more options in housing, and not for replacing rental programs.

4.1.5. Education and Counselling Programs

The importance of both pre-purchase and on-going post-purchase education and counselling or "mentorship", as it was called in one meeting, for lower-income households involved in homeownership was widely recognized and strongly supported.

Education and counselling for lower-income homebuyers was seen as a key to ensuring that ownership was sustained over the long term. These homebuyers were often vulnerable to unexpected problems and changing circumstances because they were living on a tight budget. Some stakeholders noted that many past programs supported home purchase but did not help the buyers when facing post-purchase difficulties. Programs that provided subsidies for lower-income homebuyers but no education and on-going support were considered likely to fail.

The stakeholders variously noted that the education and counselling should be directed at ensuring that the homebuyers met the following:

- understood "what they are getting into" when buying a home;
- were aware of the financial commitment and discipline involved in home purchase;
- appreciated the problems associated with maintenance of a home; and
- understood all of the ongoing costs of homeownership; and were able to cope with unexpected financial difficulties.

One stakeholder noted that the programs should help the potential homebuyers to "self-select" if they wanted to participate. This was considered likely to get people that have a strong commitment, and willing to change their behaviour to achieve the necessary savings.

Another felt that mortgage qualifications of the participants and particularly, those already with a high debt load, should be assessed early in the process, so that the participants were warned of, and possibly helped to deal with, any associated problems.

4.1.6. Other Concerns

Various concerns were raised at the different meetings about affordable housing programs generally, and an IDA homeownership program specifically. Some of these are mentioned elsewhere in this report, but are also included here.

Regarding affordable homeownership programs generally, the stakeholders noted the following major concerns:

- Lower-income homeowners participating in these programs could be living within tight budgets and under a heavy debt load. This would leave them ill-prepared to handle any unexpected costs, such as those associated with unpredictable renovation problems and rising interest rates.

- Assisting homeownership could take government dollars better spent on providing affordable rental housing or helping those in greater need.

- Assisting homeownership could involve giving away public money from private gain.

Regarding an IDA program devoted to homeownership, they noted these concerns:

- The program must have sufficient flexibility to meet local objectives and needs, and to work together with local resources and programs.

- The program must be capable of addressing two major and related problems: the serious difficulty that lower-income people have in saving, and also their high degree of indebtedness.

- Based on experience with *learn***$ave**, national demonstration projects appear to impose various research and monitoring requirements that are restrictive and costly.

- The program — particularly, the homebuyer education and counselling — will be expensive to operate. These costs might be too high, especially in smaller communities where the number of households helped might be limited.

- There are special challenges with aboriginal peoples related to treaty rights, their tax treatments, and possibly individual concerns about wanting to deal with only their own agencies.

- The administration of these accounts could be burdensome for the lending institution, and costly relative to any profit that might be derived.

- The tax status of the matched contribution must be resolved so that the benefits of the matched contributions are not taxed away.

- Similarly, the tax status of charitable contributions made to such a program must be resolved because all of the participants might not fall within the income groups considered eligible for tax-receipt assistance.

- In Toronto, and possibly other high-priced markets, the cost of housing could adversely affect the program. First of all, the high cost of ownership housing will significantly increase both the income and downpayment requirements. At the same time, the high cost of rental housing will limit the savings potential of the participants.

4.2. Other Housing Options

There was general support for allowing the IDA savings to be applied toward other uses beyond the initial costs associated with home purchase, and also for other types of housing beyond homeownership. These additional uses were needed so that a wider range of households could benefit from the program, and so that participants unable to achieve homeownership might still be able to take advantage of their savings.

The discussion was focused on housing-related options because a *Home***$ave** was seen as essentially a housing program. Nevertheless, many of the stakeholders felt that the program should offer the personal savings to be used for children's education, retirement and other non-housing purposes should the purchase of a house be unattainable.

4.2.1. Home Repairs

Allowing the IDA savings to be used for home repairs by new homebuyers was generally supported. This was seen as facilitating the purchase of older properties in need of repair and being particularly important because many lenders will want essential repairs made to older houses before providing loans. This was also seen as a way of supporting neighbourhood revitalization.

On the other hand, some questioned the practicality of this provision because of the limited amount of money made available through the IDA savings. That money would be sufficient for certain repairs, but not wholesale improvements. Also, in many cases, and particularly in high-priced markets like Toronto, the downpayment and other home-purchase costs could fully absorb the available resources.

Allowing the IDA savings to be used for home repairs by existing homeowners, on the other hand, was considered to be impractical and possibly inappropriate. Although many existing homes need repairs, often the repairs need immediate attention, which leaves the owners without sufficient time to save. Also, one of the major groups needing this assistance are seniors; although they might merit help, providing assistance through an IDA program did seem to be consistent with its fundamental purpose.

For these various reasons, it was suggested that some other renovation program might be a more effective option for houses needing extensive improvements, located in high-priced markets and/or upgraded by existing owners.

4.2.2. Equity Co-ops

There was support for allowing the IDA savings to be used toward purchasing shares in a equity co-op, but it was considered likely to have limited application due to how this type of housing is typically financed. Due to the difficulty of raising mortgages for equity co-ops, they are typically financed through personal loans that require a substantial equity stake by the borrower as security. This means there are relatively few equity co-ops for which the IDA savings could be used. In addition, the purchasers must provide an initial equity stake that is much larger than the typical downpayment saved through an IDA program.

It was noted that another emerging form of tenure called "co-ownership", which blends certain characteristics of condominiums and equity-coops, might be suitable for support.

4.2.3. New Construction

Using the savings for newly built homes was considered to be a reasonable option that should be left open, although the higher new home prices in most markets would stretch the required savings. This option was thought to merit consideration because new homes, which require less initial upkeep than older ones, could be better for households with limited incomes. This option could be made more practical where additional subsidies were available to lower the price of housing.

4.2.4. Rental Housing

Using IDAs to help people in shelters or tenants in inadequate private rental housing was put forward as a potential option. It was specifically asked if an IDA program could be used to help them gain access to permanent or more adequate rental housing by saving for the initial costs like the first and last month's rent (or security deposits), utility deposits and/or essential appliances.

While there was interest in assisting tenants to upgrade their accommodation, the stakeholders generally questioned the effectiveness and appropriateness of using IDAs for this purpose. Their doubts seemed to revolve around these two points:

- Most of these people would have limited capacity to save. Therefore, they would not be able to accumulate sufficient money, unless they stayed in their present inadequate accommodation for a relatively long time.

- Using IDA savings for rent did not appear to be consistent with asset-building because it did provide tenants with a tangible and permanent asset. The assistance would be depleted through the payments.

Reference was also made to other existing programs like the Calgary's security deposit program and Toronto's rent bank that were available for helping tenants in crisis. These were considered to be more effective option because they money up-front when most needed through loans, while requiring repayment at a later date.

It was recognized however, that many of these tenants could no doubt benefit from the financial management training and other supports provided through the IDA program..

The stakeholders generally were in support of programs that would allow renters to build an asset. One option preferred by many was a "rent-to-own" program. Another, as discussed in the Montreal meeting, was a program that would enable co-op residents, and possibly even tenants in government-assisted housing, to build equity by voluntary savings made through their rent payments.

They also noted that many tenants in market units pay more in rent than they would pay in mortgage payments for similar accommodation. An IDA program would be very useful if it enabled this particular group of renters to purchase homes.

4.2.5. Non-Profit Co-ops

In Montreal, strong interest was expressed in using an IDA program to assist people living in non-profit co-op housing to acquire assets. They should be capable of saving because their housing costs are controlled. In addition, because they pay low taxes, they generally cannot take advantage of fiscal measures like tax credits. Such a program could utilize a central fund modelled on the FTQ (Fédération des travailleurs du Québec) fund, which is a labour investment fund into which workers make voluntary but incentive-based donations through automatic withdrawals from their paycheques. The fund could be administered by a financial institution like Desjardins, and the money in the interim used to finance co-operative housing development.

4.2.6. Secondary Apartments

Using the IDAs for creating secondary (or accessory) apartments was not generally supported. Many of these cities did not permit accessory apartments, except perhaps in limited areas. Some stakeholders considered this activity to be inappropriate for their revitalization areas, where it was likely to increase problems associated with too much and poorly maintained rental housing.

Many stakeholders also questioned whether this option would be practical. Creating the second unit by itself is a difficult, expensive and time-consuming task. The new homeowner must be capable of undertaking or managing this work, and then becoming a landlord, while servicing the mortgage on what presumably is a tight budget. All of this was considered likely to over-stretch the capabilities of most new homeowners.

Against these concerns, some stakeholders noted that secondary apartments historically have been used by lower-income individuals and families as a means to afford homeownership. Furthermore, these units typically provide much-needed inexpensive rental housing.

4.3. Local Participation

The operation of any local IDA program, it was widely appreciated, would depend upon the participation of locally based community organizations. To various degrees in all of these cities, there appears to exist a network of local organizations both capable of, and interested in, supporting and operating an IDA program. These established networks include community-based organizations, local foundations and charities, lending institutions, local governments and other groups.

As previously noted, support was expressed in Saskatoon, Winnipeg and Montreal for using local resources to make homeownership more accessible for lower-income households, including those with relatively limited means. This probably would involve engaging and integrating various tools, organizations, and subsidies.

It was frequently noted that to succeed any IDA program should allow sufficient flexibility so that it could be "customized" to meet local needs and priorities. Various possible local preferences were indicated. Winnipeg and Montreal appear to be most interested in focusing affordable housing assistance in inner-city neighbourhoods. Halifax indicated an interest in supporting the provision of new modestly sized units, and possibly pre-fabricated units. Montreal was also interested in developing a program specifically for existing co-op residents.

Concern was expressed about the cost of operating these programs generally, and the education and counselling component specifically. Some of these costs, it was appreciated, were related to start-up and research. Nevertheless, the community-based organizations indicated that are likely to need operating assistance.

The local foundations and charities indicated their interest in supporting IDA programs. As noted by one stakeholder from this sector, but also reflected in the comments of others, these organizations should be involved in programs improving the quality of life in the city generally, and not just serving the "poorest of the poor".

The local credit unions generally appear to be open to participating in an IDA program. At least one had already looked into starting financial management training, and using more flexible mortgage underwriting criteria. Nevertheless, some of the representatives expressed concern about the potential burden and cost of administering the many small accounts. They indicated that they would want help from the community-based social agencies to process and "hand-hold" the participants.

It was indicated that the local matching funds for the IDAs could possibly be made available through the new federal supply program, but might depend upon the individual provincial agreements.

5. RENT BANKS

Rent banks are recently emergent programs that essentially provide modest loans for tenants seeking to secure an apartment and/or to retain an apartment in face of potential eviction. This relatively low-cost form of assistance is seen as an effective way of reducing the pressure on shelter housing and the need for other more costly assistance.

Rent banks are now widely used across the US, although the first documented rent bank, Connecticut's Eviction Rent Bank Program, was established only in 1989.

The rent banks in Canada are more recent. The first program was a twelve-month pilot project in Toronto was started in September 1998 in response to declining vacancy rates and skyrocketing rents. Since then, Toronto has proceeded to establish an on-going rent bank as well as a separate Shelter Fund for families on social assistance.

In the short intervening period, a large number of Ontario communities have followed this precedent. As of late 2001, there were rent banks in Belleville, Brantford, Durham, Hamilton, Muskoka, Orangeville, Ottawa and Woodstock; and at least another being organized in Kitchener-Waterloo [Wingard, 2001].

No attempt has been made in this study to identify all of the rent banks across the country, but enquiries were made with knowledgeable people across the country contacted in the course of this study. So far, similar programs were found only in Calgary. Enquiries will continue during the remainder of the study.

This report examines the experience in Toronto, Hamilton, Ottawa and Calgary, identifying their different objectives, practices and results, and some of issues being raised.

5.1. Toronto: *Rent Bank* (Pilot Program)

Toronto's pilot rent bank program was introduced in September 1998 as part of an eviction prevention strategy. The twelve-month project was established "to determine to what extent a small loan and/or grant can keep a family housed, thus diverting them from the shelter system." It has been the subject of a published evaluation [LaPointe, 2001].

Under this program, loans were provided mainly for mother-led, single-parent, tenant households renting in the private sector, and who were usually able to support themselves but were facing eviction due to some short-term problem. This group was targeted because they were considered to face the greatest likelihood and also the worst consequences of eviction.

A total of $80,000 in funding was supplied by the following:

- $55,000 from the city's Homeless Initiatives Fund, of which $40,000 was set aside for loans;
- $5,000 from United Way for administration;
- $10,000 from CMHC for evaluation of the project; and
- $10,000 for loans from Hockey for Homelessness, a charitable organization.

The program was operated by four downtown non-profit organizations: Neighbourhood Information Post, Regent Park Community Health Centre, Central Neighbourhood House and Dixon Hall. These organizations provided the staff, offices and other resources. The staff time amounted to an additional estimated contribution of $65,650 for the first six months alone.

In April 1999, before the conclusion of the pilot period, the city established its Shelter Fund, which is described later. As a result, some of the rent bank's clients changed because they became eligible for assistance from this other source. The rent bank negotiated with the Shelter Fund for a repayment of $16,800 in outstanding loans when they were transferred.

5.1.1. Results

The program provided loans to 39 families. The loans ranged from $250 to $2400, and averaged $1100. Most loans were to pay arrears, but in a few case small amounts were also provided for utilities.

The household incomes ranged from less than $10,000 to over $20,000, while the average was $14,700. 45% of them paying 70% or more of their income on housing.

Their average rent was $830, mostly for two-bedroom units. This was close to the average of $880 for a two-bedroom unit at that time.

Most of the recipients' housing situations had improved or stabilized six months after the loans had been provided. The loan helped 65% of the clients to remain in their homes, while another 6% were able to move to better housing. Only one client was known to move into an emergency shelter.

As of April 1999, less than a third had made repayment plans, and only two had kept to their repayment schedule.

The administrative costs for the pilot were high — partly due to the start-up costs and to the high-need tenants.

A cost assessment indicated that the savings to the city of this program amounted to $65,000-389,000 annually. This was based on the assumption that 25-50% of the clients would have used city-funded shelters without this assistance.

5.1.2. Recommendations

The final report contained many recommendations, including the following:

- The rent bank should continue to target the loans primarily to the following tenants:
    - those facing one-time and short-term financial emergency, such as those caused by sudden loss of income, health problems, or an accident.
    - those able to repay the loan, while recognizing that all or part of it might not be repaid in some circumstances.
    - those renting market rents in the private market or in social housing projects. Only in an extreme emergency should assistance be provided to rent-geared-to-income tenants.

- The rent bank should not be used to assist those eligible for the Shelter Fund, but the funds could be used in this way in an emergency and then recovered from the Shelter Fund.

- The rent bank should not be restricted to families, but higher priority might be given to them.

- The city should remain responsible for monitoring how the funds are spent, while the community-based agencies should be responsible for the administration and delivery of the services.

- The rent bank services should be handled by existing organizations providing similar services, in order to allow for "one stop" shopping and to reduce staff costs.

- The rent bank staff should undertake the following:
    - intake and approval of loans;
    - assistance with personal budgeting;
    - negotiations with landlords;
    - liaison with other relevant agencies;
    - information and referrals; and
    - follow-up on loan payments.

5.2. Toronto: *Rent Bank* ("Expanded" Program)

Toronto started its "expanded" rent bank in December 1999. The initial funding of $200,000 came from the city's Homeless Initiative Fund, which in part was supported by the Provincial Homeless Initiatives Fund. Since then, the city has annually renewed this funding (with a slight increase for inflation) for two additional years. Supplementary funding was also provided through $25,000 from United Way and two private amounting to $10,000.

This program was established following a recommendation in January 1999 of the Mayor's Homeless Action Task Force, which called for creating a $500,000 rent bank for tenants at risk of eviction due to arrears.

The rate of evictions from both private and public sector housing in the city had increased steadily over the 1990s. The landlord-tenant legislation had not been effective in protecting low-income tenants from high rent increases. Almost 40% of the families seeking emergency shelters had been evicted, and 75-85% of evictions are due to rent arrears. Impending changes, enacted to Ontario's Tenant Protections Act 1998, was expected to make matters worse [Hoy, 1999].

The purpose of the program is to sustain current tenancies by preventing evictions whenever possible. It was premised on findings from Toronto and cities in the US that it is much cheaper to prevent someone from becoming homeless than it is to accommodate them in emergency shelter or motels. It also has various social benefits, including preserving the stability of the lives of families and their children.

The rent bank program is administered by the Neighbourhood Information Post (NIP), which is responsible for disbursing the funds, monitoring the results and reporting to the city. The program is operated through seven outreach centres, including NIP and six other existing housing help centres or similar community-based organizations. These organizations were selected by the city, on the basis of proposals, because they provided good geographical distribution across the city and had had previous experience in offering related housing services.

In addition to operating the rent bank, these centres also provide the following associated assistance:

- mediation with landlords or property managers, for example, to work out a rent payment plan;
- assistance in obtaining Community Start-Up Benefit and City's Shelter Fund for those receiving or eligible for social assistance;
- counselling and advice, particularly to help prevent clients falling into rent arrears;
- information on the Tenant Protection Act;
- referrals to other social service agencies;
- assistance in finding alternative rental housing; and
- advocacy with government agencies.

5.2.1. Conditions

Under this program, loans are made available to families with dependent children living in private rental housing that have received a formal eviction notice. This represents a widening of the eligibility used in the pilot program, which targeted single mothers.

The assistance is provided solely for rent arrears. Those having utility arrears are directed to another local program — *Share the Warmth*.

There is no formal limit to income eligibility. The clients are expected to have exhausted other means, including the possibility of a bank loan.

The assistance is not available for those receiving or eligible for social assistance (which is handled through The Community Start Up Benefit or Shelter Fund), or paying an unsustainable proportion of their income on housing — usually taken to be 70%.

5.2.2. Results

During Dec 1999 through Dec 2001, the program assisted 415 families (or 1,369 people in total). It provided loans amounting to slightly over $599,000, or nearly $1,445 per family. Over $139,100 had been repaid in that time, or about 23%.

The average income for these families was about $1,950 per month or about $23,500 per year. Their average monthly rent was about $825 in the first year, and $905 in the second — representing an increase of nearly 10%. On average, the families are paying about 45% of their income for rent.

There has been a steady increase in loan defaults over the life this program, due in large part to rental increases and stagnant wages.

Figures from the Dec 1999-Jan 2001 period indicated that the loans prevented eviction in 87% of the cases.

5.3. Toronto: *Shelter Fund*

This fund, which was established in April 1999, provides assistance for families with dependent children living in Toronto that receive social assistance through Ontario Works (OW), Family Benefits or Ontario Disability Support Program (ODSP), or are eligible for this social assistance.

The fund was designed specifically to assist the following:

- households without permanent shelter to obtain suitable housing;
- households with suitable housing to maintain it, particularly in the face of possible eviction; and
- households in unsuitable housing to secure more suitable (including more affordable) housing.

The fund was created using a $6 million saving that resulted from the introduction by the federal Canada Child Tax Benefits in July 1998. As part of this change, the province made a commitment to reinvest the social assistance savings into programs that benefit low income families with children, and also to encourage the municipalities to use their savings in a similar manner. This particular approach was taken because the majority of social assistance families in the city pay more than the maximum amount they receive under OW for accommodation.

This assistance is generally provided through one-time payment, except for the two types of transitional assistance provided on a monthly basis as described next.

Subsequently, the program was expanded to provide special funding for the following specific families with dependent children:

- under the so-called "shelter enhancement", families who are actively participating in an approved OW activity and are paying shelter costs in excess of the OW legislated shelter allowance. This assistance is paid monthly for a maximum of six months, but extensions are possible.

- under its "shelter enhancement for hostel integration support", families who are not necessarily involved in OW activities but who upon leaving the hostel system have found accommodation at a cost exceeding the OW legislated allowance. This assistance is paid monthly for up to three months, but extensions are available dependent upon the client participating in an approved OW activity.

The assistance is available for the following families:

- those moving into rental or boarding accommodation that is not "per diem funded", like group homes or hostels;
- those being discharged from an institution or other approved facility;
- those leaving a harmful situation; and
- those moving to less expensive accommodation or for reason of employment, education or training.

Harmful situations include a variety of conditions: fire and flood; chronic homelessness; family violence, including spousal or child abuse; uninhabitable or unaffordable premises and others.

The assistance is available for these direct shelter costs:

- last month's rent deposit;
- fuel and hydro deposits for new services;
- rental, utility or fuel arrears; and
- moving and storage costs.

The Community Start Up Benefit is available for other second shelter support costs, including household furnishings such as beds, dresser, table and chairs; and settlement costs such as bedding dishes, small appliances and clothing.

A service plan must be developed with each client, in order to assist each in managing shelter costs.

The support available under the two enhancements is based upon the difference between the maximum OW shelter allowance and the actual shelter costs, up to the following limits:

- $145 per month for a family of 2;
- $183 for a family of 3-4; and
- $285 for a family of 5 or more.

5.4. Ottawa: *HomeSafe*

HomeSafe is a rent bank program started in February 2000 and operated by the Community and Family Services of the Salvation Army in Ottawa. It is funded by the City of Ottawa through the Provincial Homelessness Initiative and the federal SCPI program.

Salvation Army had been providing a similar service before this funding, but on a more limited and ad hoc basis and without a committed budget and stated eligibility guidelines.

The program provides loans for families with children who are at risk of losing their homes because of payment arrears for rent or essential utilities. This service was developed to prevent families from turning to shelters for emergency housing.

The loans are available only to these families meeting these conditions:

- living in housing that is permanent and habitable
- not owing more than 2 months in rent arrears, or more than 3 months of utility arrears or other fees;
- not involved in chronic financial mismanagement;
- able to repay the loan in a timely manner;
- having exhausted other social services and community resources; and
- not having used this program previously.

There are no income limits to eligibility. Applicants are reviewed on case-by-case basis. The key criteria is that applicants have exhausted all other resources, including their own.

All clients are requested to sign a repayment plan based upon their income. No families are denied assistance if they are unlikely to be able to repay. The recipients are still asked to sign because most would rather see the assistance as a loan than a hand-out.

5.4.1. Results

In 2001, the organization received approximately 820 enquiries about getting assistance. It assisted 240 families, referred 270 to other agencies or supports in the community, and denied assistance to about 310 — either because they did not meet the criteria or were helped by other agencies.

The assistance typically was about $1000-1100 per family for rent, and $300-500 for utilities.

Only 14% of the recipients have made repayments. This figure includes both complete and partial repayments.

Most of those assisted are families led by single mothers not receiving sufficient child support. Some are working with top-ups from social services; others are solely dependent on social services.

They also helped many low-income double-income families with children, earning about $30,000 through minimum wage jobs with irregular working hours. They would be eligible for social housing if any was available.

Many of the families are paying 60% or more of their income to housing.

Under the earlier ad hoc program, from April 1999 to November 1999, they provided $31,250 in loans to 49 families at an average of nearly $640. About $1,620 had been paid back by the end of that period.

5.4.2. Other Services

Salvation Army also assists families and singles not just those getting financial assistance in a variety of ways:

- advocating and negotiating with landlords, utility companies and other community service providers;
- providing information on tenant rights and obligations;
- providing information on other community resources offering assistance and support; and
- providing other assistance in the form of groceries, furniture and clothing.

The organization also has recently started a pilot project, called *MoneyWise*, and funded by Ottawa through the Provincial Homeless Initiative. It is directed at decreasing the risk of homelessness through early intervention into the financial management of the vulnerable families. It is intended to keep families in appropriate housing by stabilizing their financial situation before they are threatened by eviction.

The project provides a financial counselling and also a trusteeship service. The organization will develop individual budget and payment plans, based on the income of the client. Where necessary or appropriate, as part of those plans, it will also take over the disbursement of spending money. One of the intents is to secure affordable housing for the clients by assuring that their rent will be paid on time.

5.5. Hamilton: Housing Emergency Loan Program (HELP)

HELP was started in December 1999. It temporarily ceased operation in May 2000 when its funds were exhausted, but re-opened in December 2000.

It was founded by a number of faith-based groups and social service agencies, which included the Unitarian Church, Downtown Ecumenical Committee, Social Planning and Research Council, McQueston Legal Services, Dundurn Legal Services, Housing Help Centre and the Solutions for Housing Action Committee.

HELP is a stand-alone and non-incorporated organization program devoted exclusively to administering the loan program. It provides no other support services, and employs one full-time staff person. All funds are administered through the Hamilton's Housing Help Centre. Public donors are issued charitable tax receipts through the United Way. It is governed by a Steering Committee comprised of representative from the founding organizations.

The initial funding came through $10,000 from the Unitarian Universalist Fund in the US, and $32,000 from the Regional Municipality of Hamilton-Wentworth. A grant of $120,000 was subsequently provided by the federal SCPI program. Other local funding has provided by Arriscraft International, Centenary United Church, Hamilton Community Foundation, St Thomas More Secondary School, and private donors.

The purpose of the program is to aid low-income tenants to secure rental accommodation, both subsidized and market. It is available to families, couples or individuals whether employed, or on pension or social assistance, having an income at or below 110% of the LICO.

The program provides no-interest loans that repayable over one year. The loans are for one-time costs in the form of moving expenses, first and last month's rent, and other associated costs like providing a major appliance. The loans are now limited to a maximum of two months' rent; until recently, this limit was one month.

The loans are given only under these conditions:

- The rent of the unit is sustainable that is, within the range of what the tenant can afford.
- The tenant intends to stay in the unit for at least one year.
- There is a reasonable expectation that the loan will be repaid within one year.
- The tenant is faced with a temporary — not chronic — crisis that can be addressed through one-time assistance.

5.5.1. Results

From Dec 1999 through May 2000, the program received over 200 applications, and gave 93 loans totaling $46,000, or $494 per loan on average.

From Dec 2000 through Aug 2001, it received 97 applications, and gave 74 loans totaling $40,100, or $542 per loan.

About 3/4s of recipients were making payments, either regularly or irregularly. Overall, less than 50% of the borrowed amount has been repaid according to the repayment agreements.

The recipients of the loans were 44% singles, 8% couples, 28% singles with children and 20% couples with children.

The majority of applicants had monthly incomes between $500 and $1,500. The average was $1,225. For comparison, the LICO in 2001 for a couple in Hamilton was $18,367 per year, or $1,530 per month. The average rent for an one-bedroom apartment in Hamilton in October 2000 was $525, while the average for a two-bedroom was $695.

Half of its applicants are on ODSP. Applicants that rely on OW, on the other hand, are rarely eligible because they cannot meet repayment requirements.

5.5.2. Observations

Hamilton's program has somewhat different objectives than that in Toronto. The Toronto program is for families already served with an eviction notice. These families are often in deeper financial trouble, requiring more money and facing greater problems in paying it back. As a consequence, the Toronto program acts more like a grant program rather than revolving loan program. *HELP*, on the other hand, is aimed primarily at helping tenants secure rental housing. It also limits the amount of the money that it will loan.

Their requirement that the loan be repaid is disqualifying many people in great need. Included in these are many of the homeless and chronically ill, and those on OW.

The organization is giving consideration to associating with another organization. This move is seen as a way getting access to charitable access, serving clientele in other parts of the city, and making better use of their resources.

5.6. Calgary: Security Deposit Programs

At least four organizations in Calgary have recently run security deposit programs. These include Red Cross, Salvation Army, MCC Employment Development and Calgary Urban Projects Society (CUPS).

These programs respond to a very specific problem in Calgary. A study found that over half of the people seeking help in the emergency shelter system were working. For example, many of them were newcomers to the city, who had the income to afford a rental unit but did have the last month's rent as the security deposit.

These programs were designed to assist tenants in securing housing, but not to prevent loss of housing. They do not provide assistance towards other financial needs like utility deposits, nor rental and utility arrears.

Most of these organizations provide loans for security deposits. For example, MCC provides loans only to those that are employed. The recipients must take a money management course. The loans must be paid back over two years.

CUPS is the only one of these that provided grant. It targeted mainly those on social assistance. In 18 months, they gave out $543,000 to nearly 1900 applicants, or an average grant of $290. About 1/3 of the recipients had mental health problems; this group was the focus of most of their other services. The funding came from SCPI, the Calgary Homeless Foundation and United Way. This program has been suspended due to lack of money.

6. HOMEBUYER EDUCATION AND COUNSELLING PROGRAMS

Homebuyer education and counselling programs (HEC) are widely used across the US as a way of increasing homeownership in traditionally underserved markets, while at the same time limiting the mortgage loan default risk.

Those "underserved" by the conventional mortgage market are defined by their low homeownership rates. They variously include lower-income households as well as minorities, young households, women-led households, inner-city residents, recent immigrants, rural populations, aboriginal groups, single-women, and self-employed and others in non-traditional work arrangements.

Increasing homeownership in these markets is considered potentially risky by private lenders because they cannot meet conventional mortgage underwriting criteria. These underwriting conventions have been established by lenders to generate high lending volumes within tolerable default losses and acceptable administrative costs. They can create barriers, however, for many credit-worthy and nearly creditworthy customers that do not fit the standard profile. HEC finds creative ways of addressing many of those barriers.

HEC was the subject of a recent CMHC report [Hirshhorn, 2000]. The following provides some of the discussion within that report of the following, but not all, was taken from that report.

6.1. Background

The first "housing counselling" program was identified in federal legislation in 1968. Over the intervening years, the use of HEC has grown from a few pilot projects to well over a thousand of local providers across the country, a handful of non-profit umbrella organizations that provide training for the local agencies, and a national association representing all of the stakeholders. Most of that growth has occurred in just the last 10 years.

In the early years, HEC focused on post-purchase counselling as a way of preventing mortgage foreclosure. In the last ten years or so, pre-purchase education and counselling has been used as an instrument of public policy to extend homeownership. Many agencies now provide comprehensive "full-cycle" services designed to help families both before and after purchase.

Another recent and key development is the HEC providers taking on the role of an "intermediary" between the prospective homebuyer and lender. This sees some of them more aggressively facilitating home purchase by finding alternative ways of qualifying for mortgages, or even undertaking the underwriting functions on behalf of the lenders.

Various factors have contributed to the increased and wider use of HEC. Among the key factors are these:

- In 1974, HUD was authorized for the first time to fund HEC programs. Starting with regular annual appropriations of $3 million to establish counselling agencies, its budget devoted to HEC has increased to $12 million in the 1990s and $18 million in 1997.

- The Community Reinvestment Act, passed in 1977 but not effectively enforced until 1989, provided a way for community groups and others to pressure lenders to increase their lending efforts in the underserved markets.

- During the early 1990s, many state housing finance agencies and local governments developed housing programs to assist first-time or lower-income homebuyers through such devices as downpayment grants, soft and silent second mortgages, and low-interest mortgages. Access to these products was generally contingent upon passing a certified HEC course.

- Since 1992, HUD has set affordable lending targets requiring Fannie Mae and Freddie Mac to perform a large proportion of their lending in underserved areas. (These powerful quasi-government agencies are secondary lenders; they do not underwrite mortgages directly, but they do purchase loans from originators that conform with their standards.)

- In 1994, Fannie Mae began requiring completion of certified HEC programs in order to obtain various affordable products or other housing assistance. In the same year, Fannie Mae was persuaded to accept tele-HEC to satisfy this requirement.

- In 1995, the "National Homeownership Strategy" provided additional support for various measures — including HEC — directed at increasing homeownership rates in the US.

The mortgage loan insurance provided through the Federal Housing Administration (FHA) provides another important support for HEC. Under this program, up-front rate reductions of 30-40% are provided for insurance premiums to first-time homebuyers completing accredited HEC programs.

A national association, the American Homeowner Education and Counseling Institute (AHECI), was established in 1996 to represent and co-ordinate the various stakeholders that have encouraged, funded and/or participated in the delivery of HEC. Among the primary objectives of this organization are establishing standard certification procedures, evaluation criteria and core curricula for these programs.

Also, as part of its unstated mandate, it is expected to determine how best to share the cost of these programs, which is an issue that divides the various parties involved.

6.2. Experience in the US

The HEC industry has developed in a haphazard fashion in response local needs and capabilities, and then has been molded by various financial and institutional considerations as indicated from the national level. This combination of "bottom-up" innovation and "top-down" support and guidance is reflective of how most of the new housing initiatives have emerged in the US for the last twenty or more years.

The US industry, as a result, has been highly fragmented. It has involves a variety of service providers, many of which have developed their own programs, procedures and standards. Only fairly recently, mainly through HUD and AHECI, has there been a move towards more consistency.

6.2.1. Stakeholders

HEC involves a mixed range of stakeholders. The principal ones are diverse non-profit organizations that mainly provide the services and private lending institutions that provide the mortgages. Also involved are private credit management companies to some extent, and federal, state and local governmental agencies.

Locally-based non-profit organizations are the main providers of HEC. Some are independent, while others are affiliated with one of the national umbrella organizations — chiefly, Neighborhood Housing Services, ACORN, Neighborhood Reinvestment Corporation and Catholic Charities USA.

These agencies often were first established — and still continue — to be mainly involved in other activities, such as developing and rehabilitating affordable housing, managing non-profit rental properties, supporting community or economic development, and organizing and running community-based social programs.

According to one survey, the average non-profit agency involved in HEC had been in operation for more than 18 years, but has provided HEC for no more than 5 years. The average agency offered nine hours of classroom instruction and 2.5 hours of one-on-one instructions. The average agency provided assistance to nearly 500 households in the last year.

Many of the organizations, due to the nature of the community and the focus of the organization, have developed programs specific to certain underserved groups.

6.2.2. Clientele

The HEC providers are able to sort out and work with principally two types of clientele:

- The "creditworthy": those able to purchase a home, but not having done so for various cultural, social or linguistic reasons.

  Included here, for example, are homebuyers unable to qualify for home purchase because they do not have a credit or banking history. For example, many immigrants operate solely on a cash basis. To establish their creditworthiness, HEC providers might use alternative "non-traditional" means like showing that the client has a history of timely paying rental or utility bills.

- The "near creditworthy": those not able to meet all of the underwriting criteria, but able do so with some assistance.

  This includes those that have a marred, but reparable, credit history because of some past financial problem. HEC can assist by instituting repayments or settlements with those owed money, developing feasible budgets and promoting fiscal discipline, and ultimately providing clients with a favourable credit report.

6.2.3. Services

The service providers are variously involved in a range of education and counselling activities — both pre- and post-purchase. Education covers a wide range of subjects in a general way, and is mainly undertaken in groups in a classroom setting. Counselling is one-on-one and deals with specific personal problems. The latter is the more time-consuming and expensive exercise.

Pre-purchase education is generally directed at helping the households to decide whether home purchase is right for them, and to understand the home buying process. The courses typically cover topics like determining what housing is affordable, understanding housing finance and the closing process, preparing a household budget and establishing fiscal discipline, recognizing the importance of maintenance and repairs, and avoiding default and foreclosure.

Pre-purchase counselling is directed generally at screening clients to determine whether they are ready and able to purchase a home, and helping them overcome any financial, credit, linguistic, cultural or other barriers. It will typically include most or all of the following:

- assessing a family's ability to buy a home based on income and credit history;
- advising on the management of household expenditures;
- setting savings goals to finance downpayment and closing costs;
- helping to establish a credit history or repair a marred one;
- screening clients for home purchase assistance (like downpayment grants) offered by local governments or housing agencies;
- assisting clients in finding employment to increase and/or stabilize incomes; and/or
- linking clients with lenders, real estate agents and social service providers.

Post-purchase counselling focuses on overcoming any mortgage repayment problems, and particularly on preventing default and foreclosure. This might consist of assisting in money management, providing temporary financial assistance, making referrals to other agencies, and obtaining forbearance from the lenders.

Some agencies also offer post-purchase education programs that deal with such aspects as home maintenance and repairs, and alternative financial arrangements like life leases and reverse mortgages.

6.2.4. Involvement as "Intermediaries"

What is particularly notable about some of the HEC agencies is that is that they offer services aimed at facilitating access to homeownership. This involves actively "packaging" the prospective homebuyers as good customers. They do this by addressing past credit problems, finding alternative ways of qualifying them, and intervening on their behalf with the lenders. Sometimes, this is done through affiliated lenders who hand over the underwriting to them.

Due to this activity, some of organizations fall into an important new class of agencies in the US called "intermediaries". What chiefly characterizes these agencies is that focus on getting access to private capital for lower-income households, micro-businesses, and non-profit developers rather than on administering government-supplied assistance.

It is important to that this process does not typically involve the lenders relaxing underwriting criteria or providing concessionary interest rates. (Financial assistance — like downpayment grants or even low-interest loans — might be available, but only through governmental programs.) It does involve the lenders in accepting alternative ways of meeting their criteria. In doing so, they are essentially accepting a risk assessment for these clients so that they have access to more favourable market rates available to other good customers.

6.2.5. Role of Lenders

The mortgage lenders have become supporters of HEC, mainly since the enforcement of the CRA. Their interest can be seen the emergence of pre-purchase homeownership education. This represents for them a low-cost marketing strategy and screening process that enables them to meet CRA compliance and HUD-imposed lending mandates.

HEC has emerged for these reasons as a key tool for the lenders to penetrate the underserved market. This is an important aspect of HEC that should not be overlooked, and explains much of its success. While the increased lending in these markets has been accomplished through new mortgage products and underwriting standards, these initiatives are often directed at households that face various problems with home purchase. Because the lenders have little information on these markets and little experience with alterative methods for evaluating lending risk and establishing creditworthiness, they typically find that identifying good customers in this market to be too expensive and time-consuming on their own.

The lenders have turned to the non-profit HEC agencies both to market their products and process the applicants. For their part, the agencies have developed successful outreach methods to the underserved communities. They have succeeded in making home purchase process less daunting for families, sorting through the underserved populations for creditworthy and nearly creditworthy households, helping them to address and repair any shortcomings in their mortgage qualifications, and ultimately sending the lenders "mortgage-ready" households. This has enabled the lenders to increase their lending volumes and make a profit.

6.2.6. Tele-HEC

Over-the-telephone HEC, called tele-HEC, was aggressively implemented by two large private companies in 1992. Some of the largest providers of pre-purchase education now use this approach. Tele-HEC companies are able to process large numbers; some deal with 200-300 clients per month. More than 25% of the HEC recipients received training over the telephone. In tele-HEC, the homebuyers learn from workbooks sent by the service provider. They are helped over the telephone with any questions, and also tested in this way to verify their command of the material.

Tele-HEC is considered to be limited type of pre-purchase education. The reason for its popularity is that it is the least costly way of qualifying for various government programs that require HEC.

Tele-HEC, on the other hand, is not considered to be an adequate way of providing counselling, and particularly it is not considered effective in limiting default risk. Notably, FHA does not recognize tele-HEC for its reduced mortgage insurance premiums.

6.2.7. Costs

A 1997 survey found the average cost of counselling and education services was $650 per prospective homebuyer. The costs ranged from $100 to $3200, with high-volume education courses at the low end, and counselling and full-service at the top.

As indicated by figures provided earlier, HUD has been provided significant and on-going financial support from HEC. Over the years, HUD has funded about 25% of the costs. The remainder the costs are variously split between the private lenders, local governments, non-profit agencies, other contributors as well as the homebuyer.

Overall, governments on average have provided so far over a third of financial support. Lenders have provided about one-third of the pre-purchase costs, but notably much less for the post-purchase.

The information on charges to homeowners is inconsistent. One survey indicated that only 10% of the agencies charged fees, while another indicated nearly half did so — usually $25 but one as high as $145. Recent trends appear to indicate an increase in the providers charging at least nominal fees for their services.

In some places, lenders pay a fee to the HEC providers for each mortgage closed with one of their clients.

6.2.8. Effectiveness

The studies undertaken to date have not conclusively assessed the effectiveness of these programs in expanding homeownership while controlling the default risk. Efforts to evaluate their efficacy have been confounded by the diversity of their clientele and content, as well as their rapid growth and change. As the industry has matured, however, the variations are becoming somewhat less, and there are various studies now underway that might address this issue.

Based upon anecdotal findings, most HEC organizations questioned report default rates around 1%, which is about the average for all mortgages in the US. Some report even lower rates, while others higher. If the 1% figure is shown to be more or less true by empirical surveys, it represents an important indicator of the effectiveness of these programs.

6.3. Experience in Canada

Canada does not have a comparable HEC industry. In the absence of any similar financial and institutional support, various governmental, non-profit and for-profit organizations in the Canada have introduced a diverse range of initiatives, but no concerted effort has been made to expand that market by addressing the needs of the lower-income households being left out of homeownership.

The educations service available here have focused mostly on the dissemination of information, and mainly to the conventional homeowners market needing basic information about the home buying process and what is affordable.

The counselling programs in this country have similarly limited in number and scope. The nearest equivalents have been debt management counselling for families including, but not only, homeowners at risk of losing their homes, and one-on-one guidance associated with certain past government and non-profit housing programs directed at facilitating homeownership by lower-income households. Also, as indicated elsewhere in this report, a few organizations involved in rent banks and in IDA programs have started to incorporate financial counselling.

In the research design of *learn***$ave** a specific analysis of the financial management training will be undertaken to identify the results and effectiveness of this support.

7. ASSESSMENT OF LICOS

This section examines the appropriateness of using Statistic Canada's Low-Income Cut-Offs (LICOs) as the measure of income-eligibility for IDA homeownership programs. The LICOs are the most widely used income measures in this country. In the absence of any standard approach for setting income thresholds in homeownership programs, various organizations, including the current IDA programs in Winnipeg and Calgary have adopted the LICOs for this purpose.

7.1. Background

The LICOs were prepared as a measure to assess income inequality in this country and particularly to monitor how inequality has changed over time.

Stats Canada has regularly published data on the proportion of Canadians falling below two income thresholds, the LICOs since 1967, and the Low Income Measure since 1991 (but with figures going back to 1980). Starting possibly in 2002, it also will provide data for a new measure, called the Market Basket Measure. All of these are defined later.

To fall below the LICO thresholds, a household (either individual or family) must spend 20% more of their income on food, shelter and clothing than is spent by the average household of their size living in a similarly sized community.

Statistics Canada (StatsCan) draws upon data from period surveys of family expenditures to determine what the average family spends on food, shelter and clothing. That dollar amount is converted into a percentage of the average family's income for that year. For the intervening years between the expenditure surveys, the percentage is increased to reflect that annual changes in the cost of living. The expenditures also are adjusted at various times to reflect changes in household expenditure patterns.

In setting the LICOs, StatsCan adds 20% to the percentage of average family's income spent on food, shelter and clothing. The reason for this 20% goes back to the initial formulation of the LICOs. The original expenditure data indicated that on average families spent 50% of their income on these necessities. StatsCan posited that families spending more than 70% of these necessities should be defined as being in financially difficult, or "straitened circumstances", because they would not have sufficient money to pay for all of the other essential expenditures (i.e., transport, personal care, household supplies, recreation, health and insurance.) Although the average expenditure on food, shelter and clothing has changed over the years, StatsCan has continued to apply the 20% in all subsequent calculations.

The LICOs vary according to the size of the household and the size of the community in which they live. The latter adjustment is meant to account for higher expenditures in the larger urban centres. As indicated, they are updated annually (see following table for the 2001 figures).

The LICOs are reported in relation to both pre and/or post-tax income. The pre-tax income refers to income before tax from salaries, investments and tax transfers like child tax benefits, Canada Pension plan payments and social assistance. The tax system in Canada has very significant impact on these figures when compared on a pre- and post-tax basis. The post-tax figures provide a better indication of the disposable income that is available to families.

According to StatsCan, the percentage of the family's total income spent on food, shelter and clothing has declined over time as the Canadian standard of living has improved. In 1959, the average expenditure was 50% of the total family income. According the last expenditure survey in 1992, the figure dropped to about 35%. As a result, the LICO thresholds have become based on a smaller percentage of the total household income.

7.2. LICOs as measures of poverty

The LICOs are the most widely accepted measure of poverty used in this country. Most social policy groups and many government bodies use the LICOs to define poverty thresholds.

Low Income Cut-Offs: 2002*

Household Size	**Size of Urban Area by Population:**			
	500,000 and over	100,000 to 499,999	30,000 to 99,999	less than 30,000
1 person	$22,609	$19,392	$19,258	$15,625
2 persons	$28,261	$24,240	$24,072	$19,530
3 persons	$35,148	$30,148	$29,938	$24,290
4 persons	$42,546	$36,493	$36,240	$29,402
5 persons	$47,560	$40,794	$40,510	$32,868
6 persons	$52,573	$45,095	$44,780	$36,334
7 persons+	$57,586	$49,396	$49,050	$39,799

* Based upon 2002 LICOs figures published by Statistics Canada.

This practice, nevertheless, has emerged without the sanction of StatsCan. The agency has always and continually stressed that it does not recognize LICO as a measure of poverty nor does it promote its use as such. StatsCan consistently refers to people with incomes below the LICOs, not as living in poverty, but as living in "straitened circumstances".

StatsCan conducted a broad review of the LICOs and various alternatives in 1989. The LICOs were found to have limitations, but no superior alternative could be identified as a replacement. So, StatsCan still continues to use the LICOs as its preferred measure of low income, and as a consequence, the measure is used for most policy initiatives addressing poverty.

In the absence of a clearly better replacement, there is an important reason for the continued use of the LICOs. Because they have been used over thirty years, a large body of social policy research and statistical data has been built upon them. Even if an alternative became available, the LICOs would still need to be used for some time as a reference point and for any trend analyses.

Unlike the US and some other countries, Canada has no official "poverty line".

The suitability of the LICOs as a measure of poverty , as well as various alternatives, has been debated for many years in this country. The following is only a brief summary of that debate.

7.2.1. Merits

The LICOs are also said to have the merit of being conceptually straightforward to construct and easy to apply. It is also said that they are easily understood, but that viewpoint is not universally shared.

To their credit, it should also be noted that the LICOs also appear to be a good indicator of the public's perception of poverty. Gallup have surveyed Canadians since 1976 on their view of income adequacy by asking this question: "What do you think is the least amount of money a family of four needs each week to get along in the community?" The Gallup results have been remarkably close to LICO figures for more than two decades.

There is another similar example. In Winnipeg in 1997, seven low-income respondents were asked to determine what would be included in the a basket of goods and services sufficient to provide and acceptable living level described as a "reasonable but not extravagant expectation of living costs." The results were just under the relevant LICO.

7.2.2. Limitations

Several criticisms have been raised about the LICO figures as a measure of poverty.
One of the objections relates to the acknowledged arbitrariness of 20% figure. As indicated, the 20% figure was added to the initial average expenditure figure in order to top it up to 70%, which StatsCan believed to be the threshold at which families were living in "straitened circumstances". The 70% threshold no longer applies, but the 20% factor has been continued.

A more serious criticism in the context of this study is that the LICOs fail to reflect the high housing costs in certain major urban centres. Housing costs in these centres swallow a very high proportion of the income of low income households. Although the LICOs are adjusted according to the size of the community, those adjustments do not adequately reflect these differences in shelter costs. This aspect is examined more later in this section.

StatsCan's 1989 review of the LICOs identified a number of problems, some of which are identified above. Other related to certain methodological issues, and the infrequent occurrence of the expenditure surveys. The review also noted that the measure make no allowance for assets (like accumulated home equity) or for the value of in-kind transfers like subsidized rent.

There also have been objections to this "relative" approach to defining and measuring poverty, most notably and recently by Christopher Sarlo and the Fraser Institute. They argue that it measures not poverty, but income inequality, because the LICOs are based on a given family's expenditures relative to the average Canadian figure. Their alternative is to base the poverty line on the cost of basic necessities (see following material under 'Basic Needs Measure').

7.2.3. Relative vs. Absolute

Much of the on-going debate in Canada about the appropriateness of the various alternatives revolves around two opposing ways of thinking, one characterized as being absolute and the other as being relative.

Those in the absolute camp hold that poverty should be objectively defined, and the way to do this is to measure it against a subsistence standard of living. Their focus is on determining the income needed to provide a family with the basic "necessities" of life.

The relative camp holds that poverty should be seen essentially as an issue of social inequality. Their focus is on measuring the lack on income against some community norm (like average income) that reflects an appropriate standard of living or a reasonable share of wealth.

The various alternatives for measuring poverty income can be generally associated with one camp or the other. The LICOs, however, are an example of a hybrid measure that contains elements of both. To wit, the LICOs are based on a given family's expenditures for a set of necessities, but those expenditures are related back to the average figure.

Although the absolute approach is portrayed as being objective, determining what should be included in the basic necessities of life is not so easy. Therefore, this approach is ultimately based on what is a subjective choice.

One of the problems plaguing the debate is that the two approaches produce very different results. The relative measures typically higher poverty thresholds than the absolute. Furthermore, and even more important, the relative measures (based on the rise in the general standard of living or average income) will increase at a faster rate the absolute measures (based on the inflation in the cost of certain goods and service). In other words, the two approaches foster a different view about who should be considered to be poor, and the differences in those views would significantly widen over time.

All of this makes the choice of a measure for social policy programs at best a difficult task. Because poverty is a highly charged subject even without this problem, it is hard to bridge or reconcile these differences with any single measure.

7.2.4. Alternatives

Various alternatives to the LICOs have been developed, some in response to one or more of these objections.

a) Low Income Measure (LIM)

This measure was introduced by StatsCan in 1991 as alternative to the LICOs, following its 1989 review of the measure. While it has been used by analysts inside of StatsCan, it has not been much used by those outside.

LIM sets the low-income threshold at 50% of the median family income, when adjusted to take into account the needs of different family sizes. To determine the conversion factors for the family size adjustments, the first person in the household is counted as 1.0, the second person regardless of age is counted at 0.4, and after that each adult counts as 0.4 and each child as 0.3.

Similar yardsticks are used in other countries. Therefore, it provides a basis for international comparisons.

On this point, it is relevant to note that housing programs in the US all use some percentage of the median income as the basis for determining income eligibility. For example, homeownership programs typically use 80% of median income, and rental programs 50%.

b) Market Basket Measure (MBM)

This measure was released for consultation by HRDC in 1998, after being collaboratively developed by the federal, provincial and territorial governments. Its development is related to the National Child Benefit, the new federal program aimed at addressing child poverty. Various provincial governments wanted a measure that could used to evaluate its impact.

The measure is directed at identifying the minimum income required to meet the cost of a "basket" of defined "necessary" goods and services. The "basket" is defined not at an subsistence level, but at a level required for a basic, adequate standard of living. It includes food, shelter clothing and transportation, and also incorporates a multiplier to cover other essentials. The costs of these needs are based on the actual costs in various communities across Canada.

The results are expressed in terms of the minimum disposable income needed to afford the basket of goods and services, and calculated for each province and for different sizes of community within each province. Disposable income is more restrictive than the after-tax income normally calculated by StatsCan. It excludes such expenses as support payments, work-related childcare costs and employee contributions to employment insurance.

The new measure was developed to meet various specifications, some of which were in response to the perceived shortcomings in the LICOs. The specifications included the following:

- It had to reflect a consensus view of the essential goods and services need to provide a minimum acceptable level of living.
- It had to be easy to understand (but this need not mean that it must be easy to calculate).
- It needed to be sensitive to geographical differences in the cost of living.
- It had to be capable of being adjusted annually to reflect the price differences and periodically to reflect changes in consumption patterns.

MBM remains controversial because it involves subjective judgements about what to include in the basket, and because it identifies a lower income for the poverty line when compared to the traditional pre-tax LICOs.

c) Basic Needs Measure

This measure is based on Christopher Sarlo's work on poverty, and has been promoted by the Fraser Institute. Sarlo, who has been outspoken critic of the LICOs, advocates a poverty line derived from the cost of a tightly defined set of basic necessities.

This measure is based upon the money needed for food, shelter, and clothing to keep the family alive. It is limited to the basic physical necessities, defined as the "items the absence of which is likely to compromise long term physical well being." It excludes as non-essential such items as books, toys, haircuts, dental services and school supplies. These are called "social comforts" or "social amenities".

Sarlo's poverty lines are very low compared to all other Canadian poverty lines. According to his calculations, in 1988 only one million Canadians lived in poverty. Some feel that this measure is a way of defining poverty out of existence.

7.3. LICOs as measures for homeownership

The question remains whether the LICOs, despite these other criticisms, can be used as an effective measure of income eligibility for any national homeownership like that envisioned by *Home*\$**ave**.

The participants in any IDA homeownership program, it must be appreciated, will eventually need to meet the minimum household income requirements of the mortgage providers in order to buy a home. Those minimum income requirements will be largely determined by the standard lending criteria (specifically, the permitted gross debt service ratio), the current interest rates and the current house prices at the low end of the market.

Based upon all of these factors, the minimum annual household income needed currently to qualify for home purchase is about \$51,300 in Toronto, \$43,700 in Montreal and \$30,400 in the other three cities (see following table).

In comparison, the LICOs for a four-person household vary from \$35,500 to \$30,400 in the five cities, depending upon their size.

If the LICOs were used as the basis for determining eligibility in a national program, the relevant income thresholds would needed to be adapted city by city. As indicated by the above numbers, the thresholds would need to be set at something like 86% of LICO in Winnipeg, 100% in Saskatoon and Halifax, 123% in Montreal and 145% in Toronto.

This indicates that the LICOs would represent a poor measure of income eligibility for a national homeownership program. Although the LICOs are adjusted to reflect the higher cost in larger centres, these adjustments do not fully reflect the higher shelter costs that occur in the more expensive cities like Toronto, Montreal and presumably other places as well.

Although the LICOs appears to be close to the relevant income threshold in the three cities with lowest house prices, it should be noted this would change if the interest rates rose back to their historic norm, and if the particular households were already carrying a significant debt load.

In any case, any measure used principally to define poverty thresholds is not likely to be relevant to a program promoting homeownership. Households at or near poverty are not likely candidates for homeownership, unless the program is capable of providing deep subsidies.

7.3.1. Comparison of the LICOs to Mortgage Requirements

	Winnipeg	Saskatoon	Toronto	Montreal	Halifax
Min House Price:	$70,000	70,000	140,000	110,000	70,000
Mortgage Loan:	$66,500	66,500	133,000	104,500	66,500
Min Household Income for Mortgage Loan:	$30,400	30,400	51,300	43,700	30,400
2001 LICO (4 pers):	$35,500	30,400	35,500	35,500	30,400
Comparison with Min Income for Loan:	86%	100%	145%	123%	100%

Assumptions:

Min house price - based upon the lowest-priced two-bedroom houses on market (MLS, March 2002), but adjusted upwards on advice of stakeholders in each city to include houses only in good repair.

Mortgage Loan - based upon 95% of minimum house price.

Min Household Income - based upon a mortgage interest of 7¼% for a 25-year amortization period and a gross debt service ratio of 32%.

APPENDIX 1: LIST OF PARTICIPANTS AT THE STAKEHOLDERS' MEETINGS

The following stakeholders attended the meetings in the five cities.

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