

Individual Development Accounts:

An Endangered Wealth-Creation Strategy?

The introduction of the Individual Development Account (IDA) in 1996 opened the door to a new school of thought on ending the cycle of poverty. This innovative tool challenged traditional means of support by asking the question, *What if we can do more good for more people by helping them actively save and build assets than by simply offering cash assistance?* Since then, IDAs have become wildly popular among low-income individuals and families. But can funding keep pace with demand?

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AN EXCHANGE OF COMMUNITY DEVELOPMENT ISSUES AND IDEAS

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The idea was straightforward: Strengthen the economic stability of low-income individuals, families, and communities by offering them incentives to save for life-changing assets – namely homeownership, small business start-up, or post-secondary education. Their deposits into Individual Development Accounts (IDAs) would be matched by private and/or public funding at a rate of 1:1 to 7:1, to a maximum dollar amount specified on a program-by-program basis. Add to the mix financial literacy education and training, and clearly, the IDA concept held great potential.

Private and Public Support

Foundation-funded community organizations enthusiastically embraced the IDA concept. They committed funding, manpower, and creative resources to the development and implementation of IDA programs in their

“Similar to 401(k)s, IDAs help low-income families build the financial assets — homes, businesses, education — that they need to achieve the American dream. Small investments in matched savings and personal finance education can yield big returns for families, financial institutions, communities, and the nation.”

- Corporation for Enterprise Development (CFED)

communities, with the hope that their outward display of support would leverage significant public funding.

Typically a bit more cautious, policymakers waited to see if low-income people could and would actually save. It didn't take long for them to see that the answer was a resounding *yes*. IDA participants were plentiful, as they welcomed the new opportunity for building wealth. Today, 29 states and the District of

Columbia have passed laws to support IDAs (34 actually have programs in place), and legislation has been introduced in most of the remaining states. State policies have helped to create funding streams for IDAs and generate federal support.

On the federal level, a number of IDA proposals have been considered over the past eight years, and a variety of programs have been initiated

to support IDAs. Notable federal efforts include the following:

- The Personal Responsibility and Work Opportunity Reconciliation Act of 1996
- The Assets for Independence Act of 1998
- The establishment of an IDA program for refugees by the Office of Refugee Resettlement
- The Savings for Working Families Act (SWFA)

Additionally, the Affordable Housing Program (AHP) of the Federal Home Loan Banks, Bank Enterprise Awards of the Community Development Financial Institutions (CDFI) Fund, Family Self-Sufficiency Program, HOME Investment Partnership Program, U.S. Treasury Electronic Transaction Accounts, IDA VISTA

“We know we must bring to the table a high level of support in terms of offering strong savings products to IDA accountholders, providing quality service, and reporting responsibly to our nonprofit partners.”

- James Matthews
Senior Vice President
Corporate Community Reinvestment Manager
National City



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(Volunteers in Service to America), and other programs support IDAs in various ways.

Financial Services Partners

In addition to holding the potential to be generous investors in IDA programs, financial institutions play a pivotal role in providing account management services. But they are careful in choosing their IDA partners. They want to be sure they are associated with programs that succeed in helping their clients achieve their homeownership, education, or small business goals.

James Matthews, senior vice president and corporate community reinvestment manager for National City, explains what his bank seeks in an IDA partner: “We look at the strength and capacity of the provider organization. Do they have the capacity to deliver the program? Has their program actually helped people change their behavior, and is that change demonstrated through monthly saving habits?”

Matthews, who is based in Pittsburgh, has been involved in the IDA effort since its inception. He points out that it is equally important for the partner financial institution to have solid credentials. “We know we must bring to the table a high level of support in



terms of offering strong savings products to IDA accountholders, providing quality service, and reporting responsibly to our nonprofit partners.”

The Outlook for IDAs

Despite their growing popularity – more than 500 programs nationwide are supporting 20,000 active accountholders, according to the Corporation for Enterprise Development (CFED) – and the initial surge of support IDAs enjoyed, private and public support is beginning to wane. Nonprofits are finding it increasingly difficult to locate match dollars as well as operating funds.

“Many private financial institutions, financial services firms, community development financial institutions, foundations, and philanthropic organizations continue to make socially responsive investments into this asset-building effort,” says Kim Pate, director of field development for CFED. “However, adding to this funding base requires demonstration of the incentives for becoming involved. For example, supporting IDAs provides an opportunity for positive public relations: Those who back these programs can enhance their activities in low-income communities and develop partnerships with other stakeholders. These investors may also receive recognition for their efforts from the Community Reinvestment Act (CRA) and other community development programs.” (For more information on the benefits to investors, see *In My Opinion*, pages 6-7.)

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4th district profi

Canton, Ohio: Home to One of the Nation's Leading IDA Programs

“Typically, society spends about \$20,000 a year to maintain a family in poverty in government welfare-type programs. Our organization spends \$4,000 to move a family beyond income maintenance programs to build wealth and get out of poverty.”

Jay Murdock
Executive Director
Stark County Out of Poverty Partnership
(SCOPP)



Jay Murdock's inspiration about Individual Development Accounts (IDAs) came one morning in 1995 while he was watching TV. The show was a housing conference sponsored by former U.S. Housing and Urban Development Director Jack Kemp. Cicero Wilson of the Corporation for Enterprise Development (the national IDA association) described how IDAs could help low-income families build wealth.

Murdock, then the housing director for the Stark County Out of Poverty Partnership (SCOPP), was immediately sold. He saw IDAs as a way to augment the organization's Family Development Program, which lacked a financial services component.

“We were helping families overcome social barriers but not financial ones,” Murdock recalls. “After Cicero Wilson spoke, I knew that our organization needed to create an IDA program to help families overcome income and credit issues.” In 1999, the program was launched with local support from Unizan Bank. Now, Murdock is the organization's executive director.

Family Development Program Explained

SCOPP, formed in 1991, created its IDA program as a way to serve the needs of low- and moderate-income families in the city of Canton and Stark County, Ohio. Called the Family Development Program, the IDA offers a way to increase savings and investments for low-income families. This program couples economic literacy training with a financial incentive to save for the acquisition of an asset.

Program participants learn about budgeting, savings and investments, banking and credit. While they receive this training, they also save for one of the following life goals: a down payment on a home, establishment of a small business, or college education. For every \$1 they save, SCOPP provides \$4 in matching funds – one of the highest matches in the nation.

Match funds for the IDA come from the U.S. Department of Health and Human Services and local foundations. While SCOPP has long-standing relationships with many lenders in town, Unizan Bank plays the most prominent role. Since day

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“My business has changed my life because I’m in a position to meet new people and control my own destiny. It gives me a great sense of satisfaction.”

one, Unizan Bank (formerly United National Bank) has held the accounts and provided operating support.

“I think it’s an excellent program,” explains Monica Graves, assistant vice president and CRA officer for Unizan Bank. “SCOPP and its board of directors believe in the asset-based theory prescribed by Brian Grossman, Robert Friedman, and Puchka Sahay that couples financial literacy programs with monetary rewards to break the cycle of generational poverty. Jay Murdock and [Program Manager] Sharon Nunn-Alexander have done a great job.” As a result, Unizan recently received the CRA and Fair Lending Colloquium’s annual Community Impact Award for its work with SCOPP.

Success Stories

Currently, 46 people are enrolled in the SCOPP’s Family Development Program at different levels of participation. Another 15 are coming on line. While homeownership is a goal, the participant’s IDA funds can also be used to start a business or go to

school. Most importantly, SCOPP’s IDA program gives people a new outlook on life.

The program’s manager, Sharon Nunn-Alexander, is a stalwart champion of the Family Development Program, not only because she is the administrator but also because she successfully participated in the program herself.

“I benefited from SCOPP’s Family Development IDA Program as a result of my enrollment in 1999,” Nunn-Alexander explains. She faithfully saved a portion of her earned income to invest in the IDA’s match account so she could put a down payment on her first house. Soon after, Murdock hired her to run the program. “I feel that my story is a testimony of what this program can do to change other people’s lives as it did mine,” Nunn-Alexander

remarks. Murdock adds: “We’re very proud of our graduates.”

Thomas Williams enrolled in the SCOPP’s IDA program to start his own entertainment business, Finesse Entertainment. But that wasn’t his only motivation. After 25 years of working nights and weekends on video and sound production for a television station, Williams decided it was time to go solo. “Now, I can freelance from home and spend more time with my children,” says the proud father of a 16-year-old son and 15-year-old daughter.

Sherry Morgan used SCOPP’s IDA program not only to purchase her first house but also to start her own “speed dating” service, called Quick Cupid. “I give singles an opportunity to get together and let God do the rest,” she says. “A few people are already getting married.”

Sherry Morgan
Owner of Quick Cupid



Morgan used some of her funds from her IDA to buy Web site rights, computer equipment and office supplies. Since May, Quick Cupid has prospered. “My business has changed my life because I’m in a position to meet new people and control my own destiny,” Morgan testifies. “It gives me a great sense of satisfaction.”

Murdock views the IDA program as a good return on investment. “Typically, society spends about \$20,000 a year to maintain a family in poverty in government welfare-type programs,” he explains. “Our organization spends \$4,000 to move a family beyond income maintenance programs to build wealth and get out of poverty. That’s a better investment of resources than government poverty programs.”

What does success look like for SCOPP? According to Murdock, “Success would be to continue to see families purchase leverageable assets – businesses, homes, education – and move toward economic independence. As an organization, we would like to expand upon what we are currently doing and have the staff capacity to do it.”

in my Opinion

Overcoming Funding Challenges

BY INGER GIUFFRIDA

Financial Educator/Asset-Building Strategies Consultant
Director of the Assets Alliance

In the past couple of years, practitioner organizations have been struggling to secure adequate funding for Individual Development Account (IDA) initiatives. In the 1990s, IDA programs had the benefit of being a new strategy for wealth creation for the poor. Today, as more than 20,000 Americans have participated in IDA programs, this strategy is no longer viewed as innovative or cutting edge among many institutions and individuals with the resources to provide financial backing. State and federal budget cuts add to the funding challenge.

Evaluation data indicate that IDAs do work, however. People who had never had relationships with financial institutions now hold accounts. People for whom budgeting was a foreign concept have completed financial literacy courses. People who thought they could only dream of owning a home, starting a business, or getting education to start a new profession have realized their highest ambitions. Yet thousands of low-income families still have not been reached by IDA programs. The potential market and the potential for long-term positive effects far exceed the supply of opportunity.

Many prospective funders balk at some of the expenses associated with IDA programs. In addition to the costs of managing a matched savings account are those associated

with recruiting, assessing, enrolling, educating, and supporting account-holders. In this funding environment, demonstrating and communicating results – the social, psychological, and economic benefits resulting from IDA programs for individuals, families, and communities – become critical to generating financial resources.

Organizations should consider the following five strategies to ensure that their IDA programs are adequately resourced:

Reduce Program Costs

Link with an existing IDA program that has a cost-effective administrative infrastructure (policies, procedures, account management, data collection) in place.

Outsource program components to organizations that specialize in key areas: financial education, credit counseling, microenterprise development training and technical assistance, educational and career planning, homebuyer education, home maintenance education.

Integrate IDA program processes and components with existing organizational infrastructure. For example, if an organization has a case manager specializing in intake for agency programs, incorporate assessment and intake into the IDA program.

Remunerate and support IDA program staff adequately to avoid turnover. Staff turnover leads to higher attrition and agency costs, and lower program productivity.

Increase Program Revenue

Identify funding sources interested in intermediate or corollary outcomes embedded in IDA program outcomes – e.g., increased financial literacy rates, increased homeownership rates, increased business ownership, improved credit scores.

Identify and communicate benefits of investing in an IDA program specific to each potential funder. For example, the benefits of supporting an IDA program for a financial institution might include reaching new markets, developing long-term relationships with new customers, providing employees with a volunteer

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opportunity, and contributing to the stabilization of the community through the development of new homeowners, new business owners, and a more highly trained workforce.

Start fund-raising efforts locally. Benefits for funders investing in their own communities are direct and immediate.

Consider community foundations, corporations with a presence in the program service area, financial institutions, service organizations, faith-based organizations, educational institutions and individuals. Articulate and demonstrate how supporting IDAs complements their missions and priorities for investing.

Use these local sources to leverage regional, state, and federal funding.

Communicate short-term, intermediate, and long-term program outcomes to potential funders.

Consider charging participants fees. Building on the notion that people value things for which they pay, programs could charge a program application fee, fees for financial education, and fees for asset-specific training.

Implement a Relevant External Communications Strategy

Identify potential stakeholders, opinion leaders, and decision-makers in the community your IDA program

will serve. Some individuals may be more valuable for influence on potential funders than as funders themselves.

Use statistics and success stories (if your program is a start-up, borrow success stories from other communities) in a variety of media (newsletters, newspapers, journals, speeches, public access television, radio programs) to communicate the potential of IDA programs.

Promote milestone achievements of accountholders and the IDA program through media and special events. For example, when a group completes the financial education course, hold a public graduation ceremony and invite stakeholders, opinion leaders, and decision-makers.

Ask service organizations if you can speak at their meetings. Use success stories and statistics to develop a compelling story, and bring an accountholder to share her/his story first-hand; distribute brochures, flyers, bookmarks, fact sheets, or business cards.

Ensure systems are in place to follow up with individuals and organizations that express interest in the IDA program.

Demonstrate Outcome Attainment

It is easier and cheaper to keep a funder than get a new one. Demonstrate that their investments have produced results — economic,

social, and civic results, as well as psychological results for accountholders and their families. Set up systems to collect data to demonstrate attainment of these results.

Link IDAs With Other Asset-building Strategies

Asset building has come to connote a broad array of policies and initiatives designed to help families with low income and low wealth access and maintain financial and long-term, productive assets. In addition to IDAs, here are some strategies commonly associated with asset building:

- Savings mobilization
- Tax credit access and tax return preparation with an emphasis on the Earned Income Tax Credit (EITC)
- Broad-based financial literacy education
- Employer-based asset building
- Small business development or expansion
- Homeownership
- Human capital development

IDAs can be effectively linked with any of these strategies, resulting in a synergy that increases the

efficacy of the IDA program as well as the other asset-building strategies. This, however, should be done only if the additional asset-building strategies are truly beneficial to the IDA program's target markets.

While there are no easy answers with respect to IDA program funding, a multi-faceted strategy that involves more than searching foundation databases for potential funders and writing proposals is necessary to develop new IDA initiatives or to sustain established IDA programs.

The Assets Alliance is a membership organization of experienced professionals from the IDA and asset-building fields. The organization is dedicated to expanding the number of individuals and families participating in IDAs and asset-building opportunities by advancing communications and sharing effective practices, resources, and tools with the field and among technical assistance providers.

For more information on developing effective resource strategies for an IDA program, contact Inger Giuffrida at ingergiuffrida@hotmail.com or visit the Assets Alliance Web site: www.assetsalliance.org.

compliance Corner



Paul E. Kaboth
Assistant Vice President
Federal Reserve Bank of Cleveland

IDAs and CRA

While no standard program exists, Individual Development Accounts (IDAs) generally take the form of deposit accounts designed to help low- and moderate-income individuals or families accumulate savings for a number of purposes. The accounts are used for generating savings for education or job training, down payments or closing costs for the purchase of residences, or start-up capital for small businesses. The greatest benefit of IDAs to the participant is that once he or she has successfully funded the IDA, matching funds are added by a public or private entity. Depending on the nature of an institution's efforts, its participation in IDAs may qualify under lending, investment, or service tests for Community Reinvestment Act (CRA) evaluations.

In evaluating efforts, examiners look at both the level and nature of the involvement. For example, if an institution's involvement is, either directly or indirectly, in the design and implementation of an IDA program, the examiner

Depending on the nature of an institution's efforts, its participation in IDAs may qualify under lending, investment, or service tests for Community Reinvestment Act (CRA) evaluations.

will consider such efforts under the service test. The extent of the services offered, such as retail banking services associated with, or financial education offered in conjunction with, the accounts would be considered with other services offered by the institution.

If an institution matches participants' IDA contributions or donates funds to an entity that matches contributions, the level of contributions would be considered along with other investments and contributions under the investment test. Clearly, a crucial aspect of an institution's involvement with an IDA program would be a strong partnership with a public or private entity that promotes this developmental opportunity.

While they are a relatively recent development, IDAs offer institutions an opportunity to expand the portfolio of institutional investments or services offered as part of CRA. Financial institutions can ill afford to ignore IDAs as a tool for reaching low- and moderate-income customers as well as underserved areas within their markets.

Reader Survey

Make CR Forum your publication! Tell us what you like, what you don't like, how you'd prefer to receive it, and how we can make it even better for you by completing this very brief survey.

For your convenience, you may choose to complete this survey:

- **online at www.clevelandfed.org/CRForumSurvey.cfm;**
- **here in hard-copy form, then fax it to us at 216/579-2122 (please be sure to fax both front and back); or**
- **here and drop it into the mail (tear it from your issue, fold it into thirds as indicated, and tape it closed). Postage is paid.**

If you respond to the survey by February 28, we will send you a token of appreciation. Thank you.

Content

1. What are the primary reasons you read CR Forum?

(Check all that apply)

- The timely research
- To learn about upcoming events
- To learn about regulations
- To learn about places, organizations, and people in the Federal Reserve's 4th District
- To keep abreast of important community development issues
- Other _____

2. Which sections of CR Forum do you typically read?

(Check all that apply)

- All of it
- Cover story/Special features
- 4th District Profile
- In My Opinion
- Compliance Corner
- Events

3. What are you looking for when reading CR Forum?

(Check all that apply)

- Regulatory information
- Information about events
- In-depth research
- Commentary from practitioners
- Information about the Federal Reserve's 4th District
- General information on community development
- Other _____

4. Which of the following types of information are most important to you? (Check all that apply)

- Housing
- Bank regulations
- Information on specific areas or geographies
- Program-specific information (IDAs, tax credits, etc.)
- The economy
- Small business
- Fair lending/Lending in general
- Community advocacy issues/concerns
- Other _____

Satisfaction and Usage

5. What is your overall satisfaction level with the publication?

- a) I am very satisfied.
- b) I am satisfied.
- c) I am indifferent.
- d) I am dissatisfied.
- e) I am very dissatisfied.

6. How often do you read CR Forum?

- a) I read every issue.
- b) I read it occasionally.
- c) I have read it once.
- d) Other _____

7. What do you do with your copy of CR Forum once you have read it?

- a) I save it for reference.
- b) I pass it along to an associate or a colleague.
- c) I throw it away.
- d) Other _____

8. How do you use the information in CR Forum?

- a) I use it at work.
- b) I use it for an organization in which I participate.
- c) I use it for educational purposes.
- d) I read it for fun.
- e) I have not found a use for the information.
- f) Other _____

9. CR Forum: (Check all that apply)

- Helps in my decision-making.
- Provides useful information that I file for reference.
- Is appropriate for my line of business.
- Provides information on advances and trends in community development.
- Aids me in giving presentations.
- Gives me discussion material to exchange with colleagues.
- Is not helpful; I do not use it.
- Other _____

10. Do you – or would you – recommend CR Forum to others?

- a) I recommend it frequently.
- b) I recommend it occasionally, depending on the issue content.
- c) I would potentially recommend it but have not yet.
- d) I would not recommend it.
- e) Other _____

11. The current format of CR Forum is:

- a) Easy to follow: The information is very accessible.
- b) Somewhat confusing.
- c) Hard to follow.
- d) Other _____

How does CR Forum compare to other newsletters you enjoy reading? (Please answer each part)

12. CR Forum is:

- a) Longer.
- b) Shorter.
- c) The same.

13. CR Forum includes:

- a) Timely information.
- b) Old news.

14. CR Forum is:

- a) Easier to read.
- b) Harder to read.

Delivery

15. How did you first find out about CR Forum?

- a) It was sent to me or to someone in my organization.
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- c) I picked up a copy at a meeting or event.
- d) A colleague or an associate recommended I read it.
- e) I don't know/can't remember.
- f) Other _____

16. How do you currently receive CR Forum?

- a) It is mailed to me.
- b) I download it from the Web.
- c) A colleague or an associate shares it with me.
- d) I pick it up at meetings or other events.
- e) I do not currently receive it.
- f) Other _____

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- a) I would like to have it mailed to me.
- b) I would like to have it sent to me as text in an email.
- c) I would like the headlines and brief overview sent in an email, with Web links to view the rest.
- d) I would like an email with the Web link to the PDF version online.
- e) I would prefer not to receive it.
- f) Other _____

Reader Information

What type of group do you represent?

- a) For-profit
- b) Nonprofit
- c) Government
- d) Student
- e) Individual
- f) Other _____

In what area is your work involved?

- a) Banking/Financial institution
- b) Business
- c) Housing
- d) Education
- e) Other _____

In which state do you reside? (Please also list your county)

- a) Ohio - County _____
- b) Pennsylvania - County _____
- c) Kentucky - County _____
- d) West Virginia - County _____ *fold here*
- e) Other state (please name state) _____
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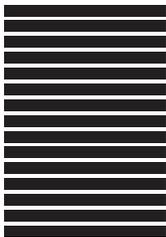
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Individual Development Accounts: An Endangered Wealth-Creation Strategy?

The American Dream Demonstration: Research Makes the Case for IDAs

The American Dream Demonstration (ADD), organized by CFED in 1997, was a five-year test of IDAs as a social and economic development tool for low-income communities. ADD brought together 13 community-based organizations to design, implement, and administer IDA initiatives in their communities. Three years later, the Dream team had established well over 2,000 IDAs. ADD programs and accountholders became the subjects of ongoing research that ultimately proved that (1) low-income individuals *can* save, and (2) access to an IDA program improves savings and asset accumulation, particularly in the area of homeownership. (For more information, visit idanetwork.org.)

From the standpoint of public funding, passage of the SWFA, which would authorize a tax credit to investors that support IDAs through matching funds, would certainly get the ball rolling, but it would only be the start, says Ray Boshara, director of the Asset Building Program at New

America Foundation and author of *Individual Development Accounts and Public Policies to Build Savings and Assets for the Poor* (published by Brookings Institution; visit www.brookings.edu/WRB).

“We need to expand IDAs and look at larger efforts — larger, more ambitious policies and policies that address both long- and short-term savings needs of low-income individuals and families,” Boshara says. “The federal government has structured and subsidized savings strategies for the non-poor [such as IRAs and 529 plans]; now it needs to do the same for the nation’s poor.”

By way of example, Boshara cites the Aspire Act (www.AspireAct.org), which would create a structure for providing

“Asset owners may spend less time cycling on and off various public-assistance programs and more time as wage earners, consumers, and productive members of the state’s economy.”

- CFED State Asset
Development Report Card



every American with a savings account at birth. Each individual would begin with \$500, with low-income individuals eligible for an additional \$500 at birth and the opportunity to earn matching funds until age 18, at which point the account would become a Roth IRA, offering opportunities for education, homeownership, and retirement security that the middle and upper classes have enjoyed for years.

“IDAs are the successful down payment on the broader vision for helping low-income people save and accumulate assets,” Boshara concludes. “They have put savings and asset-building strategies on the map. But we also need to recognize that going forward, we need larger policies that will help us get to scale ... that will help end the cycle of poverty and restore hope, confidence, and economic opportunity to our nation’s poor.”

2005 of interest + Programs

Workshops



New Markets Tax Credit: "Making the Deal"

January 25, 2005

Cincinnati, Ohio

Federal Reserve Bank of Cleveland

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Promises & Pitfalls: As Consumer Options Multiply, Who is Being Served and At What Cost?

April 7-8, 2005

The Capital Hilton

Washington, D.C.

Federal Reserve System's Fourth

Community Affairs Research Conference

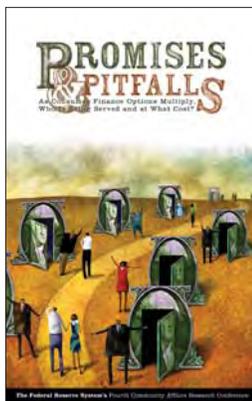
Contact: *Ruth Clevenger*

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Details about 2005 planned programs and workshops are posted regularly to the Community Affairs Office Web page at www.clevelandfed.org/commaffairs.

2005 Community Development Policy Summit

June 2005

Cleveland, Ohio

Federal Reserve Bank of Cleveland

Contact: *Jeffrey Gatica*

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Regulatory Roundtables

Fair Lending

Cincinnati, Ohio – proposed: May

Pittsburgh, Pennsylvania –

October/November

Investment Test

Lexington, Kentucky – May

Akron/Canton, Ohio – September

Toledo, Ohio – September

Wheeling, West Virginia –

October/November

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Financial Education Conference & Consortium Meetings

Cleveland, Ohio

Consortium Meetings & Fall 2005

Financial Education Conference

Contact: *Maria J. Thompson*

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Cincinnati & Dayton, Ohio

Consortium Meetings

Contact: *Candis Smith*

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Pittsburgh, Pennsylvania

Consortium Meetings

Contact: *Dan Holland*

Senior Advisor

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Publications

CDFI Industry Highlights

The Coalition of Community Development Financial Institutions recently released updated snapshots of CDFI industry accomplishments in all 50 states and the District of Columbia. You can access the new fact sheets at www.cdfi.org/stateprof.asp.

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