

A CLOSER LOOK

A Closer Look takes topics from previous and current issues of *Bridges* and examines them from a local perspective.

...AT THE ST. LOUIS REGION

The Uphill Path in Asset Building

In little more than 10 years, individual development accounts (IDAs) have grown from a concept into a tool to help lower-income savers become home owners, start businesses and invest in education.

Michael Sherraden of Washington University in St. Louis introduced the concept of IDAs in 1991. His vision was simple: create a tool to help lower-income individuals accumulate money in savings accounts. The incentive to save would be enhanced by offering matching funds that would allow the savings to grow at a faster pace. Guidelines would be set to specify how matching funds would be distributed and used. And long-term benefits would be realized by a reduction in the number of people depending on public resources for money and by an increase in the number of people contributing to local economies.

Through the Assets for Independence Act, IDA accounts can be a safety net that helps lower-income people accumulate wealth. However, it is important to note that IDAs are just one component of asset-building—the first step for lower-income individuals to acquire and preserve assets.

The success of IDA programs also is linked to mandatory financial education because it helps participants set and meet financial goals.

Agencies that offer IDAs tell many success stories of lower-income families who have bought homes or saved for education or businesses.

Nevertheless, there is concern about the future of IDAs. Many of the matched funding sources have sunset dates, and the money eventually may dry up.

Current federal proposals may resolve some of the problems. They include the Savings for Working Families Act; Assets for Independence Act, which is up for reauthorization this year; and America Saving for Personal Investment, Retirement and Education (ASPIRE) Act.

Additional help from financial institutions, foundations and others for IDA programs can include:

- partnering with community groups;
- investing in a pool that is used to match the participants' savings;
- providing funds to cover operating costs of running a program;
- teaching financial education classes;
- serving on IDA program advisory boards;
- offering banking services specific to IDA customers, such as low- or no-fee accounts, free checking with no minimum balance, and

Profile of an Illinois IDA Program

C.E.F.S. Economic Opportunity Corp. in Effingham, Ill., is one of many community-based organizations nationwide that have started individual development account (IDA) programs. The C.E.F.S. name was created by using the first letters in the names of the first four counties (Clay, Effingham, Fayette and Shelby) that worked together to form the nonprofit. Moultrie, Montgomery and Christian counties later joined the agency that now serves seven counties in southeast Illinois.

Kristie Warfel, IDA coordinator, and Linda Mitchell, chief operations officer for C.E.F.S., have seen firsthand what it means to low-income families to learn to be self-sufficient. Warfel and Mitchell talk with pride of the families they have touched. "We help people who have often been told 'no' or that 'they can't' so often in their lives that they believe they can't," Mitchell says. "You can't believe how proud they feel when they are given encouragement."

Warfel shared the story of a single mother of two small boys who initially came to C.E.F.S. looking for rent assistance.

"We helped her look at her finances and helped her realize that she could become a home

owner if she reduced her debt load and enrolled in the IDA program," Warfel says. During the next few years, the young mother took advantage of the program's financial and home-buyer education programs, learned how to pay off debts and made monthly payments into her IDA account. She saved \$2,000, which made her eligible to receive \$4,000 in matching funds. Because of her effort in reducing her debt and building her savings, she was able to use the \$6,000 as a down payment for a home. She continues to grow from the education and support she received and has made changes that make a positive impact on her life and the lives of her children, Warfel says.

Since C.E.F.S. began its program in 1991, it has helped 24 clients become home owners, five start businesses and two better their future through education. Currently, there are eight clients working toward home purchases. Clients continue to save for new goals after they reach their initial goal, Mitchell says. As with those working with other similar programs, Mitchell and Warfel are concerned about where funding will come from in the future.

no-cost saving accounts for participants' children; and

- designating a contact person participants can talk to when they need help.

For information on IDA programs and policies across the country, visit the IDA Network at www.idanetwork.org.

In Missouri

One Step Forward, Two Steps Back

Taking asset-building from ideas to actual financial products is a challenge in Missouri.

The Missouri Association for Social Welfare (MASW) led discussions in 1994 that resulted in MoKANSave, the first bistate coalition to promote asset-building policies and programs for individuals in Missouri and Kansas.

The MoKANSave partners worked diligently on the capacity of nonprofit organizations to manage asset-building programs, on funding issues related to individual development savings accounts (IDAs) and on financial literacy training for lower-income consumers. It is the only such model in the country.

Rather than creating new organizations from scratch to devise products and delivery strategies, Missouri encourages collaboration among existing nonprofit organizations and federally regulated financial institutions. There is a gap between the available management capacity and the level of management required to design and deliver products for the target market segment. For example, a savings account is a depository banking product that must be designed to meet the needs and expectations of the consumer. Additionally, for asset-building savings accounts, specialized financial services that support the consumer are also required.

In an effort to establish a state-supported asset-building program with a funding source, the Missouri legislature created the Family Development Account (FDA) program in 1999. The program awards

up to \$4 million in tax credits annually to approved religious and charitable associations.

However, the Missouri legislation requires an FDA program applicant to be incorporated under the state's old benevolent association law instead of its modern

Missouri FDA program is exclusively a state tax-credit program where tax credits are issued to taxpayers who donate money. Other potential sources of funds include state welfare funds, community development block grant funds, state general funds and



nonprofit corporation law. As a result, the potential number of organizations that could participate in the FDA program, likely with the management capacity and funding expertise typical of the modern nonprofit corporation, is diminished.

Missouri is also learning the importance of using funding sources that are complementary, so that one source does not exclude another. The

private investments. If state initiatives are structured to conform to federal legislation and the demands of capital markets, the state may be positioned to access a greater pool of funds.

In 2005, MASW and its partners formed the Missouri Asset Development Coalition, which is working on finding a solution to the incorporation issue. As we go to press, the coalition is trying to stop

a proposal to eliminate the FDA program.

Two other IDA programs that have had an effect on the economy in the St. Louis area are the United Way Collaborative IDA program and the International Institute's IDA program. The United Way reports that participants in its IDA program saved \$45,522 between July 1999 and December 2004 for home purchases. The match incentive applied totaled \$69,963, for a total input of \$115,485. By applying the economic multiplier provided by the Department of Commerce for the St. Louis metropolitan area, the total dollar output is \$357,980—three times the original investment. The International Institute reports that during the same time period, participants in its program saved \$136,805 for home purchases. Matched by \$210,299, the total saved is estimated at \$356,104. Applying the same economic multiplier for home ownership, the total dollar output for this program alone is well over \$1 million pumped into the St. Louis economy.

To learn more about IDAs in Missouri, see MASW's 2005 *Directory of Asset Development Providers* at www.masw.org/publications.



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