Individual Development Accounts (IDAs): Creative Savings Opportunities for Individuals and Families

Karen Edwards

Saving for such purposes as buying a first home, capitalizing or growing a small business, paying for a college education, or completing a job training program is nothing new for moderate- to high-income earners in America. However, for low- to moderate-income earners, and the newly employed who are just off welfare, saving money for future-oriented purposes can be a difficult and discouraging process that takes years to accomplish. For many low-income earners, the process is complicated by the fact that they are only one emergency away from wiping out their savings.

Individual Development Accounts* (IDAs) could make significant savings possible, in a reasonable amount of time, for thousands of low-income individuals and families. IDAs are matched savings accounts restricted to such high-return investments as homeownership and repair, small business capitalization, and education. An individual or family makes deposits in an IDA, which are matched by public and private sources, allowing savings to accumulate in a timely fashion. For the poor, who cannot take advantage of high-yield tax deduction vehicles, such as IRAs or 401(k) plans, IDAs could allow achievement of economic goals previously thought to be unattainable.

IDA programs have increased rapidly over the last few years. From humble beginnings at only a few locations five years ago, there are now more than 100 community groups across the United States either designing or running IDA programs, which operate as partnerships between financial institutions and local businesses, human services, foundations, colleges and churches. Millions of dollars in matching funds from public and private sources have been invested in this effort. IDA programs encourage future savings strategies by incorporating a financial literacy component, which may include topics from basic budgeting to investment options.

The Corporation for Enterprise Development, headquartered in Washington, D.C., launched the American Dream Demonstration (ADD) in September 1997 as an anti-poverty and economic independence model. ADD is the country's largest test of IDAs currently under way. With funding from various private and public investors, including nine foundations, ADD has 13 projects, including: Heart of America Services in Kansas City, Mo.; the Near Eastside Community Federal Credit Union in Indianapolis; the Women's Self Employment Project and Shorebank Neighborhood Institute in Chicago; and the Mountain Association for Community Economic Development in Booneville, Ky. The ADD demonstration will operate for four years with an additional two years of post-program evaluation. The Center for Social Development at Washington University in St. Louis is conducting the evaluation of ADD.
In addition to local IDA program activity, nine states have legislated IDA programs, including Iowa, Texas, Tennessee, Ohio, Indiana, Pennsylvania, Maryland, Maine and North Carolina. Three of these states have appropriated funds for matching dollars for IDAs. Six more states have legislation pending, and at least 25 states have included IDAs in their welfare reform plans. Bipartisan federal legislation, The Assets for Independence Act, which would create a $100 million national IDA demonstration, has been introduced in the Senate.

Missouri has legislation pending that would allow IDAs (called Family Development Accounts, or FDAs) to be established for individuals and families with incomes at 200 percent or less of the federal poverty level. Missouri's HB 1197 would set aside $4 million in tax credits annually for contributors to an IDA matching fund. Contributors would receive a 50 percent tax credit on all monies given for IDAs, up to $50,000 per year. This legislation has strong bipartisan support.

As mentioned above, Indiana and Tennessee have state IDA programs. Indiana has chosen 22 community-based sites to begin its program [for additional information, contact Kelly Wood at the Indiana Department of Commerce, (317) 232-0985]. Tennessee has established several IDA program sites [contact Michelle Flynn at (615) 248-3130]. Missouri community-based organizations have shown much interest in establishing IDA programs. Besides Heart of America in Kansas City, the Justine Petersen Housing and Reinvestment Corporation in St. Louis has recently begun FDAs with low-income participants in its housing program [contact Judy Notestine at (314) 664-5051].

Financial institutions are in a unique position to assist IDAs (see sidebar). Accounts must be established and serviced at a financial institution, and banks can help develop the financial literacy part of the IDA program. In addition, participating in IDA programs may help financial institutions meet their CRA obligations. Regulators recognize innovation in the area of community development and reinvestment, and IDA programs are in this category.

**How Financial Institutions Can Invest in IDAs:**

- Provide matching funds for IDAs.
- Contribute funds to support a community organization operating an IDA program.
- Structure IDAs so that no account fees are charged.
- Offer a market (or better than market) rate of interest on IDAs.
- Offer other incentives for IDA depositors, such as no-cost checking, a waiver of minimum balance requirements in checking accounts, ATM services, and/or establish no-cost children’s savings accounts for IDA participants’ children.
- Designate a bank employee to be the contact person for IDA participants.
- Participate on an IDA advisory committee.
- Present classes or seminars for financial literacy programs.
Foundation Provides Base of Progress for the Mid South

This is the second in a series of articles about foundations that are serving areas located in the Eighth District states.

The Foundation for the Mid South (FMS) grew from the efforts of the Mississippi Delta Region's leadership to bring positive, meaningful change to the impoverished area. Formed in 1990, the Foundation, located in Jackson, Miss., seeks to help the three states of Arkansas, Louisiana and Mississippi share resources and leadership across geographical, political and provincial boundaries.

FMS President George Penick says the Foundation, "encourages individuals, communities, governments and businesses to think beyond state boundaries and to consider themselves as part of a cohesive region where ideas and resources can be shared."

As a three-state community foundation, FMS holds a number of funds specifically developed to address this particular region's issues. FMS may be used as a vehicle for donors who wish to serve an area that has no community foundation or who wish to have an impact on the entire Mid South region. The Foundation also works in partnership with local community foundations in Arkansas, Louisiana and Mississippi when donors want to establish funds to meet a specific community's needs.

The Foundation for the Mid South makes grants to build the capacity of individuals, organizations or communities; to change and improve regional policies; and to build philanthropy for the region. Its program strategy is centered on the realization that different organizations in the region are at different points in their development. Penick points out that the Foundation's staff "doesn't want to be the experts in the region but build organizations to be the experts."

Therefore, grants are made at three stages of development: (1) Emerging or Pre-development, (2) Organized or High Potential, and (3) Mature or Partner. Two grant cycles are held each year (June and December). A Program Advisory Committee, composed of a very diverse group of people from the region, uses its expertise to assess each proposal. It considers the degree to which each proposal fits the overall guidelines and priorities of the Foundation.

The FMS staff also considers and investigates proposals. Before a grant is made, the staff has first-hand knowledge of grant applicants through site visits or previous grantmaking experience. In addition, the proposal application and review process is structured to help the Foundation identify those organizations with strong organizational, program, policy and community-building potential.

The types of grants are determined by: the combination of grant resources available to the Foundation; the guidance of those who provide the funds; and the priorities of the FMS Program Advisory Committee. Grants
are made within four program areas: Economic Development, Education, Families and Children, and Black Church.

Proposals can be submitted for any of the grants in the following categories:

- Community development, planning or implementation grants to build capacity.
- Development grants to build organizational and program capacity.
- African-American faith-based grants to build the capacity of churches to undertake community and economic development activities.
- Leadership development grants that build the capacity of leaders.

The Foundation for the Mid South is about “change, not charity.” In a region characterized by low education, poor work skills, racial strife, historic segregation, rural isolation and overwhelming destitution, an influx of financial resources alone cannot revitalize the economy.

Understanding this, the Foundation has endeavored to build its economic development program around those opportunities and activities that will significantly spur economic growth in the Mid South, especially among people who traditionally have been excluded from the mainstream economy. The purpose of the program is to promote a healthy economy in which all people can participate.

FMS has invested resources in expanding the capacity of existing programs in the region and in developing new initiatives that complement and maximize the region’s opportunities and strategies. In particular, the Foundation focuses a great deal on building partnerships and trying to stimulate collaborations that break long-standing traditional molds.

Examples of the Foundation’s economic development activity can be seen in its investments in various community development credit unions to assist them in increasing their deposit base. To encourage asset development in the region, investments have also been made to establish Individual Development Accounts (see IDA article) where the Foundation’s resources are used to match an individual’s own savings, which may be used to purchase a home, open or expand a business or continue an education. The emphasis, according to Senior Program Manager Sherrie Pugh, is a strategic focus on asset development.

The Workforce Alliance is the Foundation’s focus in the Education Program Area. The goal of the Workforce Alliance is to raise the skills of the Delta’s labor pool to compete on a global level by: upgrading the current workforce and integrating the unemployed into the labor market through literacy and skills training; preparing students to enter the workforce by facilitating the transition from school to work; and providing post-secondary training.

The Workforce Alliance efforts currently are targeted to seven multicounty and multi-parish communities in the Arkansas, Louisiana and Mississippi Delta. Each community selected received a planning grant of $25,000 to begin its work, which involves an intensive nine-month training process and an evaluation of the respective community’s economic status and potential. After successfully completing the planning phase, the community will submit a proposal and plan to receive an implementation grant of up to $400,000. Upon approval, the community will begin to implement its plan and form the partnerships needed to transform its workforce.

The Workforce Alliance is one part of the Delta Partnership, an initiative to revitalize the economy of the Delta. A second element is the Enterprise Corporation of the Delta (ECD), an independent organization spun off by FMS which provides capital and technical assistance to small- and medium-sized Delta businesses concentrating in Workforce Alliance communities. The third element, which is being managed by the ECD, is the Private Sector Initiative, an effort involving national business leaders and corporations to increase the demand both locally and nationally for Delta-produced goods and services.
The Families and Children Program Area promotes the coming together of people from all sectors of society who will invest their time and talent to develop opportunities for families and children to reach their full potential. Sara Sneed, Senior Program Manager, says the program "seeks collaboration to leverage the results of the Foundation's and community's work."

It is through this program that communities and organizations design youth and family initiatives that make the best use of the existing resources to build on for the future. In addition, help is available to create resources that increase the strength and stability of families, enhance the capacity of families to nurture children, and create developmental opportunities for children and youth.

The Foundation has been instrumental in developing the Mid South Family Alliance. The Alliance is the first regional network for the three states that involves nonprofits, faith-based organizations, schools, advocacy groups, etc., to look at how they can advocate more effectively on behalf of children, increase resources for child development, and develop leaders.

The Alliance is currently developing a plan for children that will provide sustainable programs based on what is needed in the region. The plan addresses the lack of strategic planning and second-generational leadership development, as well as policy issues.

The African-American church is often the strongest community, economic or social organization that exists in poor Mid South communities. Historically, it has developed leaders, provided for basic needs of its congregants and community when necessary, offered additional services and support and provided spiritual sustenance. FMS works closely with the region's black churches, particularly those that engage in community and economic development efforts. The Foundation has an African-American Church Program; however, its grantmaking to faith-based organizations is not limited to this program.

The Foundation's initiative includes a commitment to provide the training and technical assistance needed to develop leadership skills, institutional capacity and programmatic expertise of faith-based leaders. The program promotes collaboration and partnerships between churches, banks, government, community development corporations and other sectors in remote rural areas, small towns and urban communities. It also reinforces newly emerging organizations by supporting their efforts to establish and sustain community development programs.

For additional information, contact the Foundation for the Mid South at (601) 355-8167 or on the Internet at www.fndmidsouth.org.
No More Business-As-Usual: Leveraging Private Investment To Recreate Neighborhoods

How can communities dispel the stigma of lower-income rental and public housing that has frightened off investors for decades? St. Louis-based McCormack Baron and Associates is a developer that creates economically diverse properties in neglected neighborhoods across the country. The firm is widely recognized for its commitment to the preservation of historic structures as it redevelops neighborhoods into clean, safe and affordable environments that attract private investment.

These developments differ from traditional housing subdivisions because they recreate all aspects of a typical neighborhood within a multiblock area. The recent surge of interest in recreating stable neighborhoods is largely attributable to a handful of private developers using mixed-income housing development. The mixed-income approach has become a popular theme with housing policymakers as one solution to reversing the increased concentration of poor families in public and assisted housing and the associated stigmas. Mixed-income housing includes families with relatively higher incomes, is partly subsidized and partly market-rate or has a predominance of families not dependent on welfare.

At McCormack Baron, Senior Vice President Polly Kinslowe said that it may be helpful to look beyond the objective of avoiding concentrations of the poor to more market-oriented reasons for developing mixed-income housing. "The goal isn't to just create a mix of resident income levels. This is one step along a much broader road to re-establish a socially and economically viable neighborhood," Kinslowe said. In fact, her job is to make sure that the site and apartment designs provide the most efficient space for residents, look great from the outside, and are integrated with the surrounding neighborhood. "Our philosophy is that diversity usually means greater stability and long-term economic growth for the neighborhood."

Mixed-income development also means using public sector housing funds to leverage private investments.

McCormack Baron believes it makes good sense to leverage more funding sources and investments not only to build more units but also to recreate a neighborhood environment that contributes to the economy of the community. Physically, the recreated neighborhood offers housing units that are affordable to lower-income families and that attract moderate- and middle-income residents and buyers. Socially, it works to prevent instability and promotes small business and community development.

McCormack Baron has developed successful mixed-income developments in St. Louis, Kansas City, San Francisco, Louisville, Little Rock, Atlanta, Pittsburgh and Cleveland. In St. Louis, The Residences at Murphy Park, a privately owned development, began as a demonstration project of how public housing funds could be leveraged to recreate an entire neighborhood. Murphy Park is part of an $85 million redevelopment of a 50-acre tract located on the northeast border of the central business district. When completed, the neighborhood will have commercial and residential structures that coexist compatibly.
Challenges of Going Urban

Building in an inner-core neighborhood as opposed to a suburban location of the metropolitan area presents significant and unique challenges. "Older urban areas require far more than the ability to address real estate issues," Kinslowe explains. "Restoring these neighborhoods takes the expertise to coordinate planning, design, construction, and management functions of a development with the interest of the surrounding neighborhoods in mind."

McCormack Baron begins with a complete market analysis to determine the feasibility of building a large multifamily housing development in the inner-core of the city. It does its own research and develops products that are tailored to meet specific market conditions at the neighborhood level. Kinslowe stated that the developer's homework led to the conclusion that it was possible to re-establish a market for housing in the Murphy Park neighborhood.

Next, a network of community members is formed to answer the question, "What is the ultimate vision for this neighborhood?" Kinslowe kicks off a development by establishing solid relationships with future residents and neighborhood members, government officials, businesses, foundations and church leaders to integrate their efforts. This has to be done to attract local, state and federal funding and then leverage these resources to form a development partnership that raises equity and borrows first mortgage funds.

This approach has spurred HUD to direct public housing authorities to collaborate with private developers to meet the local need of housing for low-income people. Public housing authorities are increasingly working with banks, cities, nonprofit groups, and state and local governments to develop affordable housing.

The design phase of the development is thoroughly researched so that the property remains competitive in the local market. Townhomes, garden apartments and detached homes offer porches, patios and individual entries that provide a sense of private space. In Murphy Park, density is light with only 12 units per acre, and the units have all the amenities required to draw middle-class residents. After demolition of the existing public housing buildings occupying the site, construction began in three phases. Phase 1 had development costs of $17.4 million and was completed with 160 units of housing. Demand for the units was high as occupancy hit 100 percent in the first month of operation. The next two phases will add 242 units with development costs of $23.4 million.

Financing is innovative and complex and relies on the leverage of shrinking public housing funds with private investment. Both funding mix and leverage have allowed increased revenue sources for the project, more stable cash flows, and expert management assistance for long-term stability of the development. Investments in the Murphy Park neighborhood currently total more than $20 million (see table). This amount includes only the investments of the original project partners, who are projected to raise an additional $13 million in the next phases of the project.

Common hurdles identified by McCormack Baron include investor uncertainty, misperceptions and lack of understanding of multifamily housing finance and the holistic approach.

Financial institutions play a vital role in restoring confidence in a neighborhood. Kinslowe states: "Our experience in working with banks has been very favorable. However, just like all relationships, they take a lot of hard work. The relationship represents a significant investment of both time and money over a period of many years."

As a for-profit developer, McCormack Baron believes that many urban housing markets have significant unmet demand for rental housing. Nevertheless, investments in developments like Murphy Park bring stability to an area that encourages homebuying, small business starts and an increase in city services. The
economic cycle is renewed as greater stability, more jobs and rising disposable income expands. Kinslowe adds, "All the partners come out winners, and the social and economic rewards to the community are tremendous."

For information on McCormack Baron developments in Little Rock or Louisville, contact Kinslowe at (314) 621-3400.

Murphy Park Phase I Investing Partners

Development Partnership Participants

Mc Cormack Baron & Associates (managing general partner), Vaughn Tenant Association, Carr Square Tenant Corporation, Cochran Gardens Tenant Management Corp. and St. Louis Housing Authority (owner of land)

Missouri Housing Development Commission (MHDC)  
(Tax credit allocation by MHDC leveraged $3.66 million in private investment.)

- $560,000 Federal Tax Credits
- $224,000 State Tax Credits
- $2.18 million FHA-insured first mortgage

HUD (via St. Louis Housing Authority)

- $9.1 million in Development Funds

City of St. Louis

- $1.65 million in public improvements

Corporate Donations, including:
- NationsBank, Mercantile Bank, Southwest Bank, Schnucks, Anheuser-Busch and Southwestern Bell

- $1.375 million in Affordable Housing Credits from MHDC leveraged $2.5 million in corporate donations.
SCORE Can Help Small Business Owners Reach Their Goals

For those looking to start or grow a small business in the Eighth District, a fertile source of knowledge is only a phone call away. The Service Corps of Retired Executives (SCORE) is a volunteer program sponsored by the Small Business Administration. Retired executives with backgrounds in accounting, banking, government procurement, marketing, retail and other fields offer free general advice to small business owners in need of assistance.

In-depth counseling and training in a variety of subjects is provided—identifying basic management problems, reviewing distribution channels, evaluating expansion and modification of products, etc. A nominal fee is charged for training programs. SCORE offices are available in all seven states in the St. Louis Fed's District, including the following locations:

**Arkansas**
- Hot Springs (501) 321-1700
- Little Rock (501) 324-5893
- Pine Bluff (870) 535-7189

**Illinois**
- Carbondale (618) 453-6654
- Godfrey (618) 467-2280
- Quincy (217) 222-8093

**Indiana**
- Evansville (812) 426-6144
- New Albany (812) 945-0266

**Kentucky**
- Louisville (502) 582-5976
- Paducah (502) 442-5685

**Mississippi**
- Greenville (601) 378-3141

**Missouri**
- Mexico (573) 581-2765
- Neelyville (573) 989-3577
- St. Louis (314) 539-6970
- St. Peters (314) 928-2900

**Tennessee**

- Jackson (901) 423-2200
- Memphis (901) 544-3588
Spanning the Region

Delta State University Develops Partnership for Mississippi Delta

Delta State University’s Center for Community Development brings together businesses, citizens, public agencies, public officials, institutions of higher education and faculty to develop innovative solutions to problems in the Delta. The center is located in Cleveland, Miss., and its partnership programs include the Delta Partner Initiative, which provides support in four areas:

- Delta Emerging Leaders Program—enhances the skills of the next generation of Delta leaders;
- Local Government and Public Officials Program—enhances the leadership and management skills of public officials in small Delta towns;
- Community Development Demonstration Program—implements intensive demonstration programs in Delta communities to prove that community development can happen in the Delta; and
- Regional Capacity Building Program—provides hands-on workshops and conferences and provides technical assistance on critical issues.

For more information, contact the center at (601) 846-4359.

Eubank Joins Memphis Branch

Ellen Eubank recently joined the Community Affairs staff of the Federal Reserve Bank of St. Louis. Eubank, a community affairs specialist assigned to the Memphis Branch, has several years of experience with a nonprofit organization serving Memphis and the Mid South.

Ellen will assist in the Fed’s efforts to provide banks and bank holding companies with information on appropriate programs to help meet community development needs, as well as promote the goals of the CRA by facilitating communication between borrower groups, local governments, development organizations and community financial institutions. She can be reached at (901) 579-2421.

Indiana Offers Low Interest Rates for First-Time Homebuyers

For first-time homebuyers, the Indiana Housing Finance Authority (IHFA) lowered the interest rate on its First Home mortgage loans to 6.875 percent. The rate applies to conventional loans, as well as loans backed by the Federal Housing Administration and the U.S. Veterans Administration. Loan applications from low- to moderate-income families will be accepted throughout 1998. Mortgage interest rates will be adjusted continually. Down payment assistance is available as no-interest loans to lower-income households.

About 100 banks and mortgage companies participate, many of them in rural counties. To obtain a brochure on local lenders and income and purchase price limits for a particular county, call (800) 669-4432.

One-Stop Shopping for Housing in Illinois and Missouri
Housing clearinghouses provide information on homeownership to first-time homebuyers, low- to moderate-income families, the disabled, senior citizens, veterans or any potential homebuyer. The Missouri Housing Development Commission, in coordination with USDA Rural Development, University Extension and 10 other federal and state agencies and lenders, has formed a cooperative effort called the Missouri Housing Partners with this purpose in mind. The Missouri Housing Partners (MHP) will supply individuals information they need on home loans, down payment assistance, mortgage refinancing, home repairs, homebuyer counseling and related topics. For more information, call (314) 889-2911. MHP also has a new web site; the address is www.mhdc.com.

The Illinois Office of Housing Coordination Services coordinates housing programs administered by Illinois state agencies and acts as an information and referral source for all housing programs throughout Illinois. For more information, call (312) 836-5383 or visit its web site at www.ihda.org.