



Comptroller of the Currency
Administrator of National Banks

Community Developments

February 2005

Insights

Community Affairs
Department

Individual Development Accounts:

An Asset Building Product for Lower-Income Consumers

Abstract: This edition of Insights examines Individual Development Accounts (IDAs) as a tool for banks and other financial institutions to encourage lower-income persons and families to save money and thus build assets for particular financial goals. It describes why banks offer IDAs, shows how banks are involved with IDAs, and addresses barriers to the growth of IDA products. The information presented here was obtained from a variety of sources including financial institutions, IDA policymakers, nonprofit service providers, and program funders. Appendix A contains sources of additional information on IDAs. Appendix B contains a glossary of terms related to IDAs.

I. What Are IDAs?

IDAs are matched savings accounts designed to help low-income and low-wealth persons accumulate a targeted amount of funds to use for a specified purpose, most commonly purchasing a home, forming a small business, or furthering an education. Accountholders generally make monthly contributions to an account, usually over a one- to four-year period, and their savings are matched by funders, typically at a rate ranging from one dollar for each dollar saved to three dollars for each dollar saved.¹ The funds are generally accumulated in a savings account, which for many people is their first experience as an accountholder at an insured depository institution.

IDAs have grown from three programs in 1995 to more than 500 programs in 2002, and encompass more than 20,000 accountholders.² These matched savings accounts are similar to matching arrangements that occur with 401(k) plans, but can serve a broader range of purposes.³ Federal, state, and local governments, private sector, and nonprofit organizations can match IDA deposits made by low-income persons.

¹ Adapted from "Building Assets for Stronger Families, Better Neighborhoods and Realizing the American Dream," Corporation for Enterprise Development, 1998.

² Data from a 2002 telephone survey cited in Corporation for Enterprise Development, "A Look at the Growing Individual Development Account Field: Results from the 2003 Survey of IDA Programs," p. 4.

³ Unlike most 401(k) programs, however, contributions to IDAs are not deducted from an individual's total income for tax reporting purposes.

The generally espoused rationale for IDAs is that traditional tax incentives for asset accumulation (such as mortgage interest deductions and IRA/401(k) deferrals) are not strong incentives for people in low tax brackets, as they lack the income and financial resources to take advantage of these incentives. Thus, by combining economic incentives and education, more people will be encouraged to save for particular financial goals.

II. Why Are IDAs of Interest to Banks?

Banks and other financial institutions are key partners in IDA programs. Typically, they participate for one or more of four main reasons: market expansion/customer development, Community Reinvestment Act (CRA) consideration, maintenance of relationships with nonprofit organizations, and a commitment to community development.

Table 1
Why Banks Participate in IDA Programs

Market Expansion/ Customer Development	These accounts provide banks with an entry to cross-sell a variety of other bank products. IDA participants will need additional savings and credit products to secure their financial goals in the short and long term. IDAs also bring new customers into a bank.
CRA Consideration	Bank participation in IDAs has the potential for CRA consideration under the three tests – lending, investment, and service (see Table 2).
Maintenance/Expansion of Relationships with Nonprofit Organizations	Nonprofits acting as IDA service providers can bring additional banking and customer relationships to a participating bank.
Commitment to Community Development	Banks that are proactive in assisting their low- and moderate-income communities may view participation in IDA programs as a positive community wealth building initiative.

- **Market expansion and customer development**

IDAs are a tool for reaching populations that banks otherwise may not be able to access. They may be people who have never had a traditional bank account. Often these populations include immigrants, who may have different traditions and perspectives in dealing with financial institutions and the products they offer. Although IDA customers initially will have only a small savings account relationship with the bank, often with a number of fees waived, the expectation is that they could become more profitable customers in the future, as they develop greater comfort with financial products. Banks that offer IDA programs often encourage their IDA participants to use the same bank for additional financial services that may be needed to acquire the assets for which they were saving.

One bank estimated that every dollar invested in its IDA program has the potential to generate \$12 in future assets for the bank. The bank indicated that customers who began their relationships with the bank through an IDA are likely to remain loyal. In one program where performance was tracked, each IDA customer opened an average of four other accounts with the bank.⁴

⁴ Jeff Rosen, "Individual Development Accounts: Savings Incentives to Build Wealth," *Community Developments*, Office of the Comptroller of the Currency, Fall 2004.

- **CRA goals**

Partnership in an IDA program may qualify for favorable consideration in a financial institution’s Community Reinvestment Act (CRA) evaluation under the lending test, investment test, and service test.⁵ The following table illustrates how banks can benefit from participating in IDA programs.⁶

Table 2
Activities that May Receive CRA Consideration

Lending Test	<ul style="list-style-type: none"> • A bank makes a home mortgage or small business loan to a low- or moderate-income IDA customer. • A bank makes other consumer loans to low- or moderate-income IDA customers for IDA eligible purposes. • A bank makes a community development loan to an IDA service provider.
Investment Test	<ul style="list-style-type: none"> • A bank makes a contribution of operating funds to an IDA nonprofit service provider or sets aside its own internal matching or subsidy funds for an IDA program.
Service Test	<ul style="list-style-type: none"> • A bank provides low-cost accounts, such as free checking and ATM services, for IDA savers that increase access to financial services for low- and moderate-income persons. • A bank employee teaches financial literacy classes to low- and moderate-income IDA savers. • A bank employee serves as technical advisor to the nonprofit IDA service provider.

- **Banking relationships with nonprofit organizations**

Many banks have longstanding relationships with nonprofit service providers who may also be active in the IDA business. These nonprofit service providers, large or small, maintain their cash management accounts with banks that support their customers and communities. Likewise, the business relationships established with nonprofit providers can lead to additional consumer and commercial referrals for the bank.

- **Commitment to community development**

Many of the banks interviewed stated that they offer IDAs as a means of contributing to the communities they serve by helping people build wealth. They expressed a belief that savings and subsequent wealth building can reverse declining communities, provide stabilizing influences, and generate growth and investment through homeownership, small business ownership, and a better educated population.

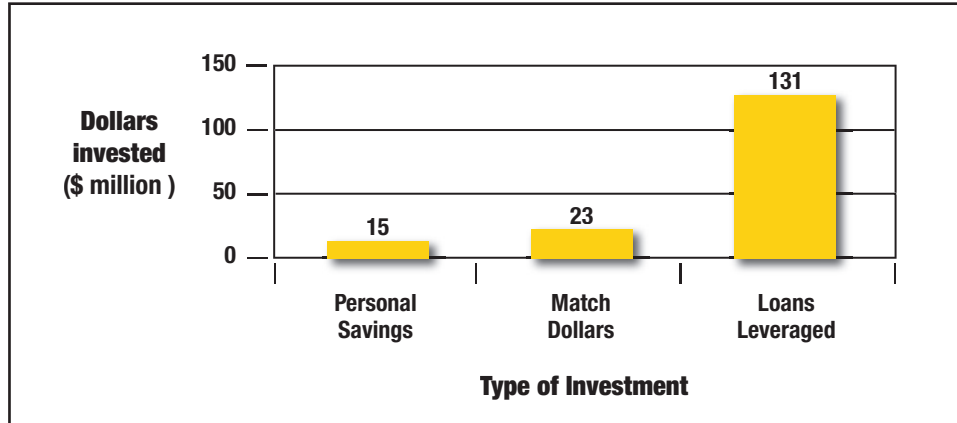
⁵ See Community Reinvestment Act: Interagency Questions and Answers Regarding Community Reinvestments, 66 Federal Register 36620-36636.

⁶ Information in this table is based on Office of Thrift Supervision, “Individual Development Accounts (IDAs): Strategy for Asset Accumulation,” November 1998, p. 21.

III. How Do IDAs Work?

Financial institution participation in IDA programs is centered primarily in deposits (accountholders and match funds) and operating grants for the nonprofit service providers responsible for program recruitment, training, and administration. IDAs can operate under statewide collaboratives, stand-alone programs, single institutions with a local and or statewide focus, multi-state programs, and programs with regional and national focuses.

Table 3
Dollars Invested in IDA Purchases



A survey of more than 200 IDA programs reported an aggregate of at least \$168 million in investments in asset purchases in 2003.⁷

In many cases, a local nonprofit or government agency approaches a bank about offering IDAs. Many banks are contacted because of an existing relationship with a nonprofit while others are approached because they serve the target area, they have a history of IDA program participation, or they have entered a new market.⁸

IDAs rely on the premise that when ways to commit to savings and resist discretionary spending are provided, people will be motivated to save. First, IDAs create a dedicated savings account for a particular purpose. The restrictions on withdrawals from the account help participants view IDA funds as distinct from spending money. Second, the monthly savings target may encourage regular savings habits and provide a goal that accountholders otherwise might not set. Third, if automatic deposits are available, they may help curb temptations to spend money before it is deposited.⁹

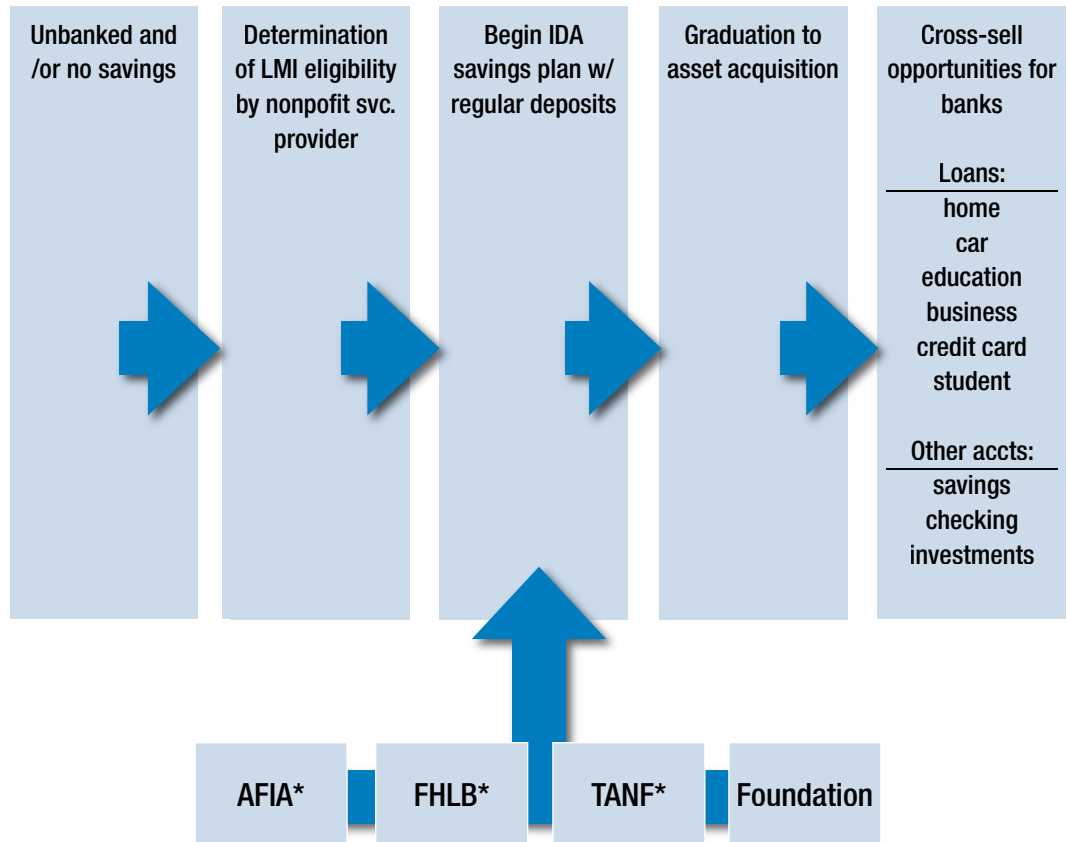
⁷ Corporation for Enterprise Development, Key Highlights from the 2003 IDA Program Survey.

⁸ Robin Newberger, "Financial Institutions and Participation in Individual Development Programs," *Profitwise News and Views*, Chicago Federal Reserve, Spring 2003, p. 13.

⁹ This behavioral theory discussion appears in Mark Schreiner et al., "Asset Accumulation in Low-Resource Households: Evidence from Individual Development Accounts," Center for Social Development, George Warren Brown School of Social Work, Washington University in St. Louis, 2001, p. 9.

Some recent studies have found that savings can be encouraged by coupling the Earned Income Tax Credit (EITC) with progressive savings policies. One study found that EITC recipients view their lump sum EITC payments differently from ordinary income, and use it for larger payments or purposes. Therefore, the EITC could be a source of savings for asset building products, such as IDAs.¹⁰

**Table 4
How IDAs Work**



* See Appendix A for additional information.

Program Structure

IDA programs typically involve three main parties: program participants, a nonprofit service provider, and a financial institution. Each party has a clearly defined role.

Program Participants

The participants are by definition low- or moderate-income people who enter the program as a result of marketing or recruiting efforts by the nonprofit provider administering the program. Once in the program, they commit to save a specified amount of money over a defined period of time. All programs have limitations on the number of deposits that may be missed during the contract period. Also, no funds may be withdrawn from the IDA prior to reaching the agreed upon goal amount, except for emergency needs. In addition to meeting savings goals, the participants are generally required to attend financial literacy training. Participants may also be

¹⁰ Michael Sherraden and Michael S. Barr, “Institutions and Inclusion in Saving Policy,” Joint Center for Housing Studies, Working Paper BABC 04-15, March 2004, p. 2.

required to attend training geared to their particular asset goal, such as homebuyer education or microenterprise entrepreneurial training.

Nonprofit Service Providers

The nonprofit service provider drives the IDA product and process. Program administration is generally performed by these nonprofit partners, who also take on the responsibility for marketing and outreach to potential IDA clients, as well as fundraising for both operating and match dollars. Nonprofit service providers also conduct the screening of IDA applicants by reviewing their financial histories, with banks generally relying on the recommendations of the nonprofit. The service provider also provides education, training, and technical assistance to program participants.

Financial Institutions

The banks hold the savings accounts for the program participants and generally either waive or substantially reduce initial deposit requirements and account fees. The IDA program participants are paid market interest rates. Banks generally send regular account statements to the participant and a duplicate statement to the nonprofit service provider.¹¹ Banks also may provide program support through employee participation on boards and advisory committees for the nonprofit service providers, and by assisting the nonprofit in providing financial literacy training and technical assistance to program participants. A number of banks also assist the nonprofit partner with the operational work involved in allocating match funds to individual accounts.¹²

Partnership Model

Bank participation in an IDA program usually occurs as a result of a request from a nonprofit service provider that is interested in providing IDAs to its client base or in its service area. Approximately 70 percent of IDA partnerships are a continuation of an ongoing relationship between a financial institution and a nonprofit organization.¹³ Indeed, bank programs are often driven by depository relationships with and grantmaking to specific nonprofit organizations.¹⁴

Formal agreements are used to structure the majority of IDA partnerships between financial institutions and nonprofit service providers by outlining the responsibilities for each party. While some variations exist, the bank usually handles transaction-oriented responsibilities, and the nonprofit handles program marketing and management. For the bank, the agreement outlines the specific features associated with the IDA product and reporting arrangements with the nonprofit. The agreements describe how accounts are opened, the account features and fee structure, how deposits are made, and when withdrawals are allowed. If the bank is contributing match funds, the agreement will state the match rate and the maximum contribution per account.¹⁵

¹¹ Standard partnership agreements between the nonprofit service provider and the financial institution require the nonprofit to obtain a release of information from the program participant prior to establishing an IDA with the bank.

¹² R. Newberger, p. 14.

¹³ Financial Institutions and Individual Development Accounts: Results of a National Survey, Center for Community Capitalism, University of North Carolina, Kenan-Flagler Business School, 2003, p. iv.

¹⁴ Center for Community Capitalism, p. 16.

¹⁵ Center for Community Capitalism, pp. 17-20.

How Much Do People Save with IDAs?

Data from the American Dream Demonstration (ADD)¹⁶ showed average monthly net deposits of \$25.42 per participant. This amount indicated that participants, on average, made enough savings deposits to qualify for two-thirds of the matching funds to which they were entitled. On average, participants made a deposit in 7 of 12 months. With an average match rate of 2:1, participants accumulated assets at rate of \$75 per month or \$900 per year.¹⁷

A key component of IDA programs is regular communication among the bank, the nonprofit, and the program participant regarding the participant's progress toward achieving the savings goal. Until an IDA customer completes the program and finances the acquisition of an asset, a participating bank's primary customer is the nonprofit service provider.

In most cases, the accounts are established in the individual participants' names. The accounts typically require dual signatures of both the individual participant and the nonprofit service provider for any type of withdrawal.

Generally, a separate master escrow or trust account is established to hold the match funds, with sub-accounts identifying the individual participants' share. The master accounts often hold hundreds of thousands of dollars in match funds on deposit, as they are received from the funding source, typically a bank, foundation, or government entity. A bank may hold either the individual bank accounts, the master account for the match dollars, or both.

Banks provide financial support to IDA programs through various means, including providing match funds. In most programs, however, the match funds come from either government sources or foundations (see Appendix A: Implementation Guide). Banks may also provide grants to the nonprofit partner for operational costs incurred in managing the program. In addition, by shouldering some of the administrative work of the program, banks also may donate in-kind staff resources. As discussed in Section II, these activities may qualify for consideration under the CRA.

The nonprofit works with the program participants to determine an appropriate monthly savings amount, and facilitates savings behavior through financial literacy training. Our interviews revealed that the more successful nonprofit partners are experienced in casework, and review household expenses and income with participants to develop a realistic budget that includes savings.

Collaboratives

Some IDA programs operate as part of collaboratives – umbrella organizations of IDA-sponsoring nonprofits that share experiences and that can provide technical assistance and operational support to the nonprofits. The collaborative may be managed by a state or local governmental agency, a nonprofit organization, or an educational institution. Collaboratives can also help consolidate

¹⁶ The American Dream Demonstration is a demonstration of IDAs in 14 programs across the United States. It ran for four years (1997-2001), and the research covers a period of seven years (1997-2003).

¹⁷ Schreiner et al., p. 21.

activities such as marketing and fundraising. A financial institution may be able to maximize its own work supporting IDAs by working through these statewide or regional organizations, rather than through individual nonprofits.¹⁸

IV. What Are the Key Risks and Regulatory Issues Presented by IDAs?

Because IDAs are deposit accounts, there is minimal associated credit risk as long as proper transaction controls are in place. However, as a deposit account, banks must comply with all of the traditional disclosures called for under the Truth in Savings Act (implemented under the Federal Reserve's Regulation DD), as well as any other relevant regulations associated with the type of savings accounts established for a specific IDA program.

Banks will face ~~reputation risk and~~ possible penalties if they fail to perform their duties properly as custodian for IDA funds. Such failures would include permitting early or unauthorized withdrawals from the IDA account. IDAs are established to encourage participants to save their funds for an important asset goal, rather than using the funds for discretionary purposes. Therefore, banks and their nonprofit partners usually establish some level of controlled access to the funds in the accounts to prevent withdrawals not associated with the asset accumulation goal. As a result ~~of this risk~~, banks with large numbers of branches typically select targeted branches to administer an IDA program for control purposes.

In considering whether to implement a new IDA program, banks evaluate whether IDAs will fit into their overall business plans. As with any product or service offered by a financial institution, careful due diligence must be executed prior to implementation.¹⁹ For example, banks should ensure that the nonprofit partner is reputable and has sufficient resources to properly conduct its responsibilities related to the IDA program.²⁰ Banks should clearly understand what their own role will be in the program, and have a realistic estimate of the extent to which bank resources will be devoted to the program.

Regarding customer identification concerns, the Customer Identification Program (CIP) rule implementing section 326 of the USA PATRIOT Act²¹ outlines procedures for banks to follow in order to verify the identity of a customer who opens an account. Prior to opening the account, the CIP rule requires that, at a minimum, the bank request the name, address, date of birth, and taxpayer identification number from the person opening the account. If the person is not a U.S. citizen, the bank may obtain the number and country of issuance of any other government-issued document evidencing nationality or residence and bearing a photograph or similar safeguard. Within a reasonable time after the account is opened, the CIP rule requires the bank to verify the customer's identity by asking to see some form of identification, such as an unexpired driver's license or passport or by using non-documentary methods of verification.

¹⁸ Center for Community Capitalism, p. 22.

¹⁹ See OCC Bulletin 2004-20, Risk Management of New, Expanded, or Modified Bank Products and Services, May 10, 2004.

²⁰ Increased risk from third-party relationships most often arises from a lack of adequate planning, oversight, and control by the bank and inferior performance or service by the third party. See OCC Bulletin 2001-47, Third-Party Relationships, Office of the Comptroller of the Currency, Nov. 1, 2001.

²¹ See 31 CFR 103.121 – The federal financial regulatory agencies also jointly issued frequently asked questions regarding customer identification programs (CIP). They are available at <http://www.fincen.gov/finalciprule.pdf>.

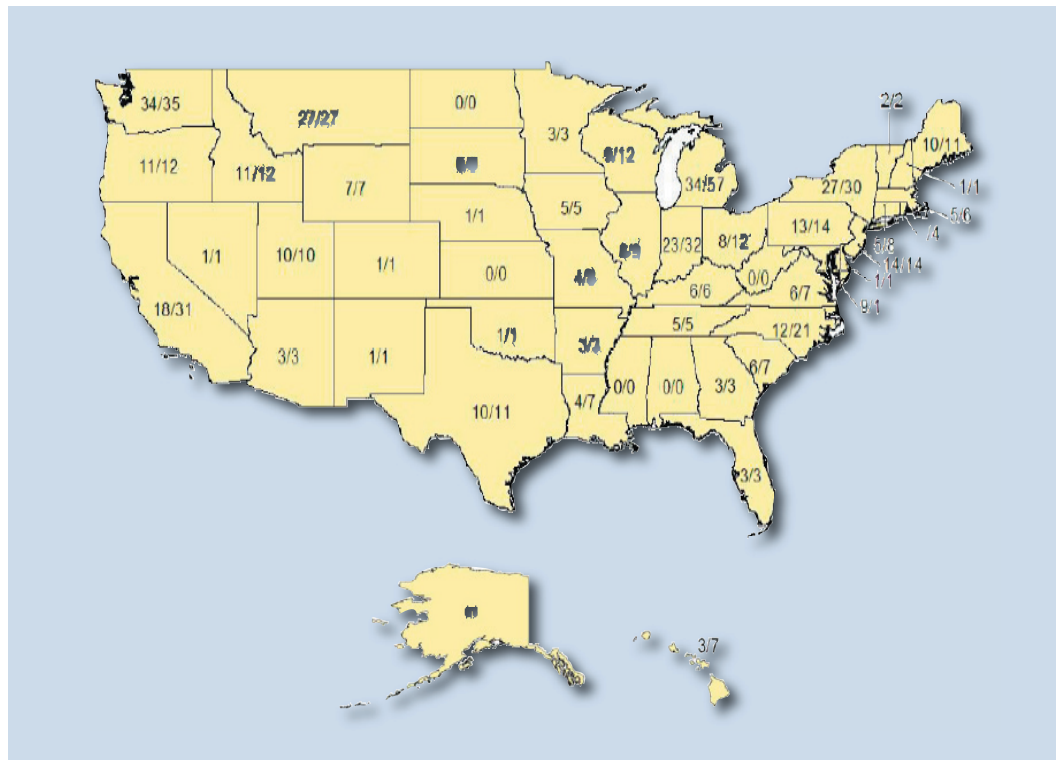
V. Who Is in the IDA Business Today?

Banks comprise 81 percent of financial institutions sponsoring IDAs, and credit unions account for the remainder.²² Most of the programs are small (e.g., have less than 100 accounts) and are structured in partnerships with nonprofit providers and financial institutions. Programs generally include a financial literacy component that is considered to be key to achieving any measure of financial success.

Larger banks are more likely than smaller banks to offer IDA programs. While banks with assets of less than \$1 billion sponsor nearly half of all programs with 50 accounts or less, banks with assets greater than \$1 billion sponsor 79 percent of programs with 51 to 100 accounts, and 84 percent of programs with more than 100 accounts.²³

Many of the Federal Home Loan Banks (FHLBs) sponsor structured savings programs for mortgage downpayments that are similar to IDAs. Once participants have saved their target amounts, their deposits are matched at mortgage closing. Other programs that assist people with asset growth, and are conceptually similar to IDAs, include the Family Self-Sufficiency Program that incorporates Section 8 Homeownership funding. More information on these programs is provided in Appendix A: Implementation Guide.

Geographic Distribution of Financial Institutions Engaged in IDA or FHLB Matched Savings Programs



Note: First number denotes number of financial institutions offering IDA or FHLB matched savings programs. Financial institutions that have program relationships in multiple states are counted at the state level (e.g., an institution with one program in three states is counted once in each state). Second number denotes number of IDA or FHLB matched savings programs.

Source: Center for Community Capitalism, p. 6.

²² Center for Community Capitalism, p. 4.

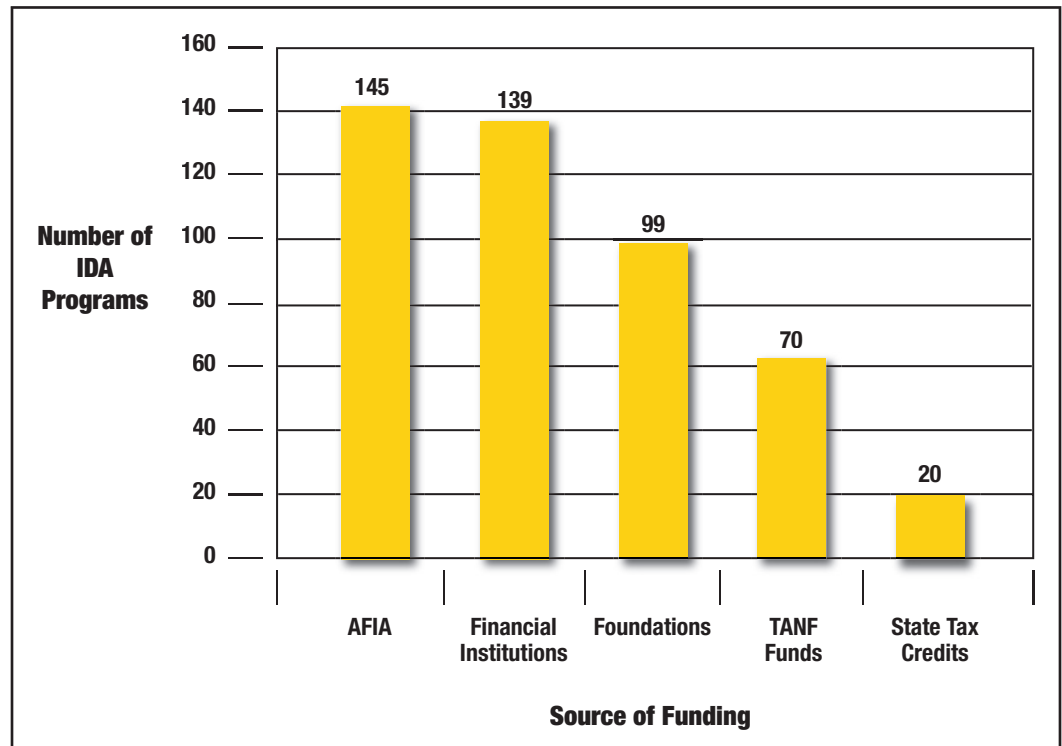
²³ Center for Community Capitalism, p. 7.

VI. How Does the Cost Structure Work?

Costs of offering IDA programs can be allocated to two broad categories: lost revenue from reduced account fees, and additional labor costs required to establish and maintain the accounts. Some banks view the costs associated with offering IDAs as marketing expenses of attracting new bank customers.

IDA programs do not appear to have been subject to strict financial profitability reviews by banks. It is probable that these institutions' community development orientation toward sponsoring IDAs contributes to relaxed profitability targets, at least in the short term.²⁴

Table 5
Sources of Match Funding for IDAs



Note: Assets for Independence Act (AFIA) grants funded more IDA programs than any other reported source of government or private funding. Contributions from financial institutions came in second, funding 139 IDA programs.²⁵

VII. What Barriers Have Constrained the Growth of Bank IDA Products?

Bank profitability of IDA programs over the long term has not been quantified. While banks that offer IDAs actively market their loan products to participants after the achievement of savings goals, it is up to individual IDA program participants to decide where to ultimately obtain their loans. Further, virtually no data are available on profits or losses resulting from new loans, as most financial institutions do not track program participants after graduation.

²⁴ Center for Community Capitalism, p. 31.

²⁵ Corporation for Enterprise Development, Key Highlights from the 2003 IDA Program Survey.

Interestingly, none of the banks interviewed discussed profit potential as a reason for offering IDAs, and none indicated that they had performed a break-even analysis for the product. A few banks that hold match funds in a master account did acknowledge that the float on match funds that remained on deposit for extended periods mitigated some of the expense associated with holding relatively small savings accounts.

Offering IDA accounts requires the addition of special features to existing bank products. Most banks tend to use one of their standard savings accounts, and then flag the accounts with special codes to limit withdrawals and avoid many fees, such as those for minimum balances. However, this method usually requires a significant amount of manual oversight, and has the potential for errors at the teller line (unauthorized withdrawals), if the teller is not familiar with the product. The banks interviewed for this analysis indicated that they have identified targeted branches in their footprint to administer the small number of accounts obtained in most of the IDA programs. This permits a bank to serve a low- and moderate-income client base and establish separate accounting systems to track the IDA deposits.

Many banks and nonprofit service providers have stated that in order for IDAs to become more widely available, they must become standardized products, rather than individual programs, that can easily be accessed by participants and financial institutions. Scale and a standardized product might make the accounts more appealing to larger banks, while widespread acceptance of a standardized product might make the accounts more appealing to smaller banks. At least one large bank is developing a standardized account that can incorporate its partnerships with various nonprofits in its multi-state market area.

Overall, it appears that IDA partnerships with nonprofits are developed and offered outside a bank's normal product delivery channels, as an exception to standard practices and products. Nearly 80 percent of IDA programs have 50 or fewer active accounts.²⁶ Thus, while the division of the bank responsible for IDAs may be fully committed to their success, some banks have not integrated the product into the bank's overall operations as fully as possible.

Moving IDAs to Scale

While the barriers identified above appear to have limited the growth of IDAs since their inception in the mid-1990s, some strategies have the potential for making IDAs more widely offered and used. These strategies are in various stages of development, and range from operational improvements to funding changes that would require new legislation at the federal level. If these strategies are successful, they may begin to move IDAs from their current status to a more widely offered and standardized financial product.

More uniform income qualifications from funding sources for match dollars would make IDAs less complicated for nonprofits to administer. This might raise the interest level for a greater number of nonprofits, and thus make it more likely that standardized products could be developed. Currently, a number of the major sources for match funds vary in income eligibility requirements with one requiring participants to earn less than 200 percent of poverty level and another requiring less than 80 percent of area median income.

Tax incentives could encourage a greater number of banks to offer IDAs. Legislation has been proposed that would provide a tax credit of up to \$500 per account for banks matching participant savings and another credit of \$50 per account for the administration of accounts.

²⁶ Center for Community Capitalism, p. iv.

Larger and more stable allocations of match dollars from funding sources might allow IDAs to be viewed as a product that has an established place in the market, thereby attracting more attention from banks, nonprofits, and consumers. Major funding sources include a number of federal and state programs, and some of the Federal Home Loan Banks.

Reducing the operational burden for both financial institutions and nonprofit partners through more fully integrated financial transaction and record keeping systems may be a key to attracting more banks to the product. At least one back-office system has been developed, modeled on the systems used by employers to manage 401(k) programs, that has been designed to make record keeping and account access by financial institutions, nonprofits, and individual account holders simpler. From a bank perspective, this system is designed to eliminate the need for banks to open special flagged savings accounts and provide data feeds to the nonprofit partner.

Linking IDAs to additional sources of funding may expand the product. The Earned Income Tax Credit (EITC) has been cited as a potential source of deposits, since receipt of a tax refund may be an ideal opportunity to consider saving and investment possibilities. Separately, some employers have found that providing employer-assisted housing benefits helps them achieve a variety of goals, such as improving their recruitment and retention of employees. The actual benefits can be structured in a variety of ways, including by providing funds to match the savings of employees that can then be used for downpayment and/or closing costs.

VIII. Conclusion

IDAs are a tool through which banks can tap new markets of customers that traditionally they have had difficulty reaching, while also supporting community development. Although IDA holders initially will have only a small savings account relationship with the bank, with a number of fees waived, the expectation is that they could become profitable customers in the future, as they develop greater comfort with financial products. While IDAs are currently individual programs offered primarily through locally based partnerships between financial institutions and nonprofits, IDAs have the potential to achieve greater appeal if they became a more standardized product with greater financial incentives for banks to participate, less operational burden for all parties involved, and larger and more stable sources of match funding.

Appendix A

Implementation Guide

I. Program Design Resources

A significant number of resources are available on the Internet for banks that are interested in learning more about IDA programs

Corporation for Enterprise Development

Knowledge sharing

<http://www.idanetwork.org>

See the section on IDA Program Design that includes information on program planning, program administration, account holder communication, creating partnerships, and recordkeeping.

http://www.idanetwork.org/index.php?section=resources&page=/ida_program_design.html

Center for Social Development

George Warren Brown School of Social Work

Washington University in St. Louis

Information on IDAs and management information systems (MIS) software for IDAs.

<http://www.gwbweb.wustl.edu/csd/asset/idas.htm>

Sample Partnership Agreement between a Bank and Nonprofit Service Provider

Center for Community Capitalism

The Frank Hawkins Kenan Institute of Private Enterprise

The University of North Carolina at Chapel Hill

See pages 51-53 of

http://www.kenan-flagler.unc.edu/assets/documents/CC_Financial_Institutions_and_IDAs.pdf

II. Funding Sources

Assets for Independence Act (AFIA) is the most frequently used funding source. Originally a five-year Department of Health and Human Services (HHS) demonstration program, it was renewed in 2003 with \$25 million allocated for match funds in 2004, and amounts to be determined annually through 2008. \$25 million was subsequently allocated for 2005. AFIA funding requires service providers to obtain additional match funds from non-federal sources to draw down on the AFIA grants. Participants in AFIA funded programs must have incomes less than 200 percent of poverty level.

<http://www.acf.hhs.gov/assetbuilding/>

Temporary Assistance for Needy Families (TANF) is another frequently used HHS funding source. TANF funds are state and locally administered, but they may not be used for the AFIA match referred to above. However, they may be used for funding individual IDA programs. States also have Maintenance of Efforts funds that may be used as a match for AFIA funds. Income guidelines are determined by each state.

<http://www.acf.hhs.gov/programs/ofa/tfnames.htm>

The **Office of Refugee Resettlement (ORR)**, also part of HHS, funds special IDA programs targeted at immigrants. The program differs from the standard IDAs in that the goals may include used automobiles, computers, or rent, as the overarching aim of the program is to establish the immigrants in the U.S.

<http://www.acf.dhhs.gov/programs/orr/index.htm>

The **Federal Home Loan Banks (FHLBs)** provide funding for a few variations of IDAs. Member banks apply directly to their regional Home Loan Bank and, if approved, use the funds to match savings accounts established by income eligible customers. Banks that participate in FHLB programs are awarded funds to use as match funds for participants' accounts at the close of escrow. Income guidelines are tied to area median income guidelines.

Member banks are responsible for administering their grant awards, but traditionally rely on nonprofit service providers to recruit and counsel income eligible customers for the program. There are currently more than 250 banks and thrifts offering some form of match funding for IDA-type programs from Home Loan Bank awards.

http://www.fhfb.gov/FHLB/fhlbs_banks.htm

The **Family Self-Sufficiency (FSS)** program is a wealth building initiative on the periphery of the IDA industry offered by the Department of Housing and Urban Development (HUD). Residents of public housing or participants in the Section 8 Voucher program may voluntarily join an FSS program sponsored by its local public housing authority. The FSS program permits rent increases due to increased earnings to be placed in an escrow account for a period of up to five years. Funds accumulated during this period can then be used by the FSS participant for any number of purposes, such as homeownership, advanced education, or to start a small business. Banks do not normally participate in FSS programs until participants are ready to withdraw the escrow and borrow additional funds to achieve their goals. FSS accounts do not receive a match.

<http://www.hud.gov/offices/pih/programs/hcv/fss.cfm>

<http://www.fsspartnerships.org/>

The **Community Development Block Grants (CDBG)** program, administered by HUD, distributes annual formula grants to states and certain municipalities (called "entitlement communities"). Non-entitlement communities must apply for CDBG funds in a regional or statewide competitive grant process. Communities may use their CDBG grants as matching funds for homeownership IDAs. CDBG funds may be used as non-federal matching funds required by AFIA.

<http://www.hud.gov/offices/cpd/communitydevelopment/programs/index.cfm>

Through the **Home Investment Partnership (HOME)** program, HUD allocates formula grants to state and local governments, which can use HOME funds for public or private affordable housing programs. HOME funds may be used as matching funds for households at or below 80 percent of area median income, and the funds may only be used for homeownership. State or local governments must provide a 25 percent match for HOME funds with public or private dollars.

<http://www.hud.gov/offices/cpd/affordablehousing/programs/home/index.cfm>

The **Community Development Financial Institutions (CDFI) Fund**, administered by the Department of the Treasury, awards competitive grants to banks through the Bank Enterprise Awards (BEA) program to encourage community development lending and investment. The grants may be used to support IDA programs. Accountholders must have low- or moderate-income and activities are restricted to designated distressed communities. Funds may be used for matching or administrative purposes.

<http://www.cdfifund.gov/programs/programs.asp?programID=1>

Appendix B

Glossary

ADD- American Dream Demonstration A demonstration of IDAs in 14 programs across the United States. It ran for four years (1997-2001), and the research took place over the course of seven years (1997-2003).

AFIA-Assets for Independence Act Legislation passed in 1998 that launched a \$125 million five-year national IDA demonstration, providing the primary pool for matching program participant funds. AFIA grants also require the involvement of an additional source of match funds. The law was renewed in 2003 with \$25 million allocated for match funds in 2004 and amounts to be determined annually through 2008. \$25 million was subsequently allocated for 2005.

EITC-Earned Income Tax Credit The Earned Income Tax Credit (EITC) is a federal income tax credit for eligible low-income workers. The credit reduces the amount of tax a person owes, and may be returned in the form of a refund. IDA program participants often link EITC payments with savings to achieve goals.

FSS-Family Self-Sufficiency In 1990, section 554 of the National Affordable Housing Act provided for the creation of Family Self-Sufficiency Programs. The programs are meant to assist public housing authorities in developing self-sufficiency in public housing residents. Over a five-year period, Section 8 housing participants establish goals, such as rent, automobile, or even home purchase. For certain individuals, a portion of excess rental funds are deposited into an escrow account. Nationally, there are more than 55,000 FSS accountholders.

Master escrow or master trust account Custody arrangement whereby a bank manages the match funds from an IDA funding source for all IDA participants under a central account. Master accounts facilitate reporting and account administration for the financial institutions and the nonprofit partners.

Match funds Funds from various sources, including AFIA, TANF and private funds that are used to increase or “match” the funds saved by low-income IDA program participants. Currently, match funds are the most difficult funds to be raised by IDA program practitioners.

ORR-Office of Refugee Resettlement ORR is a division of the Department of Health and Human Services that manages programs for refugee resettlement assistance. In 1999, ORR was authorized to begin a \$5 million IDA-type program administered by 15 grantee organizations throughout the country. Program goals are aimed at establishing the refugees in the U.S. through the purchase of automobiles, computers, rent, etc.

Section 8 Homeownership The Housing Choice Voucher Homeownership Program allows families who are receiving Section 8 rental assistance to use that assistance to help pay the mortgage on a home. Local Public Housing Agencies can decide if they want to take part in the homeownership program or not. The Section 8 homeownership program is funded by the United States Department of Housing and Urban Development (HUD) as part of its Section 8 housing assistance program.

TANF-Temporary Assistance for Needy Families Assistance in cash or employment for low-income families with children. A result of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, TANF replaced Aid to Families with Dependent Children funds as the primary source of support for eligible families. TANF funds are administered by individual states and may be used to fund IDA programs.

Truth in Savings Act, 12 U.S.C. § 4301 *et seq.*, implemented by Regulation DD, 12 CFR 230

This federal law and its implementing regulation is intended to assist consumers in comparing deposit accounts offered by depository institutions, principally by requiring such institutions to disclose fees, the annual percentage yield, the interest rate, and other terms in connection with the accounts.

Susan Howard and Samuel Frumkin were the primary authors of this paper. Also contributing were William Reeves, Barry Wides, and Julie Williams. Community Developments Insights papers differ from OCC advisory letters, bulletins, and regulations in that they do not reflect agency policy and should not be considered as definitive regulatory or supervisory guidance. Some of the information used in the preparation of this paper was obtained from publicly available sources that are considered reliable. However, the use of this information does not constitute an endorsement of its accuracy by the Office of the Comptroller of the Currency.