Individual Development Accounts and Banks: A Solid "Match"

The more than 8,600 FDIC-insured banks and thrifts in the United States offer a wide variety of financial products and services through more than 94,000 banking offices. During the past decade, the development of alternative delivery channels, such as the Internet, has enhanced accessibility to banking products and services. Yet even with this greater access, about 10 million American households do not use any aspect of the banking system.[1] An even larger number, perhaps tens of millions more American households, use only a limited number of banking services.

Households, regardless of income level, underuse banking services for a variety of reasons. However, a large body of research provides evidence that limited involvement in the mainstream financial sector is most common among low- and moderate-income households.[2] Although their income may be relatively low, these individuals hold assets and regularly conduct financial transactions, frequently with nonbank financial companies. Estimates of nonbank financial company transaction volume vary, but are as high as $250 billion annually.[3] Not all of these revenues can be tied directly to low- and moderate-income individuals. However, these estimates are large enough to suggest a reasonable business case for insured institutions trying to attract the banking business of low- and moderate-income consumers.

For most people, opening a checking or savings account is the first step toward involvement in the financial mainstream, followed by the use of credit products, investments, and insurance. A relatively low-risk way for banks to introduce low- and moderate-income households to the banking system is through a particular type of savings account—the Individual Development Account (IDA). This article explains how IDAs operate, discusses banks' experience with IDAs, and provides resources for bankers who want to know more about these programs.

History of IDAs

Individual development accounts are matched savings accounts that enable low-income families to save money for a particular financial goal, such as buying a home, paying for post-secondary education, or starting or expanding a small business. The framework for IDAs is widely believed to have emerged in the early 1990s through "asset-based" policy research that advocates asset-building programs to alleviate poverty.[4]

Asset-based policy contends that traditional poverty programs that focus on income transfers, such as Temporary Assistance for Needy Families (TANF) payments or food stamp benefits, are necessary, but meet only short-term consumption needs. Asset-based policy proponents note that accumulating assets, such as contributing to a savings account or buying a home, over a longer time horizon creates a financial cushion for emergencies, which in turn generates social, behavioral, and psychological benefits. Armed with assets, an individual's options for emerging from poverty and entering the financial mainstream are greatly enhanced.

In 1993, Iowa was the first state to enact a law establishing IDAs. Today, 33 states (as well as Puerto Rico and the District of Columbia) have either laws or policies that govern the operations of IDAs (see Table 1 on next page). Of these states, 19 are currently operating programs that are supported by state funding. Approximately 540 community-based and -funded IDA programs operate across the United States including in the 17 states without IDA laws or policies.[5]

[1] Federal Reserve Board, *2004 Survey of Consumer Finances.*

[2] Low- and moderate-income households earn less than 80 percent of the median household income for their particular geographic area, according to U.S. Census Bureau data.

[3] Brian Grow and Keith Epstein, "The Poverty Business: Inside U.S. Companies' Audacious Drive to Extract More Profits from the Nation's Working Poor," *Business Week,* May 21, 2007. This article cited data from investment bank Stephens, Inc.

[4] Michael Sherraden, *Assets and the Poor: A New American Welfare Policy* (Armonk, NY: M.E. Sharpe, Inc., 1991).

[5] CFED, "Individual Development Accounts: Providing Opportunities to Build Assets," January 2007.

Table 1

33 States Plus the District of Columbia and Puerto Rico Have Laws or Policies Governing IDAs

States with Operational State-Supported IDA programs[a]	Other States That Have Established IDA Policy[b]
Arkansas	Arizona
Connecticut	California
District of Columbia	Colorado
Indiana	Florida
Kansas	Hawaii
Louisiana	Idaho
Maine	Illinois
Michigan	Iowa
Minnesota	Maryland
Missouri	Montana
New Hampshire	New Mexico
New Jersey	Oklahoma
North Carolina	Puerto Rico
Oregon	Tennessee
Pennsylvania	Texas
South Carolina	Utah
Vermont	
Virginia	
Washington	

Source: State IDA Policy Summary Tables, Center for Social Development, February 28, 2007.

Notes:

[a] These states are supporting IDA programs developed from policy or administrative rulemaking.

[b] These states have passed IDA policy but are not currently developing or supporting IDA programs.

How Are Banks Involved in IDA programs?

IDA programs are generally created by nonprofit organizations or divisions of state or local government. However, for-profit entities, including FDIC-insured banks and thrifts, have also created IDA programs. The organization creating the IDA program, called the program sponsor, establishes the parameters of program participation (within state law or policy where appropriate). The program sponsor applies for matching funds and deposits those funds in a reserve account at a financial institution. Because the sponsor typically administers the IDA paperwork, it is sometimes called the administrator.

The financial institution establishes and services individual savings accounts for program participants. Some services, such as providing periodic account statements, are similar to the institution's typical savings accounts. However, other services, such as waiving minimum account balances or heightened monitoring to prevent premature withdrawals, may be specialized. The program sponsor usually assumes responsibility for allocating matching funds to individual accounts.

The relationship between the program sponsor and the financial institution is commonly governed by a written agreement. In practice, many IDA programs involve partnerships of multiple nonprofit or government organizations and financial institutions. Financial institutions may provide some or all of the matching funds to the sponsoring organization, and also may provide general operational support and funding, such as absorbing the costs of marketing or providing financial education to participants.

According to data from CFED, a nonprofit organization that provides a clearinghouse of information on IDAs, 244 FDIC-insured banks and thrifts and 53 credit unions participated in IDA programs in 2005 (the most recent data available).[6]

How Do IDAs Operate?

In general, IDAs operate similarly to other types of "matched" savings plans, such as 401(k) retirement accounts.[7] With an IDA, the account holder deposits money in a savings account, and the funds are matched anywhere from dollar for dollar up to eight dollars to one dollar, depending on the rules of the particular program and state law. Two or three dollars to one dollar is the common match range. A "ceiling" of dollars and time frames typically is established for the match amount.

Money for the match is provided through a variety of public and private sources (see Charts 1 and 2 on next page). The U.S. Treasury, under the Assets for Independence Act of 1998 (AFI), provides most of the matching funds. The AFI has provided an average of $25 million in annual appropriations to fund IDA matches. As shown in Chart 1, almost 60 percent of IDA programs that receive funding obtain matching funds through the AFI.

State programs, faith-based organizations, philanthropic groups, and corporations also provide matching funds. Banks are important contributors as well; as shown in

[6] CFED, "2005 IDA Program Survey," 2005.

[7] At this time, unlike 401(k) plan contributions, IDA program participants are not permitted to use pretax income to fund contributions.

Charts 1 and 2

The Federal Government Provides the Majority of IDA Matched Funds, but Banks Are Also Important Contributors

Chart 1

Public Sources of Operating and Matching Funds for IDA Programs

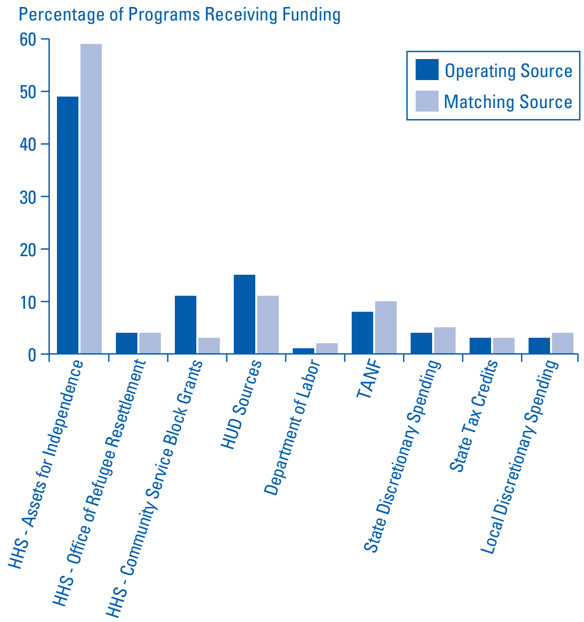
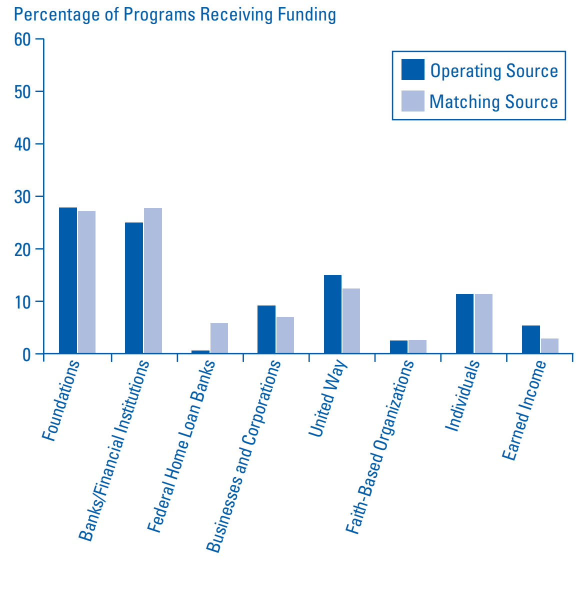


Chart 2

Private Sources of Operating and Matching Funds for IDA Programs



Source: CFED, "Individual Development Accounts: Providing Opportunities to Build Assets," January 2007.
Note: HHS refers to the U.S. Department of Health and Human Services and HUD refers to the U.S. Department of Housing and Urban Development.

Chart 2, they provide matching funds to about 25 percent of IDA programs that receive funding. Banks also provide about 30 percent of the general operational funding to these programs.

IDA participation requirements, which are based on state laws and policies as well as rules and requirements of the sponsoring organization, commonly include some combination of the following:

- Maximum income levels – These levels are generally expressed as a percentage of the federal poverty guidelines or the area median income figure.[8]

- Net worth – Some programs limit the level of household assets (such as a car, equity in a home, or other savings) that a qualified applicant owns. For example, applicants cannot participate in some programs if they own assets in excess of $5,000.

- Earnings – Many programs require that all or a part of an applicant's savings come from earned income, most commonly a paycheck. However, public assistance payments, such as unemployment checks, TANF funds, disability payments, and Social Security, also usually are considered earnings.

- Credit history – Poor credit or heavy debt levels may disqualify applicants under some programs.

- Limitations on withdrawal – Withdrawals typically can only be made to buy a home, pay for education, or start or expand a small business. Some states restrict the purpose of the accounts even further, while others permit withdrawals for home repairs or automobile purchases. A prohibition period, usually one to three years, is common for withdrawals of matched funds. This period, which usually coincides with the length of time during which the funds are matched, allows time for the savings to accumulate.

- Financial education requirements – In most cases, participants are required to attend financial education classes, such as the FDIC's *Money Smart*

[8] The U.S. Department of Health and Human Services is responsible for determining poverty guidelines, and the U.S. Department of Housing and Urban Development is responsible for determining and reporting annual area median income figures.

curriculum.[9] Participants also may receive other types of financial counseling or training.[10]

Potential Benefits to Banks of Participating in an IDA

Banks can use IDAs to tap into new markets by establishing relationships with individuals who may have no banking relationships (unbanked) or only minimal relationships with mainstream financial companies (underbanked). Estimates of the size of this market vary, but research indicates that a substantial portion of the population does not fully use the banking system.

For example, the results of the Federal Reserve's 2004 Survey of Consumer Finances showed that nearly 9 percent of American households are unbanked; they do not have a checking or savings account. A study by the Center for Financial Services Innovation (CFSI) indicates that the unbanked rate is 30 percent for low- and moderate-income households.[11] This study also shows that of the 70 percent of low- and moderate-income households that have bank accounts, almost two-thirds may be considered "underbanked," as they continue to use nonbank financial services.[12]

These customers are considered low- and moderate-income, but they do conduct a large volume of financial transactions. For instance, the nearly 1 million households surveyed by the CFSI during 2003 and 2004 bought 1.2 million money orders and cashed 1.9 million checks per month.[13] Extrapolating this activity across the country suggests that low- and moderate-income households conduct a significant level of transactions outside mainstream banking.

[9] Findings from a recent survey of consumers who took the FDIC's *Money Smart* program showed a strong correlation between financial education and opening a bank account. Within 6 to 12 months of taking *Money Smart,* 43 percent of those without a checking account and 37 percent of those without a savings account opened accounts. See FDIC, "A Longitudinal Evaluation of the Intermediate-term Impact of the *Money Smart* Financial Education Curriculum upon Consumers' Behavior and Confidence," April 2007.

[10] The description of IDA participation requirements is adapted from the CFED Web site "Frequently Asked Questions" at http://www.cfed.org.

[11] Ellen Seidman, Moez Hababou, and Jennifer Kramer, "Getting to Know Underbanked Consumers: A Financial Services Analysis," The Center for Financial Services Innovation, September 2005. This survey represented almost 1 million households in 63 low- and moderate-income tracts in three cities: Washington, D.C., Chicago, and Los Angeles.

[12] Ibid.

[13] Ibid.

Banks can offer IDAs as a way of introducing customers to the mainstream financial system with a very simple, low-risk product—a savings account. The initial product may be small and perhaps not yet profitable. However, over time, at least some of these customers likely will continue the relationship and expand into other products, becoming profitable in the long run. As the goal of the IDA is often home purchase, further education, or small business needs, account holders may also choose credit products from the IDA-administering banks.

In addition to establishing an initial relationship with new customers, banks can benefit as administrators of the master reserve account and the individual accounts. Banks can use the funds for general purposes while the customer is restricted from withdrawing the matched money, usually for a year or more. Establishing IDAs with direct deposit might be particularly beneficial, as both the saver and the financial institution are virtually assured that regular contributions will be made. Participants who use direct deposit are much more likely to be savers and remain active in the IDA program.[14]

Intangible benefits also accrue to banks that provide IDAs. These programs generate goodwill throughout communities as well as with existing customers by working with local organizations to assist the needy and disadvantaged. Local nonprofit organizations that sponsor IDAs routinely recognize the efforts of their financial institution partners, and these initiatives often receive positive local press coverage.

More tangibly, banks could receive positive consideration from financial institution regulators as their investment, lending, and service performance is evaluated under the Community Reinvestment Act (CRA). Although each bank, situation, and IDA program is different and would be evaluated on its own merits, the following are examples of how bank participation in IDA programs could receive positive CRA consideration:

- Investment performance – A bank provides direct funding to IDA match programs or directly expends operational funds in support of an IDA program.

[14] Mark Schreiner, Margaret Clancy, and Michael Sherraden, "Saving Performance in the American Dream Demonstration, a National Demonstration of Individual Development Accounts," Center for Social Development, October 2002.

- Lending performance – A bank lends to an IDA program sponsor or to low- and moderate-income program participants.

- Service performance – A bank provides low-cost deposit accounts to low- and moderate-income program participants.[15]

Do IDAs Really Work?

A review of the effectiveness of IDAs was conducted by the American Dream Demonstration (ADD) from 1997 to 2001; this survey encompassed 14 IDA programs across the country.[16] The ADD survey was organized by CFED, conducted by the Center for Social Development, and funded by various philanthropic foundations. The following statistics demonstrate that IDAs can help low-income Americans enter the financial mainstream and build assets:

- One in five IDA participants was unbanked when joining the program.

- About 50 percent of participants were "savers"; that is, they not only opened accounts but made periodic deposits of at least $100.

- The average time of participation in IDAs was 24.5 months.

- The average amount that participants placed in the accounts was $528.

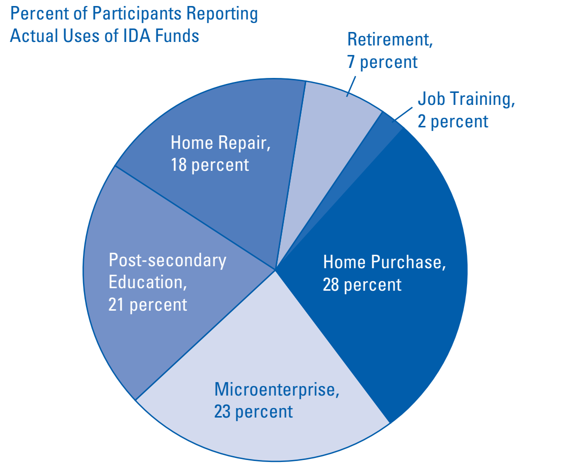
- With matched funds, the average participant had accumulated a total of $2,755.

- Approximately one-third of the participants had made a matched withdrawal with the uses shown in Chart 3.[17]

The ADD survey did not capture data about whether participants who eventually migrated to credit products used their IDA bank for credit. However, it can

Chart 3

IDA Participants Used Their Assets Most Frequently to Buy Homes, but Also Made Withdrawals for Home Repair, to Pay for Education, and to Fund Small Businesses



Source: Mark Schreiner, Margaret Clancy, and Michael Sherraden, "Saving Performance in the American Dream Demonstration Final Report," October 2002.

Note: Data reflect American Dream Demonstration participants who had made a matched withdrawal as of December 31, 2001.

reasonably be assumed that some did. The psychological effects of being able to save are perhaps harder to quantify than deepening involvement with mainstream financial companies, but are no less important. As Chart 4 (on next page) shows, the vast majority of IDA participants feel more confident about the future and more economically secure. This may indicate that they are on a path to financial independence and, accordingly, to establishing a long-term relationship with a bank.

In addition to the national ADD study, the FDIC tracks the success of local IDA programs. FDIC Community Affairs staff routinely serves as communication facilitators between banks and nonprofit IDA sponsors and advises about the financial education component of IDA programs. More specifically, the FDIC provides access to instructor education on the FDIC's *Money Smart* financial education curriculum. *Money Smart* was developed by the FDIC in 2001 to help low- and moderate-income adults enhance their money management skills, understand basic mainstream financial services, avoid pitfalls, and build financial confidence to use banking services effectively.[18]

[15] Depending on the context, offering IDAs may warrant consideration as either a retail banking service or a community development service. See Interagency Questions and Answers (Q&As) for CRA, 66 Fed. Reg. 36619, 36631, §.22(a)-1 (July 12, 2001), http://www.ffiec.gov/cra/pdf/qa01.pdf.

[16] Schreiner et al.

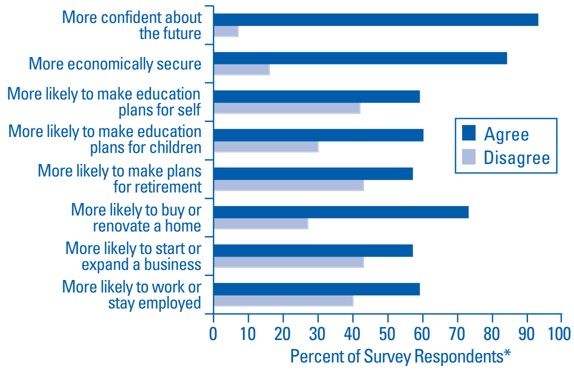
[17] Ibid.

[18] An electronic version of *Money Smart* is available at http://www.fdic.gov.

Chart 4

IDA Participants Perceive Positive Economic Effects

"Because I have an IDA, I am/have…"



Source: Amanda Moore McBride, Margaret Lombe, and Sondra G. Beverly, "The Effects of Individual Development Account Programs: Perceptions of Participants," Center for Social Development Working Paper 03-06, 2003.

* Data based on 298 completed surveys of IDA participants at six American Dream Demonstration sites.

The textbox on page 32 describes the outcomes of an IDA program facilitated by the FDIC in the Kansas City metro area. This program is sponsored by a local nonprofit, The Family Conservancy in Kansas City, and involves three banks, UMB Bank, N.A., U.S. Bank, N.A., and Emporia State Bank.[19] The program has been successful in creating savers; as of year-end 2006, more than 371 individuals have successfully exited the program with their matched funds. Additionally, this program provides tangible evidence that IDA customers do migrate to other bank products; about half the 170 participants who purchased a home received a mortgage from their IDA bank.

Are IDAs Profitable for Banks?

Very little empirical data exist about the profitability of IDAs for banks. A study conducted in 2003 by the *Center for Community Capitalism* concluded that IDA programs have not been subjected to robust cost-benefit analysis at banks.[20] Further, it is likely that these institutions' community development goals probably result in relaxed profitability targets in the short term.[21] The same study noted that short-term costs, particularly for labor, can be high. As described below, federal legislation has been introduced that would provide tax credits to insured institutions to offset some of these costs, potentially accelerating the time-frame for profitability. However, taking a longer-term view—potentially developing long-term customers and "graduating" IDA participants into credit and other products—may be more appropriate than the traditional break-even analysis.[22]

What Lies Ahead for IDAs?

While IDAs have helped low- and moderate-income Americans transition to the financial mainstream and a potentially more secure future, a number of barriers appear to constrain IDA use on a large scale. For instance, as with any program that relies on donations, there is a persistent shortage of matched and operational funds. However, other, perhaps less obvious barriers also exist. These barriers are described below, along with potential solutions.

Lack of Knowledge about IDAs – A National IDA Framework

Individuals who may qualify for an IDA and banks that may want to participate in IDA programs may find it difficult to obtain critical information because IDAs are dispersed among many organizations. Federal IDA laws have been debated that would standardize what is currently a patchwork of several hundred programs operated under various state laws and community program parameters. Most recently, the Saving for Working Families Act was reintroduced in March 2007. This act, first introduced in 2003, would establish a national framework for IDAs and would provide $1.2 billion in tax credits to allow banks to offset part of the cost of opening and maintaining the accounts.

No Ability to Save – Linking Taxes and Savings

Potential IDA participants may be discouraged from participating because they do not believe they will be able or are not disciplined enough to contribute funds to the account. Some policymakers believe this obstacle could be overcome, at least in part, by linking tax refunds and savings. Generally, the same individuals who qualify for IDAs qualify for the Earned Income Tax Credit and tend to receive sizable tax refunds. Every year, the Internal Revenue Service processes

[19] The FDIC does not expressly endorse this or any other IDA program or bank. This program is used only as an example.
[20] Center for Community Capitalism, "Financial Institutions and Individual Development Accounts: Results of a National Survey," The Frank Hawkins Keenan Institute of Private Enterprise, The University of North Carolina at Chapel Hill, October 2003.
[21] Ibid.
[22] Ibid.

refunds averaging $2,100 for more than 100 million taxpayers, many of whom are poor and perhaps underbanked.[23]

In the past, banks and community and charitable organizations have been successful in recruiting IDA participants through the Voluntary Income Tax Assistance (VITA) program. Under the VITA program, volunteers prepare tax returns for low- and moderate-income Americans at nonprofit locations. Program sponsors and banks often use this opportunity to market IDAs to consumers, suggesting that they place all or a portion of their refunds in IDAs. In 2007, in compliance with the Pension Protection Act of 2006, the Internal Revenue Service began giving taxpayers the option of electronically splitting their tax refund among two or three financial institution accounts. Consumers now can choose to divide their refunds between their IDA and a checking account, for example, which would give them immediate access to some of the funds while allowing them to save the remainder for longer-term goals.

The ability to split refunds will streamline the process of opening IDAs and may help expand the use of this program. A small-scale demonstration of refund splitting was conducted in the 2004 tax season by the Doorways to Dreams (D2D) Fund in Boston, Massachusetts. D2D is a nonprofit research firm that explores ways to use technology to address poverty-related issues. D2D used its methodology to split the refunds, with the following results:

- Of the 516 tax filers given the opportunity to open an account to split their refunds, 27 percent accepted the offer, and 15 percent were able to participate after meeting account-opening criteria.
- Participants chose to save 47 percent of their refunds, or an average of $606. This represented at least a 90 percent increase over their existing savings.
- Four months later, two-thirds of participants continued to save a portion of their refunds.[24]

Too Much Debt to Save – Linking Small-Dollar Credit with Savings

Some individuals may feel that debt service payments on high-cost credit are too large, leaving them no funds to set aside in savings. On December 4, 2006, the FDIC released for comment the "Affordable Small Loan Guidelines," which encourage banks to offer small-dollar credit that is affordable, yet safe and sound, as an alternative to short-term, high-cost credit, such as payday loans.[25] The final Guidelines are expected to be issued very soon.

As part of small-dollar loan programs, banks are encouraged to include a savings component, whereby borrowers can either set aside a percentage of the amount borrowed or of the periodic payment in a savings account. Over the long term, this approach can help banks develop a relationship with borrowers and can help borrowers build assets to lessen their reliance on short-term loans. Depending on the rules of a particular IDA program, banks may be able to offer customers the option to use an IDA account for the savings component of small-dollar loan programs as a means of leveraging the use of the match feature.

IDA Resources for Banks

Banks often become involved in IDA programs through contacts and relationships with charitable and other nonprofit organizations. The FDIC's Community Affairs staff has developed relationships with local organizations and can facilitate communications between IDA sponsors and banks. The FDIC has also established the Alliance for Economic Inclusion (AEI), a new national initiative of broad-based coalitions of financial institutions, community-based organizations, and other partners in nine markets across the country to bring unbanked and underbanked individuals into the financial mainstream.[26] For more information on these initiatives, contact the FDIC's Community Affairs Office in your state (see Table 2 on next page).

[23] Anne Stuhldreher (New America Foundation) and Jennifer Tescher (Center for Financial Services Innovation), "Breaking the Savings Barrier: How the Federal Government Can Build an Inclusive Financial System," New America Foundation, Asset Building Program, February 2005.

[24] Amy Brown, "Expanding Financial Services to Unbanked Consumers: How Tax Preparation Partnerships Can Help Bridge the Gap," The Center for Financial Services Innovation, September 2005.

[25] The "Affordable Small Loan Guidelines" are available at http://www.fdic.gov.

[26] The nine markets are Chicago, Illinois; Austin/South Texas; Louisiana and Mississippi Gulf Coast areas; the semi-rural area of Alabama; Greater Boston, Massachusetts; Wilmington, Delaware; Los Angeles, California; Kansas City, Missouri; and Baltimore, Maryland.

Table 2

FDIC Community Affairs Officers		
Community Affairs Officer	**Division of Supervision**	**Area of Responsibility and Consumer Protection**
Thomas E. Stokes	**Atlanta Regional Office** 10 Tenth Street, N.E. Suite 800 Atlanta, GA 30309 Phone: (678) 916-2249 (direct) Phone: (800) 765-3342 (toll-free)	Alabama Florida Georgia North Carolina South Carolina Virginia West Virginia
Timothy W. DeLessio	**Boston Area Office** 15 Braintree Hill Office Park Braintree, MA 02184 Phone: (781) 794-5632 (direct) Phone: (866) 728-9953 (toll-free)	Connecticut Maine Massachusetts New Hampshire Rhode Island Vermont
Michael Frias	**Chicago Regional Office** 500 West Monroe Street Suite 3300 Chicago, IL 60661 Phone: (312) 382-6903 (direct) Phone: (800) 944-5343 (toll-free)	Illinois Indiana Kentucky Michigan Ohio Wisconsin
Eloy A. Villafranca	**Dallas Regional Office** 1910 Pacific Avenue 20th Floor Dallas, TX 75201 Phone: (972) 761-8010 (direct) Phone: (800) 568-9161 (toll-free)	Colorado New Mexico Oklahoma Texas
Elizabeth Kelderhouse	**Kansas City Regional Office** 2345 Grand Boulevard Suite 1200 Kansas City, MO 64108 Phone: (816) 234-8151 (direct) Phone: (800) 209-7459 (toll-free)	Iowa Kansas Minnesota Missouri Nebraska North Dakota South Dakota
Clinton Vaughn	**Memphis Area Office** 5100 Poplar Avenue Suite 1900 Memphis, TN 38137 Phone: (901) 818-5706 (direct) Phone: (800) 210-6354 (toll-free)	Arkansas Louisiana Mississippi Tennessee
Valerie J. Williams	**New York Regional Office** 20 Exchange Place 4th Floor New York, NY 10005 Phone: (917) 320-2621 (direct) Phone: (800) 334-9593 (toll-free)	Delaware District of Columbia Maryland New Jersey New York Pennsylvania Puerto Rico Virgin Islands
Linda D. Ortega	**San Francisco Regional Office** 25 Jesse Street at Ecker Square Suite 902 San Francisco, CA 94105 Phone: (415) 808-8115 (direct) Phone: (800) 756-3558 (toll-free)	Alaska Arizona California Guam Hawaii Idaho Montana Nevada Oregon Utah Washington Wyoming

The following organizations are additional sources of information for banks that may want to participate in an IDA program.[27]

- CFED is a nonprofit organization established in 1979 as the Corporation for Enterprise Development (http://www.cfed.org). CFED strives to ensure that every person can participate in, contribute to, and benefit from the economy by bringing together community practice, public policy, and private markets. The CFED Web site includes IDA program statistics, model legal and operational documents, the results of scholarly research, and minutes of meetings and conferences in the IDA arena.

- The Center for Social Development (CSD) is affiliated with the George Warren Brown School of Social Work at the Washington University in St. Louis, Missouri (http://gwbweb.wustl.edu/csd). CSD is a leading academic center of theory and research on asset-building strategies for low-income, low-asset populations. The CSD Web site includes the complete ADD report.

- The Doorways to Dreams (D2D) Fund works to expand access to financial services, especially asset-building opportunities, for low-income families by creating, testing, and implementing innovative financial products and services (http://www.d2dfund.org). An online IDA software package, along with extensive information and product templates for refund splitting, are available on the D2D Web site.

IDAs: Indeed a "Good" Match

A sound business case exists for banks to develop strategies to attract low- and moderate-income customers, as these individuals are generating significant revenues for nonbank financial companies. IDAs are a straightforward, low-risk way to appeal to such customers. Although IDAs are unlikely to be profitable in the short term, expanding relationships with these customers may generate profitability over the longer term. In addition, other benefits accrue to banks participating in IDA programs, such as positive consideration during CRA examinations and goodwill in the community. If some of the barriers can be overcome, then IDA programs may become more widespread, providing additional opportunities for low-income individuals to join the financial mainstream and for banks to reach out to new customers.

Author: Rae-Ann Miller, Special Advisor to the Director, Division of Insurance and Research, rmiller@fdic.gov

Contributor: Susan Burhouse, Financial Economist, Division of Insurance and Research, sburhouse@fdic.gov

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[27] The FDIC does not endorse any specific Web site or program related to IDAs.

Local Success Story – The Family Conservancy IDA Program

Many successful IDA programs operate across the country. The FDIC has participated in a number of programs, often facilitating communications between sponsoring organizations and financial institutions and providing financial literacy and other technical assistance. One example is The Family Conservancy (TFC) in Kansas City, Missouri. TFC is the oldest and largest nonprofit social service agency in the Greater Kansas City area. More than 120,000 people are served annually by TFC programs that focus on asset building, counseling, early childhood education, and family support. TFC is the largest administrator of IDAs in the Kansas City metro area, offering more than 900 accounts with $1 million in committed funding.

TFC recruits IDA participants from community organizations such as El Centro, an organization offering financial counseling and other services to Latino immigrants; Rose Brooks Center, a shelter for homeless women; and the Kansas Department of Social and Rehabilitation Services. The maximum income for participation is 200 percent of the federal poverty level, or about $40,000 for a family of four.

Participants may use account proceeds only for home purchase, entrepreneurship, or post-secondary education. Participants' deposits are matched two for one, and there is a one-year prohibition on withdrawing matched funds. TFC applies for grants and receives funding for the match from a variety of sources, including the U.S. Department of Health and Human Services, state agencies, philanthropic foundations such as the Ewing Marion Kauffman Foundation, and public corporations, including banks.

The FDIC's *Money Smart* curriculum is used for TFC's financial literacy training requirement. The *Money Smart* curriculum consists of ten modules and is available in English, Spanish, Chinese, Korean, Vietnamese, and Russian. TFC IDA participants must complete all ten modules to keep their matched funds. Money Smart classes are taught at TFC headquarters, as well as at the Rose Brooks Center and El Centro.

U.S. Bank, N.A., and UMB Bank, N.A., administer the reserve and participant accounts. These banks have provided some direct funding to the IDA program as well as operational support. These banks also relaxed policies governing the number of years during which potential IDA account holders must show a clean check-writing record.

The FDIC also worked with TFC to spin off ten IDA slots to the rural community of Emporia, Kansas, in an attempt to bring financial education and asset-building assistance to immigrants and other local individuals, particularly in the meatpacking industry. Emporia Community Housing Organization (ECHO), a community-based organization that provides low-income housing to Emporia residents, sponsors the accounts, and Emporia State Bank hosts the accounts.

The TFC IDA program has produced very favorable results for individual participants and the banks. As of December 31, 2006,

- 1,183 individuals had opened IDAs;
- $2,722,250 in total potential participant savings, including matched funds, were deposited;
- 371 individuals had successfully exited the IDA program;
- 170 IDA participants purchased a home, and about 50 percent of these participants received mortgages from partner banks;
- 175 IDA participants used funds for post-secondary education;
- 73 IDA participants started or expanded a small business;
- 38 IDA participants used funds for home repairs;
- 27 IDA participants transferred savings to an individual retirement account;
- 7,400 hours of FDIC *Money Smart* financial education were completed; and
- 895 individuals graduated from the *Money Smart* curriculum.