

Individual Development Accounts

Thank you for your interest in Individual Development Accounts. Individual Development Accounts (also called IDAs) are special matched savings accounts designed to help those of modest means establish a pattern of regular savings and, ultimately, purchase a productive asset. Savings and match money may be used toward the purchase of a home, to start a small business, or further your education or job training.

Below are some frequently asked questions about IDAs. For more information, please visit www.idanetwork.org.

What is an Individual Development Account?

An Individual Development Account, or IDA, is a special savings account for people with low incomes. If you save in an IDA, your money will be matched with donations. That means that you can receive another dollar or more for every dollar you save in an IDA. Typically, IDA savings and match money can be used to buy a house, pay for education or job training, or start a small business.

In addition to earning match dollars, you will learn about budgeting, saving, banking and more when you open an IDA. In most cases, people who open IDAs (accontholders) are required to attend financial education classes. Accontholders may also receive one-on-one counseling and other training.

Why is my money matched?

Your money is matched to encourage and help you to save enough to buy an asset, such as a house or business. While your paycheck helps you to buy food and clothing and pay your bills each month, an asset provides financial security for the future. If you begin to earn less money or lose your job, having an asset will make it easier for you to continue to pay your bills and meet household needs.

Where do the match dollars come from?

Match dollars for IDAs come from many different places, such as government agencies, private companies, churches, or local charities. Any individual, organization or business can contribute match dollars to IDAs. In most cases, donors can get a tax deduction for contributions to IDAs, and they are also recognized for helping others in their community.

How do IDAs work?

IDAs are usually offered through programs that involve partnerships between local nonprofit organizations and financial institutions. The local nonprofit is also called the IDA program sponsor. The IDA program sponsor recruits participants for the IDA program, provides financial education classes, and may also provide one-on-one counseling and training to participants. After signing up for an IDA program, each participant will open an account with the partnering bank or credit union. The bank or credit union handles all transactions to and from the IDA, just as they do with other types of savings accounts. Each month, IDA participants receive a report telling them how much money (individual savings + match + interest) is accumulating in their IDA.

An IDA program can be as short as one year or as long as five years from beginning to end. IDA participants are allowed to withdraw money as soon as they have reached their savings goal, but they must first get approval from the IDA program sponsor. Some IDA participants choose one big savings goal, such as a home, but others save for a number of smaller, related goals, such as textbooks and college tuition.

Do I have to use my IDA savings to buy a house, pay for education or job training, or start a small business?

These are the most common uses for IDA savings, but each program is different. Some IDA programs allow participants to save for home repairs, computers, automobiles, or retirement in addition to the three uses above. Other programs have just one purpose, such as to help people start their own businesses.

Is an IDA right for me?

This is a question that you and an IDA program sponsor will be able to answer together. If your income is low and you would like to own a home, further your education or start a small business, then opening an IDA could be the best way for you to reach your goal. But, if you are paying off a loan or have a lot of credit card debt, you may not be ready for an IDA. Each person and situation is different, so take time to ask questions and learn as much as you can.

How can I open an IDA?

There are more than 500 IDA programs in the United States, so the first step is to find a program close to where you live. The fastest way to do this is to go to the IDAnetwork web site at www.idanetwork.org. On the IDAnetwork you will find the IDA Program Directory, which lists programs by state. Using the Directory, contact the sponsor(s) closest to you to find out more about their IDA programs and learn how to apply. In addition, the federal Office of Community Services offers a directory of more than 200 organizations across the nation that run IDA programs. Visit www.acf.hhs.gov/programs/ocs/afi/states.html to view a list of programs by state.

Choosing an IDA Program

There are hundreds of IDA programs in the United States, and no two programs are exactly alike. The length of the program, amount of matching dollars provided, allowable uses for savings and other rules may be different from one program to the next. These differences are good because they allow IDA programs to meet diverse needs. However, they can make it hard for you to choose between IDA programs if there are two or more in your community.

Before you enroll in an IDA program to save for a home, education, or a small business, you should be able to answer the following questions about the program:

What are the program's eligibility guidelines?

In general, IDA program eligibility is based on all or some of the following information:

- **Income:** Most IDA programs specify a maximum household income level for IDA applicants. Maximum income levels are most often a percentage of the federal poverty guidelines (usually 200%) or the area median income (usually between 65% and 85%).¹
- **Earnings:** Many IDA programs also require that all or part of savings come from earned income. A paycheck is the most common source of earned income, but welfare, disability, social security, or unemployment checks are also earnings. Money given as a gift is not considered earnings.
- **Net Worth:** Some IDA programs also look at the household assets (such as a car, home, savings, etc.) in addition to household income when determining IDA eligibility. If you own assets valued at more than \$5,000, you may not qualify for an IDA with these programs.
- **Credit History:** Debt from credit cards and loans makes it difficult to save. You might not qualify for an IDA if you have a lot of debt or a bad credit history. A program sponsor may ask you to visit a credit-counseling center or pay off your loans before you open an IDA.

¹ Federal poverty guidelines and area median income figures are set by the federal government. The 2009 federal poverty guideline for a one-person household is \$21,660, and a family of four is \$44,000.

What kinds of things can I purchase with my IDA savings?

Most IDA programs allow account holders to use their savings to buy a home, pay for education or job training, or start a small business. Some programs, however, allow only one or two of these uses, while others may allow additional uses, including home repairs or computer or automobile purchases. Be sure that you know all of the uses that each program allows.

How long will I be able to save in my IDA?

The savings period or program length will vary from program to program, but most savings periods range from 1 year to 3 years. The savings period indicates the length of time during which your savings will be matched.

What is the program's match rate?

IDA programs match each dollar you save with additional funds from donors. Many programs offer a 1:1 match rate, which means that for each \$1 you deposit in your IDA, \$1 in matching funds will be added to your savings. Depending on the program, though, match rates can be more or less. The matching funds cannot be withdrawn without the approval of the IDA program sponsor, but they will be reported on monthly account statements so you will know how much money is growing in your IDA.

The program match rate is determined based on the program length and the amount of match funds raised by the sponsoring organization. In general, programs that have a shorter savings period usually have higher match rates (so that accountholders will be able to save enough to purchase the asset they want). Be sure to consider whether the savings period and match rate together will enable you to save enough money to purchase your desired asset.

Have 100% of matching funds been raised by the program sponsor?

Before enrolling in an IDA program, you have the right to know if the promised match funds have already been raised and deposited in the bank. Sometimes an IDA program sponsor will raise only some of the match funds before enrolling participants. They expect to raise additional funds later in the year. Enrolling participants with only partial funding is acceptable, but it is risky. You should feel comfortable that your IDA program sponsor is able to raise all of the matching funds needed.

Will I be required to save a certain amount of money each month?

Some programs require accountholders to deposit a minimum amount each month or every few months in order to stay in the IDA program. Before enrolling, make sure that you can save enough to make the minimum deposit.

Is there a limit to how much money I can save in my IDA?

Some programs will only match up to a certain dollar amount (for example, \$500) on an annual basis or during the course of the program. In most cases, you can deposit as much as you like in your account, but deposits over a certain dollar amount will not be matched.

Will I be required to attend financial education classes?

Financial education is an important part of all IDA programs. You will likely be required to attend a certain number of classes to learn about creating and managing household budgets, using credit responsibly, the basics of saving and investing, saving for retirement, and much more.

In addition to financial education, some IDA programs also provide training to assist accountholders in making good purchases. Examples of this training include homebuyer training or counseling, small business development courses, or financial aid counseling. This additional training is usually optional, but it can provide important information that will help you to make a good purchase with your IDA savings.

Aside from attending classes and making regular deposits to my IDA, will I be required to do anything else?

Make sure you are aware of all requirements before enrolling in an IDA program. For example, if the program is hosted by a faith-based organization, will you have to attend religious services or other religious activities?

Does the IDA program sponsor provide other services that might be useful to me?

Many IDA program sponsors provide a range of services to low-income families. For example, some organizations may assist families in applying for welfare benefits, obtaining legal aid, preparing income tax returns, or obtaining affordable housing. Be sure to ask each IDA program sponsor about additional services that might be helpful to you.

Does the IDA program sponsor work with other organizations in the community?

IDA program sponsors often partner with other organizations and businesses to provide services to accountholders. This is usually good for accountholders because they get to know more than one organization in their community through the IDA program.

What if there are no IDA programs in my area?

There are other ways to get financial education and help with asset building. The United Way has a presence in nearly every city and town in America. You can find your local chapter by visiting www.unitedway.org, and clicking on the "Contact United Way in Your Area" link on the top right of your screen. Also, the federal government's page at www.mymoney.gov has some good resources for you to educate yourself on money matters, including budgeting and taxes, credit, financial planning, and homeownership.

Where can I get help starting my own small business, buying a home, or sending myself or my child to college?

- To find local organizations that can help you start your own small business, visit the Association for Enterprise Opportunity's website at www.microenterpriseworks.org or call 703.841.7760.
- Find programs in your area that can help you find affordable housing on the Housing and Urban Development website at www.hud.gov/buying/localbuying.cfm.
- For information about continuing your education, visit www.collegeforadults.org. To learn how to save money for your child's future college education, visit www.savingforcollege.com.