APPENDIX E

Introduction to Individual Development Accounts

Background—What is an IDA?

Individual Development Accounts (IDAs) take many different forms and processes, but in general they are accounts set up by a borrower to save money. The borrower makes an agreement with the bank or other provider who matches the savings when certain goals are achieved. The matching money encourages savings and reduces the time it takes save.

The accumulation of assets and wealth through homeownership is an essential element for individuals to achieve economic security. Tribal governments recognize that promoting homeownership not only benefits individual tribal members, but it is also an important component of a greater community development strategy. By building equity through homeownership, tribal members are better positioned financially to advance their goals in the areas of business development and education. Through a home equity loan, they may be able to obtain financing to start a business or to send themselves or their family members to college. These advancements, in turn, contribute to the overall economic stability of the community.

However, homeownership, small business development, and education each require an initial investment on the part of the individual and communities. One source of investment comes from individual savings—which is often a challenge for low-income populations to accumulate. Individual Development Accounts are a means to expand the opportunities for saving and investment by low-income individuals. Similar in structure to Individual Retirement Accounts (IRAs), they typically are used for purchasing a first home, paying education or job training expenses, or capitalizing a small business.

In conjunction with an improved mortgage-lending infrastructure in Indian country, such programs have the potential to significantly increase the homeownership rate for Native Americans, who have historically been blocked from realizing the socioeconomic benefits of owning a home.

How does an IDA program work?

The IDA program is designed to assist qualifying individuals to accumulate savings and enhance personal finance skills. The program allows individuals to deposit a specific amount of money on a monthly basis into a financial institution and receive matching funds for their IDA deposit from public or private sources, accelerating the participant's ability to take advantage of these high-return investments.

Individual and matching deposits are not co-mingled; all matching dollars are kept in a separate, parallel account. When the accountholder has accumulated enough savings and matching funds to purchase the asset and has completed the required educational courses, the matched funds are paid directly to the asset provider. All IDAs must be held at a qualified financial institution, which is any financial institution eligible to hold an IRA.

Who are the participants of an IDA program?

Managing Entity—An IDA program can be developed in several ways. It can be established by a tribal government, or a tribal agency, a TDHE, a tribal nonprofit organization or a tribal financial institution. The responsibilities of the managing entity include, but are not limited to:

- Administering the program;
- Recruiting and selecting participating families;
- Assisting in establishing individual savings plans;
- Monitoring the accounts and provide an annual report to appropriate entities providing matching funds;
- Providing the economic literacy training IDA participants are required to take;
- Designing and implementing homebuyer and other education courses; and
- Recruiting and organizing other entities for administrative and match funding support.

If the managing entity is a non-tribal entity, it is important that the program be designed to meet the tribal communities needs.

Tribal Governments—The level of involvement by the tribal government will vary from tribe to tribe. Tribal leaders are an integral link in the establishment of an IDA program. Tribal government participation could include, but would not be limited to:

- Assisting in introducing the program to the tribe as a whole;
- Assisting in assuring the required resources such as meeting space or tribal attorney's are available;
- Enacting needed resolutions; and
- Allocating general tribal funds.

Native American Homebuyers—Tribal member participation in the IDA demonstrates a commitment on the part of the homebuyer to achieve the goal of homeownership through individual investment in the form of savings. It is this effort of self-reliance that is rewarded, with assistance in the form of matching contributions for each dollar saved.

In many tribes, there may be at least two different populations: those who are familiar and comfortable with using banking services and those who are not.
When establishing homeownership programs, in general, and IDAs for Indian country, in particular, the understanding that creating a single program suited to meet the need of every tribal member would be difficult at best, will assist the managing entity in creating a direct, focused and practical program.

Managing entities should spend some time determining which households an IDA program would best serve. In some areas, low-income households may be adequately served by existing programs, for which families with higher incomes, who have a genuine need for housing assistance, are ineligible. In other areas, families of all incomes may be in need of assistance in purchasing a home. An individual's ability to successfully participate in and complete an IDA program depends as much on where they are in their life as their income capacity.

Financial Institution—The relationship between an IDA program and a financial institution is a critical element. Strong relationships can be fostered between the lending community and the tribe. IDA programs, which offer the greatest degree of creativity and flexibility for financial institution involvement, have a high probability of success. Financial institutions may elect to participate in any of several different ways:

- Provide matching funds for IDA accounts;
- Contribute funds to support a community organization operating an IDA program;
- StructureIDAs so that no account fees are charged;
- Offer an above-market interest rate on IDA savings accounts;
- Provide account balance and transaction data to the community group on a monthly basis;
- Offer other incentives for IDA depositors, such as no-cost checking, a waiver of minimum balance requirements on checking accounts, free or reduced fees for ATM services, and no-cost children's savings accounts for IDA participants' children;
- Designate a bank employee to be the contact person for the IDA participants;
- Participate on an IDA advisory committee or board;
- Provide economic and / or financial literacy training to IDA participants; and
- Provide first mortgage financing to homebuyers who successfully complete the IDA program.

What should an IDA program for homeownership include?

An IDA program for homeownership may include the following features. Many of these may already be part of a one-stop mortgage center's services:

- **Credit counseling**—Once program participants have been identified, it is important that they receive counseling to help clear any outstanding credit issues. For those who have little or no credit history, assistance should be provided in establishing credit, in a manner that will not negatively impact the homebuyer's capacity to afford a mortgage. Also, it may be necessary to encourage lenders to consider alternative methods of identifying and rating credit, as opposed to standard credit scoring models.

  As it is anticipated that most program participants will be enrolled for a period of 24 to 48 months, if credit counseling starts early, there should be sufficient time to identify and address many credit-related issues.

- **Pre/post purchase homeownership counseling/training**—It is important for individuals to understand the responsibilities of homeownership as well as the benefits. Programs that teach the risks of taking on additional debt after home purchase are important. It is also worthwhile to provide training to enable participants to perform basic home maintenance to protect the value of their homes.

- **Savings plans**—The savings plan should only contain the funds saved by program participants. The managing entity should work with participants to establish a savings interval, for example weekly, biweekly, or monthly. The managing entity should also establish a maximum period for participants to be enrolled in the program. Generally, participants are enrolled for a period of 24 to 48 months, which can be longer or shorter, based on the established individual saving plan and the amount of matching funds available.

- **Matching funds**—Although they may vary from program to program, matching contributions could consist of funds contributed from both the public and private sectors. Based on program size, realistic expectations for matching fund contributions are in the 3:1 to 6:1 range.

  Homebuyer savings, leveraged by Federal, State or local government funds along with private sector dollars, accelerates the level of savings to the benefit of the homebuyer. Also, the infusion of private dollars reduces the burden on public funding sources, which must decide the best way to allocate scarce monetary resources. Generally, the matching contributions are funded to program participants after their savings goal has been achieved.

What issues should tribal communities consider in developing an IDA program?

- Recruitment of program participants can be tougher than expected, particularly if working with individuals outside of your usual program. Managing entities should spend time on developing outreach materials and actively recruiting participants.

- Although administration of an IDA program appears to be relatively straight forward, it requires performing a wide variety of monitoring and oversight tasks, as well as working with clients. Many programs have found that at least one dedicated staff person is required.

- Although there are a number of standard policy and procedures guidelines for the design of an IDA program, each needs to be designed according to the community and constituents being served. This requires the need to be flexible in program design and to make periodic programmatic adjustments as necessary. Gathering input and support from the community on the design of the program is a very important planning step.

- A critical component of the IDA program is financial literacy training. Choosing the appropriate curriculum, identifying training staff, and course planning is very important in meeting the needs of the participants—many of whom may have had little experience in money management. Offering additional asset maintenance courses in homebuyer education, business plan development and tax counseling can also be beneficial.

- One of the critical elements in running an IDA program is establishing a relationship with a financial institution. Unfortunately, finding a financial institution willing to partner with a tribal program can be a challenge. Being persistent and utilizing the authority of the tribal government can help establish these relationships. In some cases, moving through the corporate ranks may be necessary. In each instance, financial institutions should be willing to provide the services to IDA participants that are mentioned above.

- Finally, running an effective IDA program requires maintaining communication between and the involvement of all the stakeholders in the program. The establishment of an advisory committee is a useful way of ensuring that the interests and involvement of the participants, tribal government and other community stakeholders are maintained.

What's happening with IDAs nationwide?

IDAs have already been incorporated into the Temporary Assistance for Needy Families (TANF) program welfare-to-work funding, the refugee resettlement program, the Bank Enterprise Awards program at the U.S. Department of Treasury, and through the Federal Home Loan Banks system. Little of these efforts, however, have been specifically directed toward tribal communities.

As of November 1999, 34 states had either authorized IDAs or have IDA legislation pending. Of these, Arizona, Maine, Michigan, North Carolina, Texas, and Wisconsin (states with substantial rural Indian populations) have programs operating. Minnesota, Oklahoma and Oregon are developing State IDA programs. While tribal participation is limited for the majority of these programs, four tribes are participating in the Minnesota State initiative.

In 1998, a 13-site demonstration project, *Down payments on the American Dream* was initiated by the Corporation for Enterprise Development (CFED). Funded by several foundations, this 3-year initiative established pilot demonstration projects in selected communities across the country. This initiative is being formally evaluated by the Center for Social Development at Washington University in St. Louis.

In 1998, First Nations Development Institute established a pilot IDA demonstration project in tribal communities. Five grants were awarded—two were small research and planning grants to the Pascua Yaqui Tribe in Tucson, AZ and the Hoopa Valley Tribe in Hoopa, CA; and three were multiyear implementation grants to the Cherokee Nation in Tahlequah, OK, Oklahomans for Indian Opportunity in Norman, OK and Tohlakai Christian Business Opportunities in Yatahey, NM.

In February 2000, Senator Lieberman and others introduced the *Savings for Working Families Act of 2000 (S. 2023)* which proposes nearly $1 billion in Federal tax credits for financial institutions to match IDAs.