

Asset Development

*Programs that Help Break the
Cycle of Generational Poverty*

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Asset Development

Breaking the
cycle of
generational
poverty



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Asset Development

Individual Development Accounts

Earned Income Tax Credit

Predatory Lending



What are IDAs?

Individual Development Accounts (IDAs) are special savings accounts that match the deposits of low and moderate income savers. For every dollar saved in an IDA, savers receive an additional dollar, or more, depending on the guidelines of each program.



What are IDAs?

IDAs may be used for post-secondary education or job training, homeownership, or to start a small business. Participants are required to attend financial literacy classes before purchasing an asset.



How do IDAs work? – Southern Good Faith Fund

Program requirements:

- Participants must not have more than \$10,000 in assets (not including their home and one car)
- Open and maintain an account for a minimum of six (6) months
- Make a \$20 minimum deposit every month
- Save \$667
- Use the funds toward one of the program goals:
homeownership/home improvement; post-secondary education;
small business start-up or expansion
- Complete economic skills classes: a five-part workshop and an asset-specific class.



How do IDAs work? – Southern Good Faith Fund

Once the participant reaches the savings goal of \$667, Southern Good Faith Fund matches the savings \$3 for every \$1 saved for a total of \$2,000 toward their goal.

Program limitations:

- \$2,000 maximum life-time match for individuals
- \$4,000 maximum life-time match for household
- Funds must be used for home ownership or improvement, starting or expanding a small business, or post-secondary education.



How are IDA programs funded?



The largest provider of matching largest provider of matching funds for IDA programs is the Assets for Independence (AFI) program.



How are IDA programs funded?

AFI requires a match in non-federal funds in an amount equal to or greater than their AFI project grant. Grantees may use 15% of the grant for operating costs.



How are IDA programs funded?

Many states fund IDA programs. Other sources of funds come from private foundations and corporations with an interest in asset building.



Mid South IDA Initiative

In 2003, Entergy launched a \$1.2 million IDA Initiative in the states of Arkansas, Louisiana, Mississippi, and Texas. Funds were used for grants to start IDA programs, sustain existing programs, and match funds for IDA accountholders.



Mid South IDA Initiative

The effort was the first multi-state IDA program in the country. On average, one out of five participants did not have a relationship with a bank prior to enrolling in an IDA program.



Mid South IDA Initiative Goals

- **Increase the number of IDA account holders** in the Mid South region and build the assets of low-income people, especially in rural areas
- **Attract regional and national resources** aimed at improving the assets of low-income people
- **Develop the capacity of local and statewide programs** to improve access to IDAs, and to identify and provide matching funds
- **Create learning networks** across the Mid South region



Mid South IDA Initiative Results

By 2008, over **20,000 families** were served by IDA programs; **60% acquired an asset**; and three state-wide IDA collaboratives had been established. Entergy's \$1.6 million investment leveraged \$15 million in funds from other sources for program expenses and matching funds.



Sustainability of IDAs



State policy
meets 4 criteria



State policy
meets 3 criteria



State policy
meets 2 criteria



State policy
meets 1 criterion



State policy
meets no criteria

- State IDA Funding?
- Strong State Agency Steward?
- 15% for Admin/Operating Costs?
- Stable funding?
- States with three criteria are *Arkansas*, Illinois, Iowa, Minnesota, and Oregon; 10 states with two criteria

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Children's Savings Accounts

Funds saved from birth and matched with other sources and incentives. At age 18, the savings are used for financing higher education, starting a small business, buying a home.



Earned Income Tax Credit



Included in federal income tax forms, qualifying low-income working families can receive refundable tax credits to help lift them above the poverty line.



Earned Income Tax Credit

In 2006, the federal EITC lifted more than 5.1 million families and 2.6 million children out of poverty. It provided more than \$40 billion to low-income working families.



Earned Income Tax Credit

The EITC is also a means to reducing asset poverty. Studies have shown that some families use EITC payments for significant purchases such as a house or to pay off debts. Families can also use the credit they receive each year to start saving for the future.



Earned Income Tax Credit

State Earned Income Tax Credit provides additional resources to low income families. States also can provide incentives for families to save all or part of their refunds in a product such as an IDA, IRA or 529 college savings account.



Earned Income Tax Credit



State policy
meets 4 criteria



State policy
meets 3 criteria



State policy
meets 2 criteria



State policy
meets 1 criterion



State policy
meets no criteria

- Has a state EITC?
- Refundable Credit?
- At least 15% of Federal EITC?
- Savings bonus?
- 11 states meet 4 criteria; 28 total have EITC

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Predatory Lending



State has explicitly prohibited payday lending, or effectively bans the practice by mandating an APR of 36% or less.



State has adopted policy that limits the annual number of payday loans a borrower may take.



State has taken no action that meets criteria.

- Pay day lenders prohibited or capped at 36% or below?
- 16 states meet the criteria; 2 states have limited number of loans

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