Federal alternatives to subsidy-based welfare programs continue to emerge as states attempt to comply with 1996 welfare reform laws. To date, the House and the Senate have introduced legislation that would create funding to establish asset-building programs known as IDAs (individual development accounts) for low-income individuals and families.

In addition to serving as a vehicle for personal and family savings, IDA accounts also serve as a means by which banks can gain Community Reinvestment Act (CRA) consideration by investing in and managing these accounts. In fact, bank partnerships are a critical element in the design and implementation of an IDA program. The following article discusses why these partnerships are so important, how they are structured, and the benefits to partnering financial institutions.

What is an IDA?
An IDA is a restricted savings account. IDAs are established in the name of individuals as early as birth, but strict policies limit the use of account funds to high-return investments such as post-secondary education, business start-up or the purchase of a first home.
In many respects, IDAs are similar to Individual Retirement Accounts (IRAs) and 401K plans, but there are important differences. First, IDAs are available to everyone. Second, they might be established earlier in life than an IRA or 401K plan. Finally, IDAs serve a wider range of purposes, and they rely on more varied sources of deposits. For the poor, who cannot take advantage of high-yield tax deductions, IDA savings can be matched, on a sliding scale, from public and private sources.

One of the clearest failures of current antipoverty policy is that it subsidizes consumption, but does not invest in the ability of people to save. IDAs are based on the theory that people, communities, and nations progress economically only through saving and investing. Indeed, the policies that have generated the longest-term, most widely-shared economic benefits in this country have been those like the Homestead Act of 1862 and the GI Bill of 1945. IDAs are simply the modern expression of an old concept. They encourage low-income Americans to save, which enables them to make a downpayment on the American dream, whether in the form of an education, a house or a business.

The Emergence of IDAs

In the last five years, IDAs have evolved from a promising idea to a growing reality. Today, dozens of community groups, in partnership with financial institutions, churches, employers, schools and colleges, are running pilot IDA initiatives.

Hundreds of low-income people now have their savings matched on a monthly basis as they prepare to invest in homes, businesses and post-secondary education. Millions of dollars in matching funds from public and private sources, including some of the nation’s largest foundations and financial institutions, are currently invested in IDA programs. More than 26 states have adopted policies to promote IDAs. Bipartisan federal
policymakers are pushing a $100 million, national IDA demonstration and a billion-dollar tax-based savings initiative for children. These legislative initiatives signal the emergence of a fundamentally new and inclusive socio-economic policy based on universal asset building.

In September 1997, the Corporation for Enterprise Development (CFED) launched the Downpayments on the American Dream Policy Demonstration (ADD) as an antipoverty and economic independence model. ADD is the country’s largest efficacy test of an IDA program currently underway. Starting with a $15 million commitment from various public and private investors, ADD has funded thirteen projects (including one in Oregon and one in California), comprising over 2,000 accounts. The ADD demonstration will operate for four years followed by two years of post-program evaluation. If successful, these IDA projects will generate future program opportunities, and will promote the development of inclusive investment policies at the state and federal levels.

**IDA Profile**

**Human Solutions, Inc.**

**People’s Investment Opportunity Program**

Human Solutions, Inc., a Portland, Oregon-based affordable housing and service provider is the creator and sponsor of the People’s Investment Opportunity (PIOpp) program. PIOpp, implemented in October 1997, is an IDA program in CFED’s national demonstration. Various local nonprofit and government agencies partner with Human Solutions to make this program a reality. Washington Mutual Bank established the savings accounts and manages them internally. PIOpp is responsible for monitoring withdrawals and deposits to each account. Savings withdrawals are restricted to home purchase, education, job training, and small business start-up.

For more information on PIOpp, write to:
What Banks Can Do
To most effectively serve IDA participants, IDA programs need financial institution assistance in the following ways:

• Open New IDA Accounts. IDA accounts can be structured to operate identically to traditional savings accounts.
• Enhance Existing Accounts. Financial institutions can provide IDA account holders with incentive-type benefits including higher interest rates, ATM services, no-cost checking, and a waiver of minimum balance requirements.
• Provide Funding. Financial institutions can provide matching funds for participant accounts as well as operating support for the community organizations administering the local program.
• Design and Implement Programs. Financial institution personnel can participate on IDA program advisory committees or assist in facilitating financial literacy workshops for IDA participants.

Five Sound Reasons to Get Involved

1. CRA consideration. Financial institutions that participate in IDA programs in the aforementioned ways may receive Community Reinvestment Act consideration. Specifics about the IDA/CRA link will be presented later in this article.
2. Positive Public Relations. IDAs provide an excellent opportunity for financial institutions to increase their exposure in low-income communities and develop new relationships. (IDAs have already generated substantial press coverage in local and national newspapers.)
3. IDAs are low-transaction, low-cost accounts. IDA participants withdraw money for permissible uses only. Most IDA accounts will have only one or two withdrawals for the duration of the account (usually 2-4 years). IDA accounts are merely traditional savings accounts and in general do not require banks to develop new systems or products.

4. IDA holders are potential customers for other bank products. IDA programs introduce participants to a long-term, assets-building perspective. Upon completion of the IDA program, most account holders will look immediately to their IDA financial institution for a home mortgage, small business or education loan. In addition, many IDA participants will continue to save and purchase assets over time. They will look to financial institutions as they climb the economic ladder.

5. IDAs can help rebuild communities. IDAs help galvanize savings in low-income communities, and through asset building, can help reestablish economic systems in those areas.

**IDA Profile**

**Bay Area IDA Collaborative**
The Bay Area IDA Collaborative, one of thirteen sites for the Downpayment on the American Dream Demonstration (ADD), consists of 11 nonprofit organizations that have come together to access centralized IDA services for their constituencies. East Bay Asian Local Development Corporation (EBALDC) is responsible for program and fiscal management of the IDA Collaborative. The Collaborative will direct outreach for the program to low-income, minority neighborhoods with the goal of enrolling 300 participants over the four-year demonstration period. Centralized services will include training in economic literacy featuring personal budgeting, individualized financial counseling, peer group support, and a match to participants’ savings. For more information on the IDA Collaborative, write to: Bay Area IDA Collaborative, c/o EBALDC, 310 8th Street, Suite 200, Oakland,
How Community Groups and Financial Institutions Participate
Community groups in virtually every part of the country are now either designing or running IDA programs. CFED expects the number of IDA programs to increase exponentially in the coming years. Financial institutions interested in participation should contact local community-based organizations or the national CFED office at (202) 408-9788. CFED publishes a quarterly newsletter on IDA policy and practice, and will direct you to local IDA programs in your community.

A Banker’s Perspective: The Cal Fed/EBALDC Partnership
California Federal Bank F.S.B. (Cal Fed) is a participant in the Bay Area IDA Collaborative (Collaborative) through a partnership with East Bay Asian Local Development Corporation (EBALDC). Cal Fed and EBALDC have a long working history, having partnered on several affordable housing projects in the Oakland, California, area. Based on the success of this relationship, Cal Fed agreed to participate in the inaugural implementation of the Bay Area IDA program.

Cal Fed has a solid, pioneering history in the area of community development lending, but the IDA proposal offered the bank something different. Rather than a lending or grant-making focus, IDAs offer an innovative deposit program for low- and moderate-income people.

Cal Fed agreed to the program for several reasons. First, it was well conceived and planned. It includes high-quality training, and it ensures that each account holder will receive on-going, comprehensive support from EBALDC and Collaborative staff. Cal Fed was also enticed by the program’s direct and unique link to the Community Reinvestment Act.
IDA Links to CRA
The IDA program meets CRA requirements in both broad and specific ways. In broad terms, the IDA program (1) focuses on empowerment of the poor, (2) serves a community development purpose, and (3) has a direct relationship to banking services. More specifically, Cal Fed will receive CRA Service Test credit for: the technical assistance it is providing to the Collaborative; the educational seminars it will offer to participating account holders; and for the special accommodations related to the IDA product. Banks that invest in IDA programs, often by providing matching funds, would receive CRA Investment Test consideration as well. Last, but not least, the CRA regulation recognizes innovation; the IDA program certainly qualifies in this category!

Developing and Supporting the Program
Development of Cal Fed’s IDA program was unlike most customized community development efforts because it focused on creating a process that would be streamlined, simple and easy to manage. Only minor system programming was required by the bank to automate the process. The result will be an efficient program focused on minimizing back-office processing time. This will reduce program costs, and will free up needed resources for IDA participant support. In terms of process, the success of the program will require the teamwork of the Collaborative, EBALDC, and Cal Fed. The Collaborative will identify the participants and provide the initial program counseling and training. Cal Fed will issue a passbook savings account to each participant that will be flagged electronically to identify it as part of the IDA program. EBALDC will monitor account progress over time and will provide ongoing support to account holders.

Cal Fed has made several accommodations relative to the IDA program. First, the Bank will provide IDAs at no charge to the Collaborative or to the account holders. In addition, the Bank will publish a special monthly report that will serve as a tracking mechanism for account holders’ progress. To
assist the Collaborative in efficient program monitoring, Cal Fed will provide the information in an electronic format that is compatible with the Collaborative’s software. Armed with this information, EBALDC and Collaborative staff will be able to review each participant’s progress and will work with each one in the areas needed. Finally, Cal Fed will assist the Collaborative in facilitating workshops on credit counseling, home ownership, and banking services in general. The workshops will be held at Cal Fed branches throughout the Bay Area.

**IDA National Legislative Update**
The Assets for Independence Act, introduced in both the House and Senate on October 6, 1997, establishes a four-year, $100 million IDA demonstration. The legislation authorizes the U.S. Department of Health and Human Services to administer the demonstration which would fund (on a competitive basis) nonprofit organizations and state and local governments to implement local IDA programs. Organizations chosen to administer an IDA demonstration would be required to target their programs to low-income individuals and families. Account uses would be limited to the purchase of a home, post-secondary education, or small business capitalization. The Assets for Independence Act (S.1255 and HR 2849) was reintroduced when the 105th Congress reconvened in late January 1998. Sponsoring the bill in the Senate are Senators Dan Coats (D-IN) and Tom Harkin (D-IA) and in the House, Congressmen Tony Hall (D-OH) and John Kasich (R-OH).

**The Bottom Line**
When considering CRA activities, the question of profitability typically arises. Rather than being driven by profit expectations, Cal Fed chose to participate in the IDA Collaborative based on its interest in providing a deposit-based program to underserved communities. Bringing lower-income people into the banking system is a priority at Cal Fed because it believes this will have a substantial and positive impact on community revitalization and stabilization. IDA program participants are building assets while learning about asset
management. At the same time, Cal Fed is building its customer base, and banking on the belief that economic stability among residents of a neighborhood is key to that neighborhood’s viability and economic sustainability.

For more information on Cal Fed’s IDA program, contact Natalie Kimball, First Vice President and CRA Manager at (415) 904-1445. To access IDA tools and reference materials, visit CFED’s website at http://www.cfedonline.org or send an e-mail message to Brian Grossman, Program Associate, at bgrossman@cfed.org.

About the Authors

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