



## Center for Public Policy Priorities

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### FACT SHEET

## Individual Development Accounts Benefit Financial Institutions

### What is an Individual Development Account?

An Individual Development Account (IDA) is an interest-bearing, tax-free savings account created to help low- and moderate-income families build assets and move into the middle class. Each dollar a participant saves in an IDA is matched by public or private sources (e.g., banks, foundations, etc.). IDA deposits are exclusively limited to earned income.

IDA programs generally restrict savings to purchase of the following assets:

- A first home,
- Post-secondary education or training, and
- Starting or expanding a small business.

Other purposes may include buying a car (for employment purposes), saving for retirement, or making home repairs.

### How are financial institutions involved with IDAs?

IDA programs require a **nonprofit organization** to enroll families and provide case management, a **financial institution** to hold clients' individual savings accounts and an escrow account for the matching funds, and a **funding source**.

### How can IDAs Benefit Banks and Credit Unions?

In February 2005 the U.S. Department of the Treasury's **Comptroller of the Currency (OCC)** issued a report, "Individual Development Accounts: An Asset Building Product for Lower-Income Consumers," that details the benefits Individual Development Accounts offer financial institutions.

The OCC's report surveyed banks that currently offer IDAs to determine the impact of administering IDA accounts and hosting IDA programs.

*The report highlights several benefits that IDAs offer to financial institutions, including assisting them with:*

#### **Market expansion and customer development:**

- √ One bank estimated that every dollar invested in its IDA program could generate \$12 in future assets.

- √ Another bank noted that each IDA customer opened an average of four other accounts with the bank.

**Meeting their Community Reinvestment Act Requirements:**

- √ Lending Test
- √ Investment Test
- √ Service Test

**Maintenance or expansion of relationships with nonprofit organizations:**

- √ Business relationships established with nonprofits can lead to additional bank referrals.
- √ About 70% of IDA partnerships are a continuation of existing relationship between a financial institution and a nonprofit.

**Enhanced commitment to community development:** Banks asserted that IDAs and other wealth building mechanisms can generate growth and investment through homeownership.

*Other key statistics noted in the OCC's report include:*

- √ Banks make up 81% of financial institutions offering IDAs, with credit unions comprising the remainder.
- √ Contributions from financial institutions are substantial, providing funding for 139 IDA programs nationwide (the Assets for Independence Act funded 145 programs of these programs, while private foundations funded 99).

*Given the positive response from banks engaged in IDA programs, the OCC recommended several ways to expand IDA programs:*

- √ Providing tax incentives to banks that offer IDAs.
- √ Securing larger and more stable sources of matching funds.
- √ Linking IDAs to other programs that help low-income families save, such as the Earned Income Tax Credit.

The full report is available on the OCC's web site at <http://www.occ.treas.gov/ftp/release/2005-25a.pdf>.

**For more information on IDAs:**

1) From the **Center for Public Policy Priorities:**

IDA bill in 79<sup>th</sup> Legislature: [http://www.cppp.org/policy%20alert\\_%20IDA%20bill.pdf](http://www.cppp.org/policy%20alert_%20IDA%20bill.pdf)  
Fact sheet: [http://www.cppp.org/fact\\_sheet\\_ida.pdf](http://www.cppp.org/fact_sheet_ida.pdf)

2) The **Texas IDA Network:** <http://www.covenantcapital.org/html/publicpolicy/idanetwork.html>)

3) The **Assets for Independence Program** (U.S. Department of Health and Human Services):  
<http://www.acf.hhs.gov/assetbuilding/>