Individual Development Accounts

What are Individual Development Accounts?

Individual Development Accounts (IDAs) are matched savings accounts that enable low-income and low-wealth individuals to save for a specified goal within a defined time frame. The typical savings goals are homeownership, small business ownership, and post-secondary education. IDA programs are offered as partnerships between sponsoring organizations (often non-profits or state/local government agencies) and financial institutions. IDAs have been in existence since 1990, and are similar to the matched savings arrangements in 401(k) plans.

Why participate in an IDA program?

IDA programs present opportunities for financial institutions to expand into underserved and emerging markets. Program participants often exhibit loyalty to financial institutions by opening accounts and obtaining loans after reaching their savings goals. The programs are also potentially eligible for consideration under all three of the large bank CRA tests -- lending, investment, and service. IDA programs may also promote and/or strengthen relationships with sponsoring non-profit organizations. IDAs provide an opportunity for financial institutions to contribute to the communities they serve by helping people build wealth.

How do IDA partnerships work?

IDA partnerships usually include non-profit or government agency sponsors and financial institutions. They may operate as single programs or regional or statewide collaboratives. The sponsors are responsible for fundraising and program administration -- including participant solicitation, training and technical assistance, and programmatic casework. The financial institutions are responsible for holding the sponsor's and participant's accounts, and complying with program and regulatory requirements. The financial institutions may also support the programs through operating grants to the sponsoring organizations and/or contributions to the program match fund accounts.

How are IDA programs structured?

Most financial institutions set up programs using a master account structure for the organization sponsoring the IDA initiative. Individual savings accounts are then opened for program participants. Withdrawals are limited and are usually only allowed with the authorization of the IDA program sponsor. Account fees and minimum balance requirements are often either reduced or waived. Statements are typically provided monthly to the participants and the organization. The reporting requirements and fee reductions are often expensive for financial institutions. However, many institutions have reported that the accounts maintained by the sponsoring organizations, including match fund accounts, can help mitigate the costs associated with holding and administering the small participant accounts.

What are the risks/regulatory requirements?

The primary risks related to IDA programs are in the area of unauthorized withdrawals. Banks must have the necessary controls in place to limit withdrawals by program participants without the approval of the sponsoring organizations. Banks should also ensure that a program sponsor has the capacity to properly administer an IDA program. Banks are also accountable for compliance with all of the regulations associated with holding savings accounts such as Regulation DD and the Customer Identification Program (CIP) rule implementing section 326 of the USA PATRIOT Act.

What are IDA program challenges?

Funding requirements are a major concern for IDA program sponsors. Both operating and match funds are often difficult to obtain. Match funds are available from a variety of sources including foundations, financial institutions, state and local governments, and federal programs such as the Assets for Independence Act (AFIA) and Temporary Assistance for Needy Families (TANF). However, most of the funding sources vary in income eligibility requirements for participants. Program scale is an ongoing issue as most of the five hundred IDA programs throughout the country nationally have fewer than one hundred program participants. Many financial institutions have elected to focus on the community development benefits of operating IDA programs, and have not subjected the programs to profitability reviews. In addition, most financial institutions do not track actual loans made to participants after savings goals have been achieved.

FOR MORE INFORMATION

Office of the Comptroller of the Currency

- Individual Development Accounts: *An Asset Building Product for Lower-Income Consumers*, Community Developments Insights Report
- Community Affairs – Community development resources are available to national banks, government agencies, and community organizations
- District Community Affairs Officers contact information

A sampling of nonprofit organizations and federal programs that manage or fund IDA programs are listed below.

- Corporation for Enterprise Development (CFED) promotes IDA programs and other asset building initiatives for lower-income consumers by partnering with practitioners, private- and public-sector funders, and policymakers
- Earned Assets Resource Network (EARN) offers lower-income consumers IDA programs, financial education classes, and long-term wealth building programs by leveraging partnerships with government, business and community-based organizations

- Understanding Supplemental Security Income (SSI): SSI Spotlight and Individual Development Accounts. Created by the Social Security Administration, this Web site provides a discussion about SSI and TANF recipient eligibility to participate in IDA program
- Assets For Independence (AFI) Program, U.S. Department of Health and Human Services, Administration for Children and Families, Office of Community Services. This program provides grants to enable community-based nonprofits and state, local, and Tribal government agencies to implement IDA and other asset-based programs for low-income families