INDIVIDUAL DEVELOPMENT ACCOUNTS

Individual Development Accounts (IDAs) are special, matched savings accounts that help low-income individuals save money to buy a home, start a business, obtain a post-secondary degree, or purchase another type of financial asset.

HOW IDAs WORK

- Community-based organizations that run IDA programs help low-income savers open an IDA account at a bank or credit union.
- The organization works with the savers to determine what their savings goals are and how they will work together to reach those goals.
- For every dollar deposited in savers’ accounts, the organization matches a certain amount depending on the match rate. For example, if the saver contributes $500, the organization would match $1000 if the match rate is 2:1.
- As savers reach their agreed upon savings amount, the savings and match money can be used to purchase or invest in their goal (e.g., a home, small business, higher education, etc.).
- Throughout the savings program, the saver participates in financial education classes and works with a financial coach to address any credit, debt, or other issues that could prevent them from reaching their financial goals.

IDAs DELIVER A STRONG RETURN ON INVESTMENT

Research evaluating Minnesota’s largest and statewide IDA program (known as Family Assets for Independence in Minnesota, or FAIM) demonstrates the positive impact IDAs can have, such as the following:

- Of the participants surveyed who had completed the program and purchased a home, 97% still owned their home. Only 2 homes had been sold and no foreclosures were reported.
- Nationally, only 66% of businesses survive the first two years of operation. In contrast, 86% of FAIM respondents were still in business within the first two years and 89% after two years.
- Across all types of public assistance, usage decreased—often by more than half. None of the respondents who were receiving public financial assistance when they entered FAIM were using any type of cash assistance at the time of the survey.
IDAs IN MINNESOTA

FAIM (www.minnesotafaim.com) is the primary provider of Individual Development Accounts in Minnesota, and many organizations that offer IDAs in Minnesota are part of the FAIM network. Participants contribute up to $40 of their earned monthly income into a Family Asset Account and are matched 3:1 when their asset contracts are complete.

Eligible asset purchases under state and federal statute for the FAIM program include the:

- Purchase of a home.
- Pursuit of a post-secondary degree.
- Launch of a small business.

To be eligible, participants must:

- Be at least 18 years of age.
- Have earned income at the time of enrollment.
- Be a resident of Minnesota at time of participation in FAIM.
- Have assets of less than $10,000.
- Have combined income at or below 200% of the federal poverty rate.
- Deposit savings from earned income into FAIM account.

In addition to the FAIM Network, there are other independent IDA projects, including the Bii Gii Wiin Community Development Loan Fund (www.bgwcdlf.org) and the Journeyperson program of the Land Stewardship Project (www.landstewardshipproject.org). Bii Gii Wiin Community Development Loan Fund provides IDAs to Minneapolis residents, particularly Native American residents, interested in saving to purchase a first-time home. The Land Stewardship Program works with beginning farmers to encourage them to establish a regular savings practice and make a “wealth-building” investment in their farm.

Client Story

As a single mom, Erin saw the FAIM IDA program as a way to improve her credit and build assets. Erin used the lessons she learned through the financial education classes to raise her credit score 100 points in one year. She then participated in Habitat for Humanity and helped build her own home from the ground up. Erin’s hard work came to fruition when she used her FAIM IDA savings and match funds to move into her own home. She is also well on her way to completing her postsecondary education.