

Individual
Development
Accounts

Building financial assets for Michigan's low-income citizens

The Michigan IDA Partnership is an innovative partnership between the State of Michigan Family Independence Agency (FIA) and the Council of Michigan Foundations (CMF).

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MSHDA Supports IDA
Expansion for Homeownership

The state Family Independence Agency has been the key supporter of the Individual Development Account (IDA) movement in Michigan since its inception in 2001. But last fall the Michigan State Housing Development Authority (MSHDA) made a \$725,000 commitment to IDA Programs in the state, further expanding public sector support for asset building programming.

MSHDA, established in 1966, is a quasi-public provider of financial and technical assistance to organizations and programs that create and preserve decent, affordable housing for low and moderate-income Michigan residents. Its program, Links to Homeownership, has a network of homeownership training and assistance providers many of which also serve as IDA Program Sites. The programs complement each other well in that "Links" serves people ready to purchase within a year's time while IDA Programs can help families with more serious financial or credit issues that will take two, three, or even four years to resolve.

Gary Heidel, Director of Program Policy & Market Research at MSHDA and member of the IDA Advisory Committee says, "MSHDA decided to fund IDAs because they help lower income people become successful homeowners, and owning a home is critical in revitalizing neighborhoods and communities. Homeowners are vested in making neighborhoods places people want to live, and making all neighborhoods desirable places to live is a high priority for Governor Granholm."

MSHDA's \$725,000 commitment has the added benefit of leveraging the same amount of funding from federal commitments made to the five IDA regions in Michigan. In total its contribution provides \$1.45 million in homeownership matching funds, enough to serve nearly 500 additional families.

In order to be able to activate the expansion accounts, additional direct service funding is needed. An IDA Program provides financial management training, credit assistance, and on-going support for up to three years at a minimal cost of \$500 per year. Local IDA Programs and Regional Coordinating Organizations (RCOs) are now in the middle of a private fundraising push to activate all expansion accounts and make sure that 500 more low-income households have the opportunity to improve their financial health and security through buying a home.

The public and private sectors are working together to serve those in need of a hand up! It's what the Michigan IDA Partnership was established to do.

If you are interested in investing in IDA Programs to serve more families with this saving and investment opportunity please contact Eric Muschler or Susan Lindson at the MIDAP office at (734) 542-3951 or e-mail at muschler@earthlink.net.



Success Story

Winning Attitude and IDA Help Pat Get Back in the Race

After 20 years of successfully supporting her family by training and racing horses, Pat Smith was stricken with spinal meningitis. She lay in a coma for ten days, and when she was well enough to go home, she found that her business had been

liquidated by her husband. They divorced, and Pat started working immediately to rebuild her life, moving toward her goal of running a farm where children with disabilities can interact with animals and reap the benefits that research has shown animals can have on children with special needs.

Pat's physical recovery was slow, but in her mind she was "already moving in place to win again." As soon as she was able, she took a job as a cashier. Working her way through a series of increasingly better jobs, she eventually secured a position with benefits, as a bus driver for a Head Start program. There she heard about Individual Development Accounts. Pat enrolled in Housing Services for Eaton County's IDA program in April 2002. After only a year of diligent saving, she purchased her snug house and two outbuildings on 10 acres of land outside of Charlotte, in south central Michigan.

Pat attended financial management classes offered through the IDA program, and although she already had good savings habits, she still learned a lot. "One of the most valuable parts of the IDA program was that I was able to increase my ability to save and to start building assets for myself and my family. The IDA program made a big, big difference to us," explains Pat.



Kim Pruden (HSEC), Brandy Smith, Pat Smith and Denise Dunn (HSEC)

When Pat found suitable property to achieve her dream, she wrote a letter to the sellers, explaining her IDA and what she wanted to do with the property. They sold to her, even though she did not make the highest bid.

One year ago, Pat lived in a trailer park next to a large store and parking lot. Today Pat beams, "Now my house is surrounded by nature instead of concrete, I have gained confidence that I can achieve my goals, and I am very happy about the positive impact this will have on my children."

Pat has the experience to make her farm work. As she says, "I've been in a saddle since I was six months old." She already has some animals for her children's farm: friends gave her a donkey and a miniature horse, and Pat adopted a rescued horse who, thanks to Pat and her children, is now in peak form. Pat continues to save, and finds new ways to cut expenses, such as developing methods of providing good livestock feed at -very low cost.

Pat still works with the IDA program, encouraging others to "stick with the program. You can only win if you try." Pat is happy that as she continues to succeed and grow, her children and other low-income working families can see that they too can be winners.

Housing Services for Eaton County (HSEC), located in Charlotte, began its IDA program in January 2002. Its existing focus on housing-related services made IDAs a great fit. Thirty families are using IDA accounts at HSEC, and there is a waiting list of 40 more families hoping that expansion accounts become available.

Evaluation: Even "Unsuccessful" IDA Participants Receive Positive Benefits

The MIDAP Year III Evaluation has found that those families not completing the program and using match funds are benefiting from the program, and it is having a positive impact in their lives. The reason? "The research shows that while many families may struggle to complete the program and even drop out, they have learned what steps they need to take to become successful over time and how to build financial assets," says Jan Losby of ISED Solutions, Inc. the lead researcher on the project. "For example, 96% of non-graduating participants report they continue to work toward improving their credit, a pre-cursor to acquiring assets."

Eric Muschler, Director of MIDAP adds, "...this is a significant finding and really points out the importance of financial management education to this population. So much so that we think that Family Independence Agency (FIA) should consider instituting financial management education to all its clients, not just the families that have the opportunity to use an IDA to save."

Each year the evaluation survey focuses on a slightly different set of participants to maximize what MIDAP can learn from the initiative. This past year's survey focused on graduates (participants who completed an asset purchase through the program) and non-graduating participants (those that did not complete the program). Both populations show positive financial behavior and attitudes:

- 100% of graduates and 92% of non-graduates currently have a savings goal (42% and 24% respectively saving regular monthly amounts).
- Over 90% of participants are more aware of their credit rating (98% of non-graduates and 92% of graduates).

continued next page

IDA Evaluation

continued from page 2

- 94% of graduates and 88% of non-graduates create and use a household budget.

Even so, there were some statistically significant differences between the two groups of participants:

- Graduates are more likely than non-graduates to feel economically secure (90% compared with 78%).
- Graduates are more likely to be satisfied with their current financial situation than non-graduates (72% compared with 52%).
- Graduates say they are more likely to start or expand a business.

Across both populations there is overwhelming satisfaction with the program and services (on a scale of 1 to 5, with 5 being satisfied, overall satisfaction with IDA services is 4.56 for graduates and 4.14 for non-graduates). "I learned a lot about credit and budgeting and I really thought the whole program was useful in everyday life. I use my workbook with my kids to teach them." (Program Participant). Ninety-eight percent would recommend the program to a friend, a good barometer for program satisfaction.

Currently MIDAP is working with the Charles Stewart Mott Foundation to integrate a longitudinal study of participants to answer questions related to the management and growth of assets purchased, impact on children in the household, and maintaining positive financial behavior after the program is completed.

The Year III Evaluation with Executive Summary is available on-line at www.cmif.org. Just click on Michigan IDA Partnership to access a full array of tools and information related to asset building.

Save the Date

The 2004 IDA Learning Conference
"Sharing our Visions Forging Our Paths"
September 21-23, 2004
New Orleans, Louisiana

Join more than 800 asset stakeholders
Learn about innovations and best practices.
More than 50 workshops will be offered.

Registration information will be available
in upcoming weeks. If you have any
questions, e-mail info@cfed.org.

Earned Income Tax Credit (EITC) is a Savings Boost

Governor Granholm's task force on the Earned Income Tax Credit (EITC) recently released a report on how to increase the number of low-income Michiganians who take advantage of the tax credit, and more importantly, how low-income families can wisely use their refund to help create greater financial stability in the household and build assets.

Individual Development Accounts are mentioned in the report as well as the following recommendations to increase use of refunds:

- Improve marketing efforts to directly reach more working families.
- Encourage employers of low/moderate wage workers to partner with free tax services.
- Encourage local governments to help increase EITC participation.
- Raise the comfort level of people using free tax services to reinforce the perception that free tax preparation is a reputable service (i.e. offer them through government facilities).
- Incorporate e-filing as broadly as possible to dissuade use of refund anticipation loans.
- Start the EITC education campaign earlier and tie it to other seminars offered to working families by financial institutions, community based organizations, civic groups, and employers.
- Offer on-going money management training throughout the year.
- Use computer labs to help larger numbers of individuals self-file.

Policy implications

- Tie EITC with savings incentives that are easy to administer and are inclusive (i.e., community development or community-based credit unions could offer products that offer higher interest on short term EITC Certificates of Deposit (CDs).
- Tie EITC to retirement-type programs such as an individual retirement account (IRA).
- Tie EITC to existing state savings programs such as the Michigan Education Savings Program (MESp).

IDA Programs have been promoting use of the EITC for the last two years, and the data shows an increase in savings deposits between January and April. "We help our IDA Participants do their taxes so it's not much of a reach for us to discuss the wisest use for their refund," says Toby Budd, Program Coordinator with Community Action Agency-Jackson. "Their most obvious choice is to direct deposit their refund into their IDA account, or at least a portion of it, while the rest is used to deal with credit or debt issues."

continued on page 4

The Michigan IDA Partnership Year III Evaluation found that 44 percent of participants were using their tax refund to save. "That's not 100%, but it's a significant number. The more we can do to institutionalize savings for low-income people the better," says Eric Muschler, Director of MIDAP. "That's how most of us save. Think about your 401(k) savings and direct deposits from your paycheck. These basic financial services just are not available to low-income families and should be."

The EITC Report was developed by Michigan State University Extension's division of Family and Consumer Sciences and the Michigan Department of Treasury. It is available on-line at <http://www.fcs.msue.msu.edu/workinghouseholds/EITC.pdf>.

MIDAP Account Summary as of March 2004			
Active Accounts		Assets Purchased	
South	191	Home Ownership	173
West	178		
North	136	Education	51
Detroit	250	Business	40
MI Thumb Area	175		
Total All Regions	930	Total All Uses	264
Cumulative participant savings is now over \$570,000			
Savings matched - \$237,671			
Match Amount - \$685,166			
Mortgages leveraged - \$14,332,621			
Total # of accounts available in Michigan is now 1,189			



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A project of the Council of Michigan Foundations

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Asset Developments

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