

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)



Advisory Committee

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All Eyes on Michigan

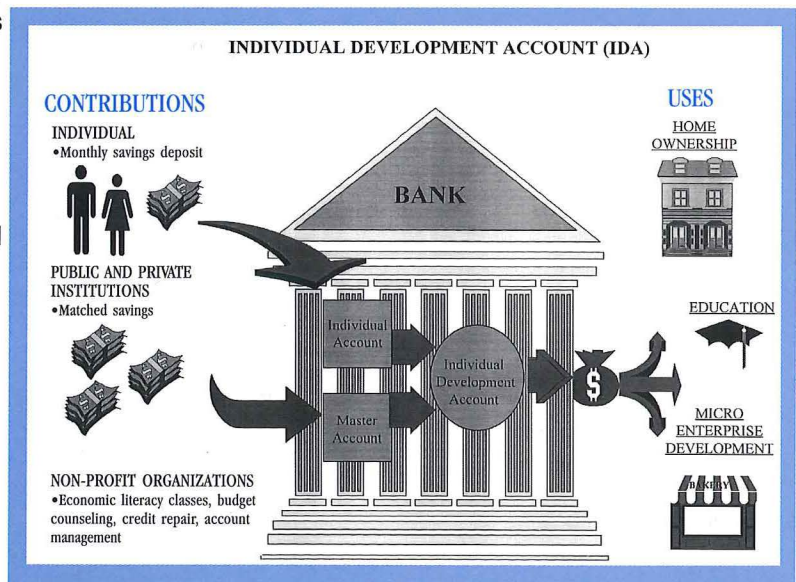
Michigan is undertaking a challenging effort to step forward as a leader in the national Individual Development Account (IDA) movement in the United States. A unique Statewide partnership between the Michigan Family Independence Agency and Michigan foundations and corporate giving programs provides an opportunity to establish a national model for providing this innovative self-sufficiency tool for low-income individuals and families. The challenges include creating a sustainable system to manage accounts, funding up to 2000 IDA accounts (more than currently active in any other state), and establishing a network of standardized programs to allow for easy tracking and procedures in which funders and financial institutions will invest time and money.

The IDA Advisory Committee has adopted three goals that will drive the Partnership's work:

- Provide greater opportunities for low-income Michigan individuals and families to become self-sufficient through the ownership of stabilizing assets (home ownership, post-secondary education and small business development).
- Develop a **sustainable** network of IDA practitioners with capacity to implement **effective** programs that collaborate regionally, sharing resources, experience and evaluation.
- Raise awareness and policy options that expand technical & financial resources available for asset-building strategies for low-income citizens in Michigan.

Effective IDA Programs have three critical components available to their participants; a banking partner, a quality financial literacy education course, and a community organization with the ability to coach and counsel low-income families toward an asset purchase. Collaboration among program partners is essential. For this reason, in the initial RFP release in January 2001, the Michigan IDA Partnership

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Financial Institutions: Critical Partners for IDA Programs

Financial institutions across the country are exploring many creative roles with IDA programs. Given the growing political support for the concept of IDA accounts, financial institutions are seeing IDAs as an opportunity to develop a product line that serves low-income families and develops them into loyal customers. IDA programs seek financial partners willing to:

- Provide interest-bearing savings accounts for a set number of IDA Program participants (low or no fee account, no minimum balance, and custodial account).
- Provide monthly IDA savings account statements to program participants and program coordinators.
- Assign point person to facilitate activity among local IDA programs and designated depository branches.

Other roles a financial partner may want to play as more community organizations request involvement in the IDA program are:

- In-kind Support or low fee services like:
 - Teaching segments of an Economic Literacy Curriculum
 - Pulling credit reports on IDA participants at low or no fee
 - Providing homeowner or small business coaching to participants
 - Reviewing home or business loan applications at low or no fee
- Program Contributions to the Michigan IDA Partnership or local IDA programs for components like training in personal financial management, credit counseling, program tracking and administration.
- Special loan review and consideration for home mortgage, student or business loans for successful participants.

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- will be looking to regional IDA coordinating organizations with experienced practitioners that can take advantage of shared resources among program partners.
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- The Partnership will then seek out additional programs to become part of the IDA network with periodic requests for proposals starting in the summer of 2001. The following roles and responsibilities will be part of these requests for proposals.

Roles & Responsibilities

IDA Regional Coordinating Organizations

- Establish local network of organizations that provide IDAs. Facilitate a collaborative that provides all critical components of an effective IDA program and opportunities for program participants to use any of the three permissible uses established by the Michigan IDA Partnership. Coordinating organization may or may not run its own program with accounts.
- Provide or contract to provide economic literacy curriculum to IDA participants in your program as well as other IDA Programs in your region.
- Provide IDA orientation session that can be used by other IDA programs in your community to market and recruit participants.
- Manage master database and tracking system (MIS IDA) for IDA account holders in your community or region.
- Provide IDA participants with savings plus match statements quarterly.
- Manage IDA disbursement account through which all matching funds will flow at the time of asset purchases.
- Support Michigan IDA Partnership local fundraising efforts for your regional collaborative.
- Establish and maintain strong working relationship with local financial institution partners.
- Hold regular coordinating meetings with local IDA programs.

Individual IDA Program Sites

- Provide marketing and outreach to recruit IDA participants and coordinate application, intake, and tracking of participants with local coordinating partner.
- Provide additional asset-specific training as it relates to your IDA participant asset goal (i.e. additional business training, home ownership training, etc.)
- Establish supportive group meetings or gatherings that provide mutual support and motivation among IDA participants during and after their asset purchase.
- Jointly develop specific saving, credit repair, and asset purchase goals with each program participant through a service agreement. Share all information with coordinating partner.
- Provide one-on-one coaching/counseling to all IDA participants as necessary.
- Ensure eligibility of IDA participants and set appropriate matching ratios for IDA participant savings (defined by parameters of Michigan IDA Partnership).
- Provide guidance and support to IDA participants through their asset purchase or release from the program. Maintain contact with IDA participants at least one year after their asset purchase for follow-up and evaluation of the program.

To learn more about any of the issues in this newsletter

Contact the **Michigan IDA Partnership**

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To learn more about IDAs, contact the Michigan IDA Partnership or

Visit the Corporation for Enterprise Development Web site at www.cfed.org.

Visit the Council of Michigan Foundations' Web site at www.cmif.org

Contact the Michigan Community Action Agency Association at (517) 484-1353

The Michigan IDA Partnership, what is it?

This unique public/private partnership recognizes that asset accumulation is a key to helping low-income families work their way out of poverty. A State IDA Advisory Committee made up of a diverse group of funders, IDA program providers, and government representatives oversees the project. The Michigan IDA Partnership will invest \$10 million over a five-year period to establish and evaluate a statewide effort that supports up to 2,000 low-income families in Michigan.

What is an Individual Development Account (IDA for short)?

IDAs are matched savings accounts designed to help low-income and low-wealth families accumulate a few thousand dollars for high return investments in education or job training, homeownership, or microenterprise (small-business start-up). IDAs are designed to increase savings and investments for the working poor, welfare recipients, and citizens teetering on the edge of poverty.

How do IDAs work?

An IDA account is a savings account established at a local financial institution under a qualified individual's name. Individuals must meet IDA program acceptance criteria (i.e. under 200% poverty), complete a financial literacy course and training related to their asset goal, and save money toward their identified goal over a period of between 6-36 months. Once they have completed the program, their savings of up to \$1,000 is matched by the MI IDA Partnership at a ratio of 3:1 for a home purchase and 2:1 for post-secondary education/job training or to start or expand a small business.

Is this a give away program?

No. An IDA creates a system where participants are the primary investors and producers in attaining their goals. Community resources (foundation funds, and public funds from the Family Independence Agency) match their savings only after the individuals have met their savings goal and completed training and learning commitments.

How will the partnership work?

The partnership that will work through nonprofit community organizations whose experience in working with low-income citizens will help ensure success. Through a request for proposals (RFP), which will be released in early 2001 and periodically thereafter, community organizations will apply for funding for IDA match funds and direct client services. Program sites will work with low-income families to establish goals, plan, and save money to achieve their goals.

The Michigan IDA Partnership is a response to a demand for IDAs in Michigan created by community organization already testing or running IDA Programs. At least 12 programs have active IDA participants and another 30 are currently designing IDA programs to serve their low-income constituents. The Michigan Community Action Agency Association (MCAAA) has been sparking interest in and training organizations to develop effective programs for over a year. *Asset Developments* will highlight these programs in future publications so everyone can learn from their experience.



Success story

Grand Rapids Opportunity for Women (GROW) is one of the first community organizations in Michigan to offer an Individual Development Account (IDA) program

Kathy Ainsworth came to GROW to receive help starting a business that would help her family get back on their feet after declaring bankruptcy. Medical bills had literally flattened their dreams for the future and Kathy had begun researching business ideas that she and her husband could do despite medical limitations. She started a vending machine business with just three small vending units and the business had started taking off by the time she realized she needed help — fast — preparing a business plan and learning how to manage a business. She started GROW's 15 week "Minding Your Own Business" entrepreneurial training course and began to save toward

- buying her first large vending machine through GROW's IDA program. Kathy saved about \$100 a month for 10 months. Her savings was matched 2:1 by the IDA program and she was able to acquire a large vending machine to expand the business. Now, Aquilla Vending is securing additional business and has developed a market niche in utilizing the newest debit card technology to vend without cash. Kathy and her family are not out of the woods yet, but they are willing to work 24/7 if that's what it takes.
- And the GROW IDA Program works for them.

What happens next?

Goals, participant eligibility requirements, and program parameters have been established to serve as a standard guide for new programs (available at www.cmif.org). The parameters are based on "best practices" from programs nationally and from within the State of Michigan and will serve as guideposts for new program development.

A request for proposals is being issued for regional IDA collaboratives and established IDA programs in January. Decisions will be announced in March. The request for proposals will be posted on the CMF Web site (www.cmif.org) in January.



C.S. Mott Foundation provides lead grant for Michigan IDA Partnership

The **Charles Stewart Mott Foundation**, Michigan's second largest private foundation, provided the \$1 million leadership grant to launch the Michigan IDA Partnership. The State of Michigan contributed \$5 million.

"The Mott Foundation is thrilled with its investment in the Michigan IDA Partnership and the opportunities it creates for Michigan families," said **Benita Melton**, Mott Foundation program officer.

"In addition, as we think ahead to the welfare reauthorization debates, the Partnership serves as a model for how states can not only invest but also leverage TANF (Temporary Assistance for Needy Families) funds to assist working poor families. We look forward to joining with community foundations, corporate foundations and giving programs, family foundations, and other private foundations as co-investors in this Partnership."

Eric Muschler, Michigan IDA Director

The Michigan IDA Partnership is in good hands with **Eric Muschler** as its director.

Muschler, who has a wealth of experience in providing strategic direction for new initiatives, most recently served as director of a regional IDA program for the United Way of Metropolitan Atlanta.

He received his Masters degree in Community Planning from the University of

Cincinnati, and went on to develop affordable housing with a community development corporation in Cincinnati.

Among his written works are "Community Impact through Neighborhood Partnerships" and "A Forum on Community Economic Development," both of which are distributed by the United Way of America's Community Building Department.

Asset Developments

A complimentary, quarterly publication, *Asset Developments*, is distributed to IDA funders, potential funders, IDA providers, IDA participants, key state departments, legislators, and others who are interested in the implementation of IDAs.

Funding for the publication is provided by the Charles Stewart Mott Foundation. *Asset Developments* is produced in the offices of the Council of Michigan Foundations.

Please direct any comments, questions, concerns or submissions to: Asset Developments Editor, CME, P.O. Box 599, Grand Haven, MI 49417.



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