Southern Bancorp Community Partners

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Southern Bancorp Community Partners IDA Program:

A Solid Tool for Asset Development

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The Southern family of companies is committed to moving people out of poverty and onto the path toward wealth creation and financial stability. We believe that asset development is a key component to wealth building, as it is one of the most direct ways to drive it among low- and moderate- income communities. Having assets reduces dependency on public support programs, it helps individuals and families weather unexpected financial shocks to their household budget, it enables individuals and families to establish and grow wealth, and it helps to build financial stability, sophistication, and understanding for individuals.[1]

When we think of assets we often think of financial assets such as checking accounts, savings accounts, stocks, or retirement accounts. However, there are other non-financial assets as well. A home or automobile, if owned outright, are what some consider non-financial assets. Parents can and often leverage equity in a house to pay for college. Home equity can be used to pay for a wedding, major medical expenses or other unexpected large expenses, as well as a means of accessing capital during retirement.[2]

In addition to home and automobile equity, higher education—including special skills training—is also a valuable asset that impact one's ability to realize upward financial mobility.

One successful tool in asset development is an Individual Development Accounts (IDA). Proposed in 1991,[3] IDAs are qualified savings accounts that match savings dollars of low- to moderate-income individuals with dollars from public or private sources. Since 1991, the federal government and more than 40 states have adopted IDA programs. The Assets for Independence (AFI) program, which will be phased out over the next several years, was a long-term IDA pilot program of the Federal government. The AFI program and principles proved successful and should be considered in future policy developments for the poor.

Assets for Independence

In 1999, Congress established both the Assets for Independence Act and the Assets for Independence Program (AFI).[4] The Office of Community Services within the Administration for Children and Families at the US Department of Health and Human Services ran the program as a multi-state, national test program supporting Individual Development Accounts, financial education, and other related services. AFI's purpose was to create financial stability and self-sufficiency for low-income Americans.[5] In 2017, for the second consecutive year, Congress failed to authorize matching grant funds for the Assets for Independence Program.

1 http://mefassociates.com/wordpress/wp-content/uploads/2016/12/Building-Savings-for-Success-Early-Impacts-from-the-Assets-for-Independence-Program-Randomized-Evaluation.pdf
2 https://budgeting.thenest.com/asset-building-lowincome-families-21347.html
3 Sherraden, Michael, Assets and the Poor: A New Ameircan Welfare Policy (1991)
4 (Public Law 105-285).
5 https://www.acf.hhs.gov/sites/default/files/ocs/fy2014_15th_afi_report_to_congress_final_8_5_16b.pdf

How Did IDAs Work with AFI?

Individual Development Accounts (IDAs) are matched savings accounts for low- to moderate-income savers who use those saved funds for a specific purchase: to purchase a home, to pay tuition at college, university or skills training, or to start a small business. The AFI program provided federal match funds to qualified organizations, typically a community-based non-profit, a local government agency, or Community Development Financial Institution (CDFI). In order to make the federal matching funds available to individual savers, qualified organizations were required to first identify non-federal match funding sources. The amount of federal funds available to individual savers was capped at $2,000 per individual. This scenario enabled savers to realize and leverage their own savings anywhere from $1 to $8 dollars of their own savings.

In order to qualify for the program, indivudals must:

- Be eligible for Temporary Assistance for Needy Families (TANF) at the time of application,

  OR

- Have an adjusted gross household income equal to or less than 200 percent of the Federal poverty line or be eligible for the Federal Earned Income Tax Credit, and have a household net worth of less than $10,000 (excluding the value of a primary dwelling and one motor vehicle). [6]

Since 1999, the AFI program has empowered more than 98,000 people to save more than $100 million and purchase assets.[7]

6 http://www.nascsp.org/data/files/events/AFI_Fact_Sheet.pdf

7 Chart: Key Data from the Assets for Independence (AFI) Program Report to Congress for Federal Fiscal Year (FY) 2014

Key Data from the AFI Program Report to Congress Federal Fiscal Year 2014

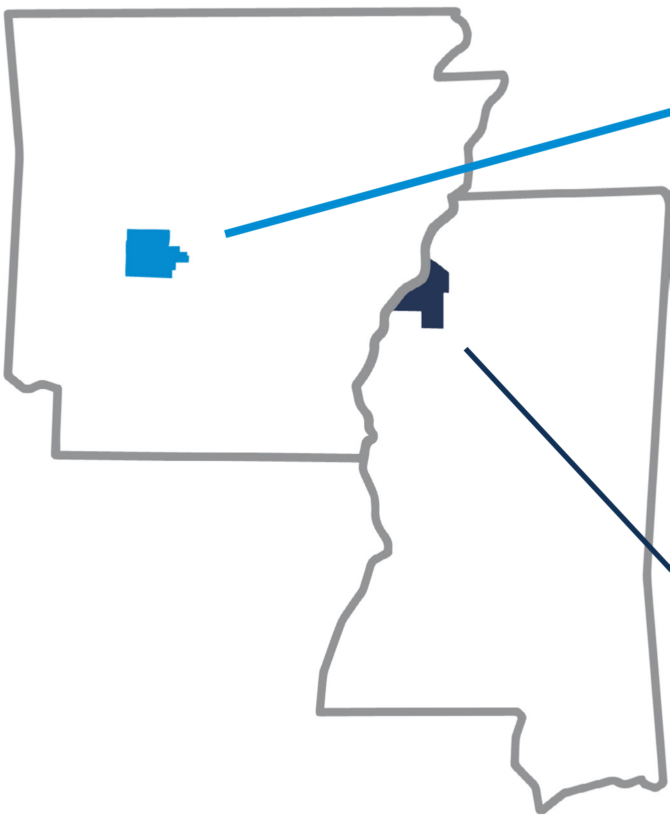
	FY 2014	All Time
IDAs opened	7,256	98,295
Earned income deposited by IDA holders	$8.9 MILLION	$100 MILLION
IDA holders who made a matched withdrawal for a **first home**	1,467	15,480
IDA holders who made a matched withdrawal for **business**	1,118	12,570
IDA holders who made a matched withdrawal for **education**	2,484	16,726
Total IDA holder **earned income deposits** withdrawn for these three asset purchases	$6.2 MILLION	$57.4 MILLION
Total **AFI grant funds** spent for these three asset purchases	$7.9 MILLION	$65.9 MILLION
Total **non-federal cash** spend for these three asset purchases	$8.6 MILLION	$73.2 MILLION

Southern has long been a non-profit intermediary for the AFI program. In just the last 10 years, we have seen significant participant benefit and community impact:

Asset Goal	Total Savings and Match	Local Impact
Business Start-Up	$467,127	16 Counties in AR 8 Counties in MS
Education & Training	$896,766	24 Counties in AR 9 Counties MS
Home Purchase	$197,481	9 Counties in AR 2 Counties in MS

We decided to take a closer look at the impact of AFI as well as possibilities for continuing the AFI principles in the future. We looked at asset purchases of savers in Coahoma County, Mississippi and in Garland County, Arkansas, and learned that the purchase of assets through the AFI IDA immediately put home buyers in a position of increased net worth through homeownership, while education savers were in a position to catapult their income toward the higher end of earners in their community.

July 2016 Census Bureau Demographics



Garland County, Arkansas

Population	97,477
Female	51.8%
White	87.3%
Black	8.6%
Latino	5.4%
Median Home Value	$133,700
Median Household Income	$40,011
Bachelor's Degree or Higher	20.6%

Coahoma County, Mississippi

Population	23,809
Female	54.1%
Black	76.3%
White	22.3%
Latino	1.5%
Median Home Value	$62,500
Median Household Income	$28,217
Bachelor's Degree or Higher	17.2%

Home asset purchasers in Coahoma County, Mississippi

We looked at six participants in the IDA program from 2007 through 2017. Each participant saved the minimum amount of $667.67. These savers were able to combine their savings with match funds of $2,000 to purchase $236,008 in mortgages. The median home purchase of the group was $45,068.

Coahoma savers were of modest income, with participants reporting annual income ranging from $10,000 per year to just over $31,000 per year. Nevertheless, through financial coaching on budgeting and debt management, savers were able to successfully complete the program and realize a 3-to-1 match in funds, for a total $2,666.67 available, which was then applied toward down payment and/or closing costs. In one case, a determined saver was able to complete the program twice and realize $5,335.64 in savings and matching funds, nearly one-third of their $18,000 annual income.

Home buyers are not the only ones who have benefited from the AFI program. In addition to providing critical down payment assistance, these savers also provided a direct benefit to Coahoma County by adding some $2,122.96 in annual tax revenue. While we were not able to determine all of the additional ancillary benefits,[8] we know that residential closings generate a whole host of revenue including attorneys fees, recording fees, appraisal fees, lender fees, etc., while keeping the revenue in the local economy.

Education asset purchasers in Garland County, Arkansas

We looked at AFI Program benefits to six participants in Garland County, Arkansas. Again, with the minimum $666.67 in savings, participants were able to leverage their own savings with match dollars and pay toward school tuition at colleges and universities.

Four savers in Garland County took the opportunity to complete the savings twice for $5,336.32 in total savings and match funds.

One saver, having already obtained a bachelor's degree in Environmental Biology, saved more than $5,000 in Southern's AFI Program as well as an additional Southern-faciliated IDA program to pursue a master's degree in Environmental Policy and Management.

Another Saver utilized AFI savings to pay tuition for training as a dental hygienist. Arkansas dental hygienists earn a median salary of $66,350 per year.[9] Several participants used their funds to

8 Some of the home purchases were through community organizations, and traditional detailed closing documents were not available.

9 https://www.sokanu.com/careers/dental-hygienist/salary/Arkansas/

pursue education and training in the aviation field at Henderson State University. Arkansas flight instructors earn a median salary of $85,000 and above.[10] These jobs are retained in the local economy.

Though IDA savings can often serve as a moment wherein participants receive their first introduction to the banking industry, nearly all of the savers in the sample groups that we reviewed in Coahoma and Garland Counties had bank accounts when they started the program. (AFI reported that participants who had some type of bank account upon starting the program were more likely to complete the program successfully.) In fact, only two participants reported not having a checking or savings account at the start of AFI.

In 2016 and 2017, Congress failed to authorize matching grant funds for the Assets for Independence Program, effectively ending the federal match program for the foreseeable future. Individual Development Accounts can, and do, continue to be a vehicle for asset building. The principle goals of the AFI program—increasing the number of savers in low-wealth communities and increasing self-sufficiency in low- to moderate-income households—were successful. The success of the program over its 18 year term demonstrated that low- to moderate-income households can develop the tools to increase wealth building and financial self-sufficiency: understanding financial education principles, saving money, and building assets.

Going forward, it will be up to Community Development Financial Institutions to work with federal policymakers, local policymakers, business community, and local stakeholders to expand our asset-based policy structure to continue financial support for IDA programs that carry out the AFI principles. Without continued support, Americans of low and moderate income will have limited opportunities to build and grow wealth.

10 https://www1.salary.com/AR/Flight-Instructor-salary.html