

## Individual Development Accounts

Thank you for your interest in Individual Development Accounts. Individual Development Accounts (also called IDAs) are matched savings accounts designed to help those of modest means establish a pattern of regular savings and, ultimately, purchase a productive asset. Savings and match money may be used towards the purchase of a home, to start a small business, or further your education or job training.

This FAQ sheet contains basic information for savers interesting in learning more about IDAs. For more information on starting your own program, please visit [our resources page](#).

Please note that CFED does not provide IDA accounts directly, nor does it fund programs. If you are interested in opening an account, please visit [our IDA program directory](#) and contact your local provider.

Below are some frequently asked questions about IDAs. For more information, please visit [www.cfed.org/programs/idas](http://www.cfed.org/programs/idas)

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## **What is an Individual Development Account?**

An Individual Development Account, or IDA, is a special savings account for people with low incomes. Most organizations will limit applicants to individuals earning 200% or less of [the Federal Poverty Income level](#).

When you save in an IDA, your savings are matched. This means that for every dollar that you save you can receive another dollar or more. While most organizations will provide a one-to-one match, others might provide up to an eight-to-one match.

Typically, IDA savings and match money can be used to buy a house, pay for education or job training, or to start a small business. Please keep in mind that the allowed asset may depend on the providing organization.

In addition to earning matching dollars, you will learn about budgeting, saving, banking and more when you open an IDA. In most cases, individuals who open IDAs (acountholders) are required to attend financial education classes. Acountholders may also receive one-on-one counseling and other training depending the specifics of their local program.

## **Why is my money matched?**

Your money is matched to encourage and help you to save enough to buy an asset, such as a house or business. While your paycheck helps you to buy food and clothing and pay your bills each month, an asset provides financial security for the future. As such the match is not only designed to reward consistent saving but accelerate your pathway to owning an asset.

## **Where do the match dollars come from?**

Match dollars for IDAs come from many different places, such as government agencies, private companies, churches, or local charities. Any individual organization, or business can contribute match dollars to IDAs. In most cases, providers also receive funding from the Federal Government, through [the Assets For Independence \(AFI\) grant](#) offered by the Office of Community Services.

## **How do IDAs work?**

IDAs are usually offered through programs that involve partnerships between local nonprofit organizations and financial institutions. The local nonprofit is also called the IDA program provider. The IDA program sponsor recruits participants for the IDA program, provides financial education classes, and may also provide one-on-one counseling and training to participants.

After signing up for an IDA program, each participant will develop an individualized saver's plan agreement. This document should clearly outline what the expectations are of the saver and of the program provider, and the expected timeframe for an individual to complete their savings. Afterwards, participants open an account with the partnering bank or credit union. The bank or credit union handles all transactions to and from the IDA, just as they do with other types of savings accounts. Each month, IDA participants receive a

report telling them how much money (individual savings, match, and interest) is accumulating in their IDA.

An IDA program can be as short as six months or as long as five years from beginning to end. In most cases, opening an account with the partnering financial institution is considered the beginning of the process. Once they have reached their savings goal, participants may get approval from their program provider and make a withdrawal that includes their savings and match money. While participants have access to their savings throughout the process, they may lose out on any accumulated match if they decide to make an unauthorized early withdrawal. Some IDA participants choose one big savings goal, such as a home, but others save for a number of smaller, related goals, such as textbooks and college tuition.

### **Is an IDA right for me?**

This is a question that you and an IDA program sponsor will be able to answer together. If your income is low and you would like to own a home, further your education or start a small business, then opening an IDA could be the best way for you to reach your goal. But, if you are paying off a loan or have a lot of credit card debt, you may not be ready for an IDA. Each person and situation is different and each program has different requirements and objectives. The best first step is to contact a local provider and inquiring more about their program specifics.

### **How can I open an IDA?**

There are more than 500 IDA programs in the United States, so the first steps to find a program close to where you live. The fastest way to do this is to consult [CFED's IDA Program Directory](#), which lists programs by state. Using the Directory, contact the provider closest to you to find out more about their IDA program and learn how to apply. In addition, the federal Office of Community Services offers [a directory of more than 200 organizations across the nation that run IDA programs](#).

No two programs are exactly alike. The length of the program, amount of matching dollars provided, allowable uses for savings and other rules may be different from one program to the next.

### **What are most program's eligibility guidelines?**

In general, IDA program eligibility is based on the following information:

- **Income:** Most IDA programs specific a maximum household income level for IDA applicants. Maximum income levels are most often a percentage of the federal poverty guidelines (usually 200%) or the area median income (usually between 65% and 85%). [Federal poverty guidelines are available on the U.S. Department of Health and Human Services website.](#)
- **Earnings:** Many IDA programs require that all or part of savings come from earned income. A paycheck is the most common source of earned income. Money given as a gift is not considered earnings.

- **Net worth:** Some IDA programs also look at the household assets (such as a car, home, savings, etc.) in addition to household income when determining IDA eligibility.
- **Credit History:** Debt from credit cards and loans makes it difficult to save. You might not qualify for an IDA if you have a lot of debt or a bad credit history. A program provider may ask you to visit a credit-counseling center or pay off your loans before you open an IDA.

### **What kinds of things can I purchase with my IDA savings?**

Most IDA programs allow account holders to use their savings to buy a home, pay for education or job training, or start a small business. Some programs, however, allow only one or two of these uses, while others may allow additional uses, including home repairs or computer or automobile purchases. Be sure that you know all of the uses that each program allows.

### **How long will I be able to save in my IDA?**

The savings period or program length will vary from program to program, but most savings periods range from 1 year to 3 years. The minimum amount of time is 6 months in some cases. The savings period indicates the length of time during which your savings will be matched.

### **What are most programs' match rate?**

IDA programs match each dollar you save with additional funds from donors. Many programs offer a 1:1 match rate, which means that for each \$1 you deposit in your IDA, \$1 in matching funds will be added to your savings. Depending on the program, match rates can vary.

The program match rate is determined based on the program length and the amount of match funds raised by the sponsoring organization. In general, programs that have a shorter savings period usually have higher match rates (so that accountholders will be able to save enough to purchase the asset they want). Be sure to consider whether the savings period and match rate together will enable you to save enough money to purchase your desired asset.

### **Will I be required to save a certain amount of money each month?**

Some programs require accountholders to deposit a minimum amount each month or every few months in order to stay in the IDA program. Before enrolling, make sure that you can save enough to make the minimum deposit.

### **Is there a limit to how much money I can save in my IDA?**

Some programs will only match up to a certain dollar amount (for example, \$500) on an annual basis or during the course of the program. In most cases, you can deposit as much as you like in your account, but deposits over a certain dollar amount will not be matched.

### **Will I be required to attend financial education classes?**

Financial education is an important part of all IDA programs. You will likely be required to attend a certain number of classes to learn about creating and managing household budgets, using credit responsibly, the basics of saving and investing, saving for retirement and much more.

In addition to financial education, some IDA programs also provide training to assist accountholders in making good purchases. Examples of this training include homebuyer training or counseling, small business development courses or financial aid counseling. This additional training is usually optional, but can provide important information that will help you to make a good purchase with your IDA savings.

### **Aside from attending classes and making regular deposits to my IDA, will I be required to do anything else?**

Make sure you are aware of all requirements before enrolling in an IDA program. The best way to identify what those requirements might be is to contact your local provider.

### **Does the IDA program provider offer other services that might be useful to me?**

Many IDA program sponsors provide a range of services to low-income families. For example, some organizations may assist families in applying for welfare benefits, obtaining legal aid, preparing income tax returns, or obtaining affordable housing. Be sure to ask each IDA program sponsor about additional services that might be helpful to you.

### **Does the IDA program sponsor work with other organizations in the community?**

IDA program sponsors often partner with other organizations and businesses to provide services to accountholders. This is usually good for accountholders because they get to know more than one organization in their community through the IDA program.

### **What if there are no IDA programs in my area?**

If there are no providers in your area, the best first alternative is to contact your local United Way or Goodwill. Both organizations have a presence in many locations throughout the country and can be connected to local initiatives that might be useful to you.

### **Where can I get help starting my own small business, buying a home, or sending myself or my child to college?**

- To find local organizations that can help you start your own small business, visit the Association for Enterprise Opportunity's website at [www.microenterpriseworks.org](http://www.microenterpriseworks.org) or call 703.841.7760.
- Find programs in your area that can help you find affordable housing on the Housing and Urban Development website at [www.hud.gov/buying/localbuying.cfm](http://www.hud.gov/buying/localbuying.cfm)
- For information about continuing your education, visit [www.collegeforadults.org](http://www.collegeforadults.org). To learn how to save money for your child's future college education, visit [www.savingforcollege.com](http://www.savingforcollege.com)