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Housing Assistance Council

DESIGNING AND IMPLEMENTING RURAL INDIVIDUAL DEVELOPMENT ACCOUNT PROGRAMS

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HAC, founded in 1971, is a nonprofit corporation that supports the development of rural low-income housing nationwide. HAC provides technical housing services, loans from a revolving fund, housing program and policy assistance, research and demonstration projects, and training and information services. HAC is an equal opportunity lender.

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EXECUTIVE SUMMARY

High poverty levels and poor economic conditions in rural areas continue to be pervasive issues despite exceptional economic growth during the 1990s. Of the 386 persistent poverty counties[1] in the nation, 88 percent are nonmetropolitan. The necessity for new and innovative strategies to improve economic conditions in rural areas is apparent. Individual Development Accounts (IDAs), which are matched savings accounts for low-income individuals, have been introduced as a method to help low-income families save money to achieve specific asset-building goals.

This report uses surveys, a location analysis, and in-depth case studies of programs operating in high needs regions to examine the implementation of IDAs in rural communities. In conducting this research, it was discovered that rural organizations are confronted with several obstacles inherent in the geography of their regions. These obstacles include a lack of transportation, which limits the access to the program and complicates case management efforts. Sparse populations increase the difficulty of gathering people for financial classes and the lack of financial institutions in rural areas makes it more challenging for local organizations to find banks with which they can develop partnerships.

The case studies reveal the unique structures of rural IDA programs, which take into consideration the specific cultural issues of the groups being served. For example, the Umatilla Reservation Housing Authority's IDA program allows IDA funds to be used for downpayments only on homes that are located on the reservation. This requirement promotes the economic development of the Native American community, while supporting the wealth building of the individuals. Participants in the Colonias IDA Pilot Program can make unscheduled deposits into their accounts during the growing season, a time when more income would be available to contribute to farmworkers' savings. In an Appalachian IDA program, participants are allowed to use their IDA savings for home improvement as well as homeownership, since many of the area's residents are homeowners but live in substandard housing.

The report concludes that several solutions and policy changes should be incorporated into rural IDAs to increase the efficacy of these programs. A number of strategies used by the local groups highlighted in the case studies have contributed to their programs' success. Some of these strategies include combining multiple programs with their IDA programs, using technology to assist with the administration of their IDAs, and identifying and using local and national partners. Potential policy changes that could increase the efficiency of IDA programs include the provision of matching funds from states, additional funds for small rural organizations to cover the costs of serving dispersed populations, and expanding the allowable use of IDA funds to include automobile purchases.

Carrying out these and other modifications on the federal, state, local, and organizational levels could dramatically improve IDA implementation in rural areas, thus building the level of wealth and assets in these communities, as well as improving the economic conditions and decreasing the number of those living in poverty in rural America.

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[1] Persistent poverty counties are counties with 20 percent or more of the population in poverty in 1970, 1980, 1990, and 2000.

INTRODUCTION

Social policy has begun to shift the emphasis from income supplementation as a poverty alleviation strategy to asset building. Several policies over the last decades have subsidized asset accumulation for middle and upper-income groups in the forms of such tools as Individual Retirement Accounts (IRAs) or 401(k) plans. None of these policies have benefited low-income people, however, because they require debt or operate via tax breaks (Schreiner et al. 2001). New ways to help low-income people accumulate wealth, such as Individual Development Accounts (IDAs), do not have such requirements (Schreiner et al. 2001).

Asset building programs for the poor have grown in popularity over the years because they have proven to help low-income individuals become self-sufficient as well as trigger a number of socially beneficial behaviors, including homeownership (Weber and Smith 2003). There are specific challenges to designing and administering these programs in rural areas, where populations are smaller and more dispersed than in cities or suburbs. Nevertheless, many organizations have begun to operate rural IDA programs to increase wealth among low-income rural residents and facilitate increased homeownership.

While homeownership is high among rural residents (76 percent), current economic and social conditions (e.g., rising house prices, stagnant rural incomes) speak to the need for additional resources. Asset-building strategies, such as IDAs, provide a structure for saving and incentives to save towards wealth building goals (i.e., education, entrepreneurship, and homeownership). Numerous organizations across the country are promoting and implementing IDAs and many of them are located in rural communities. Although they have been operating for only a few years, their experiences can provide considerable lessons about designing programs that reflect the unique needs of rural regions and overcoming common barriers and challenges.

The following research provides an examination of IDA programs operating in rural communities. This study presents an overview of IDA programs that extend services to rural clients and identifies the common challenges faced by organizations offering these programs to rural participants. Further, the study discusses techniques and tools that have been used to overcome these challenges. In order to illustrate the specific challenges related to organizing and implementing rural IDAs in very low-income regions, the report includes an in-depth assessment of specific IDA programs operating in Central Appalachia, the border colonias, and Native American lands. Reviews of the challenges posed in these high needs areas are instructive for future studies of wealth building and increasing homeownership in rural areas. Finally, suggested policy recommendations are provided, which are intended to contribute to the development of additional rural IDA programs that can meet the particular needs of low-income rural residents.

BACKGROUND

Individual Development Accounts (IDAs) have become a popular strategy for increasing wealth among low-income groups. According to CFED (formerly the Corporation for Enterprise Development) there are approximately 400 IDA programs nationwide, with about 20,000 accounts that are sponsored or managed by more than 225 financial institutions (Zdenek 2003). IDA participants are encouraged to save money in these accounts, which are then matched by program funds. The funds saved in an IDA can be used only for specified wealth-building activities, including education or purchasing a home.

Assets and Asset Gaps

While income has often prevented low-income families from achieving the goal of homeownership, it has been discovered that the lack of assets has been a greater impediment. One study revealed that one-third of renters could afford monthly mortgage payments but were prevented from buying a home because they lacked the assets needed to cover downpayment or closing costs; only 3 percent were constrained by income (Collins and Dylla 2001). Research has shown that the majority of Americans are asset poor, with less than $1,000 in investable assets (Rist and Malkin 2001). Asset building is an approach that is considered not only to produce individual benefits but also to have lasting effects on the entire community (Weber and Smith 2003). Those who acquire assets may reap the financial benefits through interest and appreciation, which in turn creates wealth for individuals. Those who possess assets tend to accumulate more and various kinds of wealth (Weber and Smith 2003).

In addition to the financial benefits of asset building, studies have identified a number of social and behavioral benefits as well. It has been shown that assets create an incentive structure that improves household stability, forces individuals to attach greater value to the future, stimulates the development of other assets, increases political participation, and enhances the welfare of offspring, among other things (Page-Adams and Sherraden 1996).

Financial assets are financial holdings that include savings and checking accounts, home equity, stocks, and bonds. Assets are important because they provide people with a resource to draw upon in times of need. Asset accumulation is necessary for consumption, the ability to cope with risk, and the ability to make large purchases (e.g., a home or small business). Since assets create assets, they are necessary to help poor people escape from poverty (Schreiner et al. 2001). People without assets are more vulnerable to economic crisis and less able to rebound from financial emergencies.

The asset gap between white and minority households has been identified in both popular and academic literature (Boshara 2003). The average black household has 54 cents of income and 12 cents of wealth for every dollar earned and held by whites. Latinos earn 62 cents of income and hold 4 cents of wealth for each dollar belonging to whites (Boshara 2003). Native Americans, who experience poverty at a higher rate than any other group in the nation, have considerably fewer assets and less wealth than the rest of the population (King et al. 2003). Given that rural minorities tend to have lower incomes than urban minority groups, it is probable that their wealth gaps are similar to, if not worse than, those described here. IDAs can provide rural participants with a structure and incentive to save for homeownership or other wealth building activities.

Individual Development Accounts

Community development organizations, community or faith-based groups, foundations, employers, and, often, local governments provide funds for IDAs to match every dollar saved by an account holder (HUD 2003). The savings match varies from 1:1 to 9:1, depending on the participating organizations (Enterprise 1999). The IDA program is usually carried out by a partnership between a community group and a participating financial institution.

While families and individuals are contributing to their IDA accounts, they are also encouraged to reduce their spending to increase the likelihood of their success in the program (HUD 2003). Financial literacy courses are integral parts of the programs and are often mandatory for program participants. These courses provide information on saving, budgeting, and economic literacy (Enterprise 1999). The funds saved in IDA accounts can only be used for specific purposes, such as downpayments for homes, tuition, and start-up capital for small businesses. This program requirement reinforces homeownership, education, and entrepreneurship as wealth building goals for low-income families.

The Assets for Independence Act (AFIA) was signed into law in 1998 to offer five-year federal grants to organizations to administer IDA programs. The act authorized the Administration for Children and Families (ACF) of the Department of Health and Human Services (HHS) to coordinate the program. The purpose of this program is to establish demonstration IDA projects to determine the effects of providing low-income individuals with an incentive to accumulate assets.

The U.S. Department of Housing and Urban Development (HUD) has also been involved in the support and development of IDA programs. In collaboration with Azteca Community Loan Fund (ACLF), the Housing Assistance Council (HAC), and, initially, the McAuley Institute (which has since ceased to operate), HUD helped to develop a Colonias IDA Pilot Program to help serve the needs of people living in colonia communities on the U.S.-Mexico border. This IDA program is the first attempt to use IDAs to meet the housing needs of low-income colonia families.

Rural Areas

Increasing the level of wealth and financial assets for rural residents is a major component in the larger goal of revitalizing rural communities. However, given the low incomes and high levels of poverty in some rural areas, building assets among rural residents may be perceived as an unattainable goal. While 14.6 percent of the nonmetro population were poor in 2000, the metropolitan poverty rate was lower at 11.8 percent. The median nonmetro household income in 2000 was $33,687, compared to $44,755 in metro areas. Rural incomes are 80 percent of the national median income and poverty rates are higher in rural areas than nationally – 14.6 and 12.4 percent, respectively. Merely making ends meet is often a challenge for many rural low-income individuals and, with additional challenges that are inherent to small town living, participating in an asset-building program can be especially difficult.

The small size of rural communities and their isolation often limits residents' participation in many activities and programs. The lack of public transportation and the distance from resources limit their access to high quality jobs, goods, services, social supports, and information networks (Rist and Malkin 2001). While only 2 percent of urban areas lack public transportation, a staggering 80 percent of rural areas are missing this necessity. The paucity of public transportation causes low-income rural residents to face higher levels of unemployment, a lack of child-care options, and isolation from support networks (Rist and Malkin 2001).

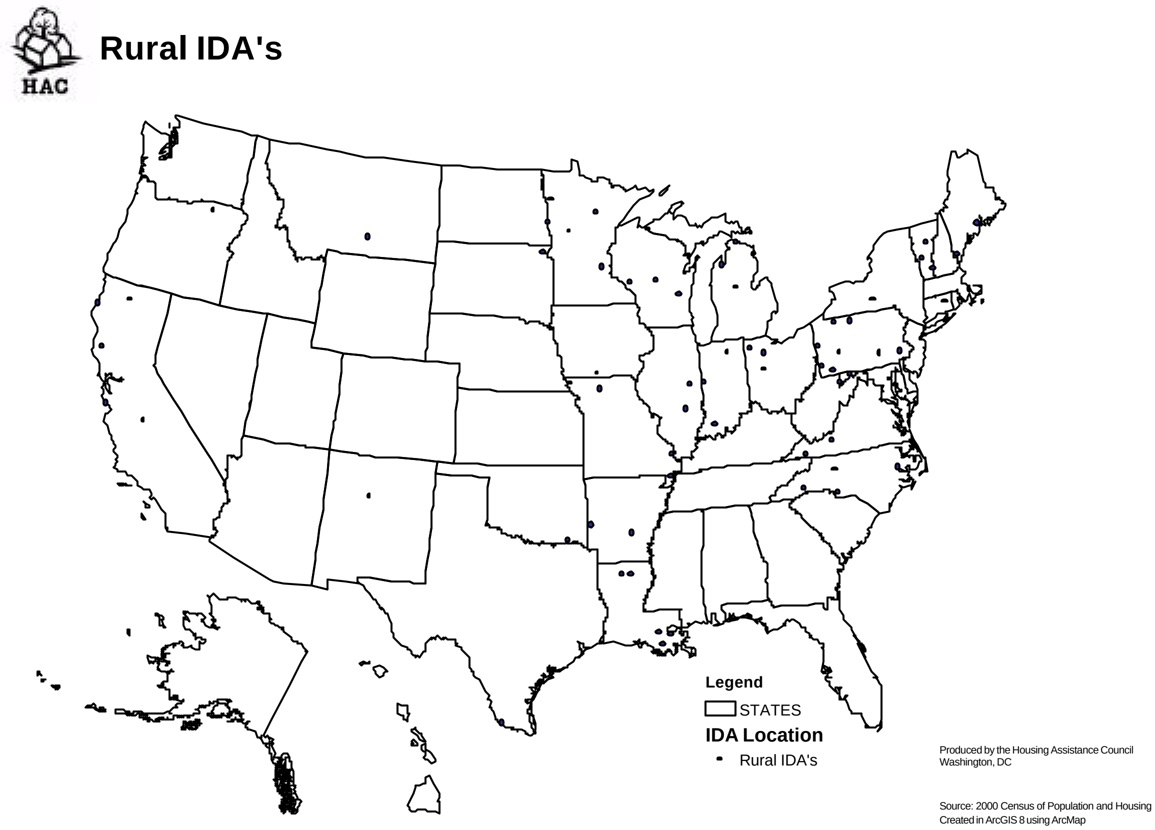
Although the homeownership rate is higher in rural areas (76 percent) than the national rate (67 percent), many rural homeowners live in substandard houses and manufactured homes that are often overcrowded. Many rural homeowners are also victims of unscrupulous mortgage financing involving loans with extremely high interest rates. IDAs can be a powerful tool to help address housing issues for low-income rural households by helping them accumulate enough wealth for a substantial downpayment on a quality home.

Rural areas differ from urban communities socially and economically. Rural individuals are less educated than their urban counterparts. The constant out-migration of young people from some rural areas also has a negative impact on the economic vitality of rural communities. Another issue that adds to the economic barriers of rural areas is the lack of banking institutions. This deficiency, specifically as it relates to mortgage financing, stunts the economic growth of rural areas, on an individual and regional level (Rist and Malkin 2001). Access to mortgage credit in rural areas has become increasingly difficult over recent years for a number of reasons. The number of community banks has continued to decline, resulting in a lack of access to private sector capital, which has a detrimental effect on the mortgage market in rural areas. Rural areas also face a comparative disadvantage in terms of financial markets, which has led to higher costs of borrowing money for comparable loan products (HAC 2004b).

IDA Programs in Rural Areas

In 2003 CFED conducted a survey of IDA programs across the country (CFED 2003). Responses were received from 308 community organizations that administer IDA programs. Of the 308 respondents, 72 organizations (23 percent) identified their service areas as remote or rural. While this survey is not a comprehensive analysis of every IDA program in the country, [1] it does provide an approximation of the number of rural IDAs that are in effect in rural communities today. Below is a map depicting the location of the 72 rural IDA programs.

[1] The CFED survey includes self-reported information only from the 308 organizations that responded to the survey; data were collected until December 2003 but the number of IDA programs has continued to grow since then. CFED estimated that approximately 400 IDA programs were in effect by 2003.



An analysis of the data provided by CFED's survey of the 72 organizations operating IDAs in rural and remote regions illustrates important aspects of program type and operation. The following is a summary of some of the available data.

<u>*Participant Demographics*</u>

Participant Income. The majority of rural programs serve clients with annual incomes between $10,000 and $29,999. Sixty-two percent of all rural clients had incomes in this range, which is slightly lower than the 72 percent rate for clients served nationally. Rural IDAs serve a slightly higher percent of clients with incomes below $9,999 – 16 percent – as compared to all IDAs surveyed, 12 percent.

Age of participants. The majority (55 percent) of rural participants are between the ages of 30 and 49.

Sex of participants. Women participate in IDAs at more than three times the rate of men. Nationally and in rural areas, women comprised on average more than 70 percent of IDA clients.

Race of participants. Rural IDAs reflect the general pattern of IDA usage in terms of race and ethnicity.

- 19 percent of participants are African American.
- 1 percent are Native Hawaiian.
- 19 percent are Native American.
- 3 percent are Asian.
- 60 percent are White.
- 7 percent are Hispanic.
- .09 percent are Other.

It is interesting to note that Native Americans demonstrate a high usage rate among rural IDAs, 19 percent, as compared to a national usage rate of 1 percent. It is also intriguing that African-American participants only make up 19 percent of the rural IDA program participants. Perhaps this low rate of participation is due to the lack of IDA programs being made available in certain regions, such as the Delta and the Black Belt.

Program Characteristics

Number of programs. The majority of rural organizations participating in the survey (57.7 percent) operate only one IDA program. However, organizations are providing multiple programs to meet the varying needs that exist in rural areas.

- 58 percent of the organizations operate one program.
- 30 percent of the organizations operate two programs.
- 7 percent of the organizations operate three programs.
- 4 percent of the organizations operate four programs.
- 1 percent of the organizations operate five programs.

Funding Source. Funding for IDA programs is available from a number of entities but one of the main sources is the U.S. Department of Health and Human Services' Assets for Independence (AFI) federal grant program mentioned above. This program provides funds to community-based nonprofit organizations and state, local, and tribal government agencies to implement IDA programs. While AFI grants supported more IDA programs nationally than any other funding source, less than 40 percent of all rural IDAs surveyed were supported by AFI. More rural IDAs were supported by other federal, state, and local agencies or private sector entities.

Conclusion

IDA programs can provide low-income rural residents with the resources needed to save and become homeowners. It has been recognized that there are specific challenges to administering IDA programs in rural areas (e.g., geographic distance, lack of organizational resources) and innovative strategies are often needed to overcome these barriers (Curley and Grinstein-Weiss 2003). Many rural counties lack nonprofit organizations to organize IDA programs and the geography and dispersed populations of many rural counties preclude bringing large groups of participants together for financial literacy or budget counseling courses. Most poverty reducing strategies, such as IDAs, are based on broad national perspectives and do not always take into consideration local community factors that could affect the level of success for the program. It is necessary to understand the significance of the ways in which different geographic locations yield different economic circumstances for their specific populations (Curley and Grinstein-Weiss 2003).

It must also be acknowledged that rural communities with significant minority populations (e.g., the border colonias, Native American lands) have specific income and housing challenges that may work against the implementation of programs to build wealth and assets. Nevertheless, while the homeownership rate for rural minorities is higher than that of minorities living in metropolitan areas (61 percent and 47 percent, respectively), gaps still exist between rural minorities and rural whites. IDAs can provide rural minorities with both capital and skills to build the assets needed to purchase their own homes.

With these issues in mind, the following research provides an overview of IDA programs that operate in rural areas. Several rural community organizations that have experience with IDA programs were interviewed to provide insight on this topic. The study identifies the common challenges recognized by the organizations offering IDAs in rural communities and discusses techniques and tools used to overcome these challenges. Given the extensive housing and income factors limiting wealth accumulation among low-income rural minorities, it is important to assess how IDA programs operate within the context of special needs regions. To illustrate the unique challenges and resources available, the study also provides an in-depth assessment of specific IDA programs offered in the border colonias, Appalachia, and Native American lands.

METHODOLOGY

The research used multiple methods to examine the operation of rural IDA programs. First, data from the CFED survey were analyzed to provide a location analysis to determine where rural programs exist and the nature of their operations. Second, HAC conducted a survey of rural Assets for Independence Demonstration Program grantees to provide a more exhaustive review of the challenges these organizations face in administering IDA programs. (The interview protocol for the survey is included in Appendix D and survey respondents are listed in Appendix E.)

AFI grantees were selected because each organization followed the same eligibility requirements, qualified uses of the IDA savings, and allowable uses of the federal grant. This allowed for a consistent analysis of rural organizations since they were all participating in the same program while following the same guidelines. Among the organizations that competed for the funding, preference was given to those that work with families with children, as well as organizations that target individuals within neighborhoods experiencing high rates of poverty or unemployment (ACF 2002). These organizations were able to provide valuable suggestions to other organizations serving these types of populations in extremely poor regions.

Lastly, comprehensive case studies of programs operating in high needs regions were completed to further elucidate the challenges of providing asset building programs in regions with high rates of poverty, high unemployment rates, and poor housing conditions.

Three site visits were conducted to analyze the operation of IDA programs in rural high needs areas. Poverty and housing problems are particularly pervasive in these regions and the organizations highlighted in the report provide insight as to how these programs work and the challenges of implementing asset building in high needs areas. These organizations were selected to depict the ways that they have been able to overcome seemingly insurmountable barriers to help low-income rural individuals build wealth. Site visits were conducted in the border colonias, on Native American lands, and in Appalachia. The local organizations, several participants, and the financial institutions were interviewed to determine how their IDA programs were successfully implemented in their communities. (These interview protocols are included in Appendices A, B, and C.)

ASSETS FOR INDEPENDENCE DEMONSTRATION PROGRAM

The Assets for Independence (AFI) Demonstration Program was established in 1998 by the Assets for Independence Act, and is conducted by the Department of Health and Human Services (HHS). The AFI Demonstration Program offers five-year federal grants to nonprofit organizations, tribal governments, and Community Development Financial Institutions (CDFIs) to administer IDA programs. The grantees are responsible for committing non-federal matches to the grants they receive, which can come from private and public sources (ACF 2002). The grants are administered on a competitive basis; however, preference is given to applicants that work with families with children, provide more private than public funds, and focus on individuals in communities with high rates of poverty or unemployment (Boshara 1998a).

The AFI program was created to determine the effects of providing people with an incentive to accumulate assets and the extent to which asset-based policy increases self-sufficiency and improves families and communities. Households with incomes less than 200 percent of the poverty line or households eligible for Temporary Assistance for Needy Families (TANF) or the Earned Income Tax Credit (EITC) can participate in the AFI Demonstration Program. The savings can be used for a new home, microenterprise, or post-secondary education (ACF 2002).

According to the CFED survey of IDA programs, AFI grants funded more IDA programs than any other reported source of government or private funding (CFED 2003). The AFI grantees provided a substantial number of organizations from which to obtain program information.

From the program's first year of operation in 1999 through 2001, 123 applications were funded in 41 states and the District of Columbia. The recipients of these grants were contacted to determine which organizations provided IDAs to rural residents. It was discovered that 21 percent (26) of the grantees had rural participants in their IDA programs. AFI grantees that serve rural populations were interviewed to determine the challenges they have encountered while administering an IDA program in rural communities, the solutions they have used to overcome these challenges, and the resources they need to further improve their programs. More than 65 percent (a total of 17) of the organizations with rural participants responded to a HAC-implemented telephone or e-mail survey. [1] Each organization identified particular challenges and solutions that should be taken into consideration when developing policies for rural IDA programs in the future.

Challenges

A variety of challenges have been experienced by the rural community organizations that administer AFI-funded IDA programs. Perhaps the most often encountered obstacle was difficulty in raising matching funds. When applying for the AFI grant, the applicants must commit or secure a commitment for an amount equal to that of the grant. Organizations are presented with the challenge of requesting sufficient funds to support a program with the ability to reach an adequate number of people. They must balance this with making significant matches to participants' savings while being cautious about requesting too much money, so as

[1] The organizations that did not respond to the initial e-mail survey were contacted via telephone to respond to the questions on the survey.

not to leave themselves unable to raise enough funds to match the federal grant. Some organizations have experienced difficulties when trying to convince foundations to provide funding for an IDA program.

The federal grant can be used for: matching deposits into IDAs; counseling; administration; and monitoring and evaluation activities. While the non-federal funds (match funds) are not restricted in the same manner, no more than 9.5 percent of the federal grant can be used on the latter three purposes (Boshara 1998a). This tends to put a strain on organizations that need more match funds to support their administrative and counseling efforts.

The AFI Demonstration Program is targeted to people with incomes less than 200 percent of the poverty line, or who qualify for the EITC or TANF. This income requirement has caused problems on both ends of the spectrum for the rural organizations surveyed. While many of the organizations' constituents' incomes were well below 200 percent of the poverty line, these low incomes prevented them from being able to save enough money to participate in the program. Seven of the organizations required families to save as little as $20 a month for their IDA programs, an amount that proved to be more than many families could afford to set aside. On the other hand, five organizations had families whose incomes were too high to participate in the program but who could have benefited from an asset-building program.

Table 1: 2004 HHS Poverty Guidelines

Size of Family Unit	48 Contiguous States and D.C.
1	$9,310
2	12,490
3	15,670
4	18,850
5	22,030
6	25,210
7	28,390
8	31,570

Additional issues that tended to make it more difficult for rural organizations to administer their AFI-funded IDA programs were credit problems, housing costs, and high unemployment. Although the IDA program helps many families save enough money for a downpayment on a new home, housing costs are often so high that, even after they have enough money for a downpayment, the families often cannot afford the mortgage payments.

Poor credit also prevents many families from qualifying for mortgage loans. High levels of unemployment are a common problem in many rural communities, due to the geography, economy, and transportation issues. Lack of a job usually blocks an individual's participation in a savings program. While the rural unemployment rate for the second quarter of 2002 was 5.5 percent (HAC 2002), local levels of unemployment in high needs rural areas often greatly exceed that number. In addition, even when they are employed, rural workers earn 28 percent less on average than metro workers (HAC 2002).

The organizations surveyed experienced a myriad of additional problems while administering IDA programs in rural areas. Some of the common challenges follow.

Rural Challenges

- Gathering enough people at one time for financial literacy classes

- Competing with USDA Rural Development mortgages[1]
- Rural residents' resisting government programs
- Managing cases from a distance
- Finding transportation for participants and financing transportation for staff

Organizational Challenges

- Convincing potential participants that the program is legitimate
- Locating appropriate loan products for participants
- Supporting and implementing marketing efforts to promote the program

Individual Challenges

- Overcoming barriers to participation (e.g., limited time, limited disposable income)
- Responding to family emergencies without having to withdraw from the program
- Saving money despite low and possibly irregular incomes

Solutions

While many of the organizations surveyed have been presented with numerous challenges, they have not let these issues prevent them from providing IDA programs to their constituents. When asked how they addressed the identified challenges the organizations revealed a number of creative and innovative solutions (see Table 2).

Table 2: Solutions

Challenges	**Solutions**
Credit issues	Develop partnerships with creditors and credit counselors to assist individuals with their credit issues.
Lack of administrative funds	Solicit the help of volunteers (e.g., VISTA volunteers) to assist with the implementation of the program.
Insufficient downpayment funds	Develop alliances with organizations that provide downpayment assistance that can complement IDA savings.
Training efforts	Seek help from various local nonprofit organizations to assist with financial literacy and homeownership classes.
Lack of funds	Secure state and Community Development Block Grant funds and/or Federal Home Loan Bank funds.
Marketing	Market an IDA program through word of mouth.
Case management	Communicate with clients via e-mail to overcome transportation issues or send case managers to the county seat on a periodic basis. Participants can also be convened periodically in one location.

Source: Phone and e-mail surveys of AFI grantees administering rural IDAs

[1] Mortgages provided by Rural Development are often easier to access and take less time to obtain than downpayment savings from an IDA program, which usually takes at least two years to complete and often more than that if the participant has credit issues to clear up. In addition, USDA does not require downpayments for buyers obtaining mortgages directly from the agency through its Section 502 program.

Resources Needed

The organizations administering AFI-funded IDA programs in rural areas were asked what resources they needed to continue to administer a successful program in their communities. Most of the needs they identified could be categorized in three areas: funding, affordable housing, and changes in the AFI regulations.

Lack of funding appears to be a major impediment for rural organizations in administering their IDA programs. Organizations reported that they need funding for program and staff operations; many organizations need more staff and more funding for salaries. It was also pointed out that rural organizations need additional funds for travel expenses since per-client costs are higher than they are in urban areas. Several organizations had difficulties finding match funds and suggested that the match requirement for the AFI program should be lower for rural organizations since there are fewer resources in these communities. It was also suggested that state and local sources should supply the match funds for rural organizations and that more organizations should approach the regional Federal Home Loan Banks for funding.

The lack of quality affordable housing is a serious issue that rural communities across the nation experience. Many of these organizations found this to be a challenge when families were using the IDA program to save money for homeownership. Although the program proved effective in saving relatively large sums of money, these were often not enough for downpayments on homes. Some organizations believed that it was necessary to provide additional downpayment assistance to complement the savings from the IDA. Other organizations found that there were not enough mortgage products for rural homebuyers and that increasing the availability of mortgages for rural residents would be beneficial.

A number of organizations found that the program requirements and eligibility requirements of the AFI IDA program created difficulties when administering the programs. Some believe that increasing the income requirements of the program to allow more families and individuals to participate in IDAs would be beneficial. Several organizations suggested that the program requirements be changed to allow IDA participants to use their savings to purchase automobiles. The lack of public transportation in rural areas makes it necessary for most rural residents to have cars. Owning automobiles would make it possible for individuals to drive to work. Currently, the AFI IDA savings can only be used for homeownership, microenterprise, and post-secondary education.

Additional resources or changes that organizations claimed would increase the effectiveness of their rural IDA programs are:

- make the definition of community redevelopment more specific for banks in order to mandate engagement with low-income communities;
- create opportunities for banks to play leadership roles in community programs/organizations; and
- create a preliminary IDA program dedicated to credit repair to prepare individuals for a standard IDA program.

Asset building among very low-income populations presents challenges that must be examined beyond those identified by the survey respondents. In order to understand the impact of high poverty, low employment, and serious housing stress on savings and asset creation, the research team conducted three case studies, illustrating IDA program operation in challenging rural areas. Each of the following case studies presents unique geographic, cultural, and administrative challenges. The sites visited were Owsley County, Ky., in Appalachia; Hidalgo County, Texas, on the U.S.-Mexico border and containing many colonias; and the Umatilla Reservation in Umatilla County, Ore. The local sponsoring organizations, several participants, and the financial institutions involved in the implementation of IDA programs were interviewed for these case studies. Informants were asked to discuss program operation, the challenges faced in implementing the programs, and the innovative strategies used to overcome these issues.

CASE STUDY #1: PATHWAYS TO PROSPERITY: OWSLEY COUNTY ACTION TEAM

Appalachia

The Appalachian Regional Commission (ARC) defines Appalachia as selected counties in 12 states stretching from northern Mississippi to southern New York and including every county in the state of West Virginia. Owsley County is located in Central Appalachia, which has experienced higher levels of poverty and economic and social problems than the rest of the region. Approximately 7.5 million people inhabit this predominantly rural region and an overwhelming majority (95 percent) are white.

A staggering 27 percent of the residents of Central Appalachia lack high school diplomas. The situation is even worse in eastern Kentucky, where 37 percent of the population has not completed high school. The deterioration of the mining and agricultural industries in Central Appalachia have contributed to the decline of the region, making way for high levels of poverty and unemployment. The median income of Central Appalachians is $28,531, merely two-thirds the national median income of $41,994. Approximately 25 percent of the households in the region have incomes below $15,000, while only 16 percent of the nation has incomes that low. While 12 percent of the nation lives in poverty, almost 17 percent of the residents of Central Appalachia live in poverty. Creating and administering an IDA program in a region with such complex and interrelated social and economic challenges has been difficult.

Owsley County

Located in the mountains of southeastern Kentucky, Owsley County has a population of 4,858. The lack of major highways and rail service isolates it from other parts of the state. The largest sources of income in the county are Social Security and Food Stamps (OTS 1999). Sixty years ago the county's population was twice the size it is today and the area was profiting from small-scale farming. However, the county's economy has deteriorated and it has evolved into the poorest non-Hispanic white county in the country, and the sixth poorest county overall (AECF 2004). The total poverty rate there is 45 percent, with a child poverty rate of 56 percent. In 1999, the median household income was $15,800, less than half of the U.S. nonmetro median household income of $33,700 (AECF 2004).

The Program

In an attempt to respond to the housing and poverty issues affecting the county, the Owsley County Action Team developed an IDA program. In 1996, the Action Team partnered with the Mountain Association for Community Development (MACED) and the Appalachian Federal Credit Union (AFCU) to create the "Pathways to Prosperity" IDA for very low- and low-income individuals and TANF recipients in Owsley County.[1]

The Action Team obtained funding from a number of sources to develop three separate IDA

[1] Welfare reforms were enacted shortly before the inception of this program to allow TANF recipients to save up to $5,000 in an IDA without losing their benefits (OTS 1999).

programs. The savings from each program can be used for homeownership, home repair or remodeling, microenterprise, job training, or post-secondary education (Turner 2004). The guidelines for each of the three "Pathways to Prosperity" IDA programs are:

- participants must be at least 13 years old;
- participants must be residents of Owsley County;
- participants' income must be at or below 200 percent of the poverty level; and
- income saved must be income earned.

Every month, each participant is required to deposit a minimum of $15 in his/her IDA account at AFCU. Each participant establishes two separate accounts at the credit union, one regular savings account and one IDA account. Quarterly statements are issued for the regular accounts while monthly statements are issued for the IDA accounts. The program length is two years, during which the match money is held in a pooled account; it is made available after the requirements of the program have been met. The participants' savings accrue 6.5 percent interest during the two-year period, during which time participants are required to attend monthly meetings with other IDA participants, as well as financial literacy and asset specific classes, including general financial literacy, microenterprise, and post-secondary education. Community volunteers also provide classes on home repair, remodeling, and homeownership. Individual sessions wherein participants review and learn to read their credit reports are also provided for IDA account holders.

Table 3: Pathways to Prosperity I

July 1997 – January 2002
6:1 Match
36 Participants
- 31 completed the program saving a total of **$10,759**
- With match fund contributions, total amounts to **$74,564**

Projects funded using IDA savings
- 2 home purchases
- 23 home repair and remodeling
- 3 post-secondary education
- 4 micro-enterprise expansions or start-ups

Reasons for participants dropping out
- 3 lost interest in the program
- 1 relocated
- 1 unable to save enough funds

Participant Experiences

The initial IDA program, Pathways to Prosperity I (see Table 3) was overwhelmingly successful with a graduation rate of over 86 percent. Funding was provided by CFED (then the Corporation for Economic Development) and the W.K. Kellogg Foundation. A local committee was developed to determine the match rate for this program (Turner 2004). Six of the graduates of this program were interviewed in person to assess their involvement in and success with their IDA savings.

The majority of the participants interviewed discovered the program through family members or friends, while one learned about the program at a community meeting. Half the formal participants already had a previous relationship with the Owsley County Action Team and none of these participants had a previous relationship with the financial institution that eventually held their IDA account, AFCU (Turner 2004). Only three of the six participants interviewed had been involved in any type of savings or investment in the past; two had savings accounts prior to the IDA and one had an IRA. Through the program all six participants were able to save successfully and use the funds for wealth building activities. Each was able to save a total of $2,500 over a period of two years. Two of them used their funds to purchase homes, three used the funds to repair or improve their current homes, and one used the savings for post-secondary education.

The participants interviewed were highly positive about the program. They stated that the program gave them the opportunity to engage in activities they would not otherwise have been able to do (e.g., buying a home or paying off college debt). Also, they said, the program gave its participants a world of knowledge on saving, credit, loans, budgeting, and wise spending habits. One participant stated that Pathways to Prosperity was one of the most valuable programs to which the community had access and that the program provided them with the structure they needed to achieve goals.

Table 4: Pathways to Prosperity II

November 1999 – December 2001

2:1 Match

24 Participants

- 3 completed the program saving a total of **$831**
- With match fund contributions, total amounts to **$2,448**

Projects funded using IDA savings

- 2 microenterprises
- 1 post-secondary education

Reasons participants left the program

- 14 lost interest in the program
- 4 moved out of the area
- 1 became ineligible for the program
- 1 was not able to save
- 1 had a private reason

The second Pathways to Prosperity program (Table 4) was supported by remaining CFED and Kellogg funding from Round 1 but was not as successful as the first. Unfortunately, nearly 90 percent of the participants dropped out before completing the program. The Action Team suspects that this failure can be attributed in large part to the reduced match rate, 2:1, significantly lower than the 6:1 match rate of the initial program. The organization was also experiencing a number of staff changes during the time this program was in operation and this had an adverse effect on the administration of the program (Turner 2004).

The third IDA initiative (Table 5) administered by the Owsley County Action Team was developed specifically for young people, ages 14 to 19, and was the only one of the Action Team's three IDAs that was still in operation when this research was conducted in 2004. It was a two-year program that allowed the youth to withdraw their funds upon high school graduation. It was extremely successful, with only two people dropping out. In addition to the 12 that had graduated by mid-2004, ten more had joined the program. This IDA was supported by AFI funds, with the match funding raised by the Action Team. The Action Team expected to rely on AFI funding until the end of 2004, at which time the program's continuation would depend on the organization's ability to identify additional funds.

Overcoming Challenges

In the beginning stages, the Action Team found it difficult to market IDA programs to the residents of Owsley County since most thought free money was too good to be true. Due to the close-knit character of the community, however, once a few people graduated, their success was proof to their friends and family that the program was legitimate. The best marketing tool for the program has been word of mouth. (Turner 2004)

When the program began, the guidelines allowed only those whose incomes were at or less than 100 percent of the poverty level to participate. Six months later, the threshold was raised to 200 percent of the poverty level, allowing additional people to participate in the program. Some of the participants were not willing to fulfill their required number of hours of financial literacy classes and these people were forced to drop out of the program.

Table 5: Pathways to Prosperity III

2:1 Match for Youth Ages 14-19
14 Participants

- 12 completed the program saving a total of **$3,531**
- With match fund contributions, savings total **$10,522**

Projects funded using IDA savings

- 9 post-secondary education
- 2 microenterprise
- 1 home purchase

Reasons for participants dropping out

- 1 lost interest
- 1 became ineligible

MACED was involved in the development of the IDA only from 1996 to 2001 under a management agreement. MACED provided invaluable assistance through trainings and seminars and helped lay the groundwork for a successful IDA program. The Action Team has also developed a partnership with the University of Kentucky Extension Office, whose staff has helped with financial literacy classes. Lawyers and credit counselors have also donated their time to provide information on legal issues and credit issues. Community Based Services, a local organization, and Head Start have also contributed their efforts to the success of the IDA program. (Turner 2004)

CASE STUDY #2: COLONIAS IDA PILOT: AZTECA COMMUNITY LOAN FUND

Border Colonias

Colonias are rural, mostly unincorporated communities located in California, Arizona, New Mexico, and Texas along the U.S.-Mexico border and are characterized by high poverty rates and substandard living conditions. These communities began developing as early as 1900 but remained relatively unnoticed until 1990. Colonias were developed and still continue to exist for a number of reasons. Weak land use regulations and lack of enforcement by authorities have allowed developers to purchase tracts of land and sell individual lots without undertaking any subdivision process or providing necessary infrastructure. The small, inexpensive lots are appealing to low-income residents who often build homes on the land. Because they must use whatever materials are available, these homes are often substandard. (HAC 2002)

Colonia communities have experienced some of the worst living conditions in the United States. These communities are typified by a lack of potable water, sanitary sewer systems, paved roads, and adequate drainage. Colonias also have high incidences of severely substandard housing conditions and households with annual incomes far below regional and national averages. (HAC 2002)

Housing organizations serving communities along the U.S.-Mexico border have for some time sought effective ways to address the housing and credit needs of colonia residents. These needs have often proven difficult to meet, due in part to at least four core factors:

- low incomes, which are often earned in part-time jobs;
- temporary or seasonal work;
- poor or non-existent credit histories; and
- insufficient savings to contribute equity to a financing arrangement (e.g., a downpayment).

Hidalgo County

Hidalgo County is located in the southwestern tip of Texas on the U.S.-Mexico border. The population of the county is nearly 90 percent Hispanic. Merely one-fifth of the population has a high school diploma and less than 9 percent has acquired a bachelor's degree. The median household income is $24,863, compared to the national median income of $41,994. Nearly one-third of the families are below the poverty level, while 65 percent of female-headed households with children under five years old are below the poverty level.

The Program

In collaboration with the U.S. Department of Housing and Urban Development (HUD), the McAuley Institute (which has since ceased operation), and Azteca Community Loan Fund (ACLF), the Housing Assistance Council developed the Colonias IDA Pilot Program to help serve the needs of people living in colonia communities in the U.S.-Mexico border region. This IDA program is truly a pilot in that it is the first attempt to use IDAs to meet the housing needs of low-income colonia families. ACLF administers the IDA program for families in Hidalgo County, Texas.

Since its inception, ACLF has focused exclusively on the housing needs of colonia residents in Hidalgo County. ACLF, along with its parent organization, Proyecto Azteca, performs extensive outreach to colonia residents, provides housing counseling services, provides construction-to-permanent mortgage financing for new homes, manages the self-help construction process, and provides loan servicing and post-purchase counseling to its borrowers. Every one of the over 110 new homes ACLF and Proyecto Azteca built in the early 2000s has served low-income colonia residents. (De LaRosa 2004)

The IDA program began operation in early 2002, with the first families enrolled in the program in March. The success of the program is dependent on the roles played by a number of partners. HAC developed the pilot and provides coordination and management functions. ACLF operates the program at the local level, recruiting participants, providing financial literacy training, and assisting participants in the purchase or rehabilitation of homes under other programs operated by these organizations. First National Bank and Wells Fargo Bank maintain the IDA accounts. HUD provides the primary source of match funds while the McAuley Institute, during its involvement, provided secondary match funds. (De LaRosa 2004)

The Colonias IDA Pilot Program has several goals. The primary objective of the program is to enable low- and very-low income colonia families to meet their housing needs through their savings and matching funds in a manner that promotes asset building. In addition, the financial literacy component enables participants to access mainstream financial institutions and develop a lifelong savings habit. Finally, it is hoped that the participation of the financial institutions that hold the IDA accounts will serve as the starting point for more involvement of these institutions in serving the needs of colonia residents over the long term. (De LaRosa 2004)

For the pilot to succeed, it has to take into account the special economic conditions, financial experience, and mistrust of mainstream financial institutions prevailing in the region. The issues of greatest concern are the following.

- Texas colonias in particular are home base for a number of migrant farmworker families with seasonal incomes (HAC 2002). A colonia IDA has to be flexible with respect to the savings pattern expected of participating families.

- Colonia families typically have very low incomes (HAC 2002). An emergency can prove crippling to the financial stability of a colonia family with little or no spare resources to address needs as they emerge. An IDA program needs to allow for emergency withdrawals of participant savings and be flexible with respect to repayment plans.

- Colonia families lack comfort with mainstream financial institutions and vice versa. The IDA program must include a strong educational component to help build relationships between colonia families and participating financial institutions. Local nonprofit partners need to play a major role in fostering trust and communication between the families and financial institutions (De LaRosa 2004).

- The definition of "allowable uses" under the colonia IDA pilot also has to take into account the special needs of these communities. A variety of housing improvement activities chosen by participating families must qualify as asset building ventures (HAC and HUD 2001).

- Many colonia families are already homeowners. However, their homes may lack amenities, need repair, or require installation of septic systems, wells, etc. A family may need to build an addition to an existing unit to accommodate growth in family size. Typically, colonia families undertake these activities with surplus income accumulated immediately after an agricultural season, or upon receipt of their earned income tax credit. In order to encourage families to deposit this income into their IDA savings accounts, the IDA program must allow families relatively quick and easy access to their funds for allowable home improvement uses (HAC and HUD 2001).

The eligible uses of the match savings under the Colonias IDA Pilot Program differ from the standard IDA model. The Colonias IDA Pilot Program does not allow match savings to be used towards education or microenterprise. Rather, the partner organizations agreed that the eligible uses should be focused exclusively on housing. Match savings may be used to cover many of the housing-related expenses that a typical colonia family may incur while acquiring or improving housing. However, the IDAs must be used in a manner that promotes asset building. Allowable uses of IDA funds include but are not restricted to land title work, conversion of a contract for deed[1] to a standard mortgage, lot purchase, closing costs, downpayments, minor home repair and improvement projects, water-sewer hookups, and installation of septic systems, cisterns, or wells. Some of these serve as interim goals while a family continues to participate in the IDA program and save towards a larger goal.

The program's goal is to recruit 75 participating families. ACLF recruited participants for the program from among the families with whom it was working in other program areas. Each family has a savings goal of $300 per year, for a total of $600 in personal savings before completing the program. To insure maximum flexibility, the family savings contribution per month is not restricted by either an upper or lower limit. Ideally, each family saves approximately $25 per month. However, lump sum deposits after a growing season or upon receipt of the earned income tax credit are also acceptable. (De LaRosa 2004)

HUD funds are used to provide a 2:1 match for each year during the two-year period for all program participants. The McAuley Institute, while it was involved, provided additional funds to enable 20 female-headed households to receive an additional 1:1 match, for an overall 3:1 match rate. Participating families have access to $1,800 at the end of the two-year period; the 20 female-headed households sponsored by the McAuley Institute had access to $2,400.

[1] A contract for deed arrangement, which is used frequently in the colonias, does not allow the purchaser to obtain equity in the property; land ownership remains with the seller until the total purchase price is paid.

Participant Experiences

Families are allowed to withdraw their contributions and matching funds for any of the allowable uses after an initial six-month period. Families are permitted to continue saving for the next goal after an initial withdrawal. Emergency withdrawals for non-housing-related purposes are also permitted, although a family does not have access to the matching funds for non-housing-related uses. There is no repayment requirement on emergency withdrawals, unless a family is interested in developing a personalized plan for this purpose. The family is allowed to simply resume saving towards its goal after it has met its emergency needs.

ACLF was able to gather information about the financial assets and liabilities of the households who graduated from the IDA program and those who left (Table 6). Of these 20 participants, only four had either a bank account (checking or savings) or 401(k) savings prior to the establishment of the IDA; 80 percent of the participants were unbanked. The average assets of the participants who had savings was $121. It is interesting to note that three of the families with prior savings were among those who withdrew from the program.

Table 6. Financial Assets of Selected Colonias IDA Participants

	IDA Savings	Previous Assets	Previous Liabilities	Net Assets/ Liabilities	With IDA Match
Total	$10,873	$482	$15,913	-$3,558	$18,037
Average	$544	$24	$796	-$178	$1,061
N	20	4	11	20	17

Conversely, a significant percentage of families had debt problems when starting the program. Fifty-five percent of these participants had household debts; the average debt of participants with existing liabilities was $1,447. The most frequent debt was money owed to family or friends. This indicates the use of social support networks for financial assistance among these households. Six of these households owed money to family and friends, with an average debt of $933. Three households had outstanding credit card balances averaging $1,020 and three had past due bills averaging $218 (Table 7).

Table 7. Pre-Existing Debts of Selected Colonias IDA Participants

	Owe Family/ Friends	Past Due Bills	Credit Cards	Student Loans	Medical Bills	Other	Total
Total	$5,600	$655	$3,060	$2,748	$300	$3,550	$15,913
Average	$933	$218	$1,020	$2,748	$300	$3,550	$1,447
N	6	3	3	1	1	1	11

The issue of pre-existing debts is important in that debt is a major obstacle to savings. However, debts alone did not prevent participants from meeting their IDA goals. Five of the families who graduated from the program began with debts over $1,000, with the highest debt load being $3,230. The large size of participants' debts, especially in comparison to their pre-existing savings, also suggests a need to allow IDA match funds for the purpose of paying off debts and establishing good credit. (De LaRosa 2004)

As of mid 2004, when this research was conducted, ACLF had graduated 21 families, while 18 families continued to be active in the program and three had withdrawn from the program. The families that completed the IDA program used their savings for downpayments on homes financed through ACLF or for home improvement and rehabilitation. ACLF's IDA families purchase specially designed houses called "cascarones," which have all the major systems complete but none of the final interior components (finished flooring, ceiling tiles, paint or paper on the walls) (De LaRosa 2004). Using the mutual self-help development model, the families then contribute 400 hours or more in labor to complete the house. The sweat equity lowers the cost of the homes significantly and provides immediate increases in the value of the homes.

The primary goal of the pilot program has been met for the families that successfully completed their savings. Meeting the second goal has proven more elusive. While the families have entered the ranks of the "banked" through the program, they may not continue to use bank accounts after withdrawing their IDAs. Of the five graduates who were interviewed during this project, four were not making monthly savings in any amount and, while the fifth person was saving approximately $40 per month, she did not have an active bank account.

There are two causes for the lack of continued savings among IDA graduates. The first is the low and very low incomes of participants. There are many demands for the limited wages of poor households. Additionally, all of the graduates interviewed indicated that they were applying any available funds to continued improvements on their houses. It is logical that the household expenditures of new homeowners would increase. Unfortunately, the opportunity costs for spending on the houses may preclude making consistent savings deposits.

The final goal of the program was to facilitate a greater involvement of mainstream financial institutions in colonias communities. Preliminary indications are that this may be the case over the long term. ACLF did not have a relationship with First National Bank prior to soliciting its involvement in the IDA program. First National was very interested in serving as the holder of the IDAs and was able to finalize an agreement with ACLF within two weeks.

First National gives a presentation on saving and checking accounts as part of the financial literacy training and the bank also provides participants with an opportunity for zero-fee, no-minimum-deposit checking accounts for one year after graduation. First National has expressed interest in continuing to work with ACLF should there be an opportunity to provide more IDAs.

First National Bank has proven to be a valued partner in the pilot program. One significant barrier to its ability to expand its services in the colonias is that it does not have any marketing materials or other documents in Spanish. In order to bring the unbanked to First National, the language barrier must be the first thing breached.

Overcoming Challenges

The results of ACLF's IDA program indicate that IDAs can be a powerful tool for addressing the housing needs of colonia families. All the people interviewed for this project, from participating families to the staff of ACLF and First National Bank, unequivocally endorse the pilot project and favor an expansion of the initiative. ACLF staff consider the IDA a superior tool to direct downpayment assistance. Staff also report that the effort required to meet the savings goal provides participants with an additional sense of accomplishment and pride in homeownership. While the goal of saving even $600 may be daunting for the very low-income colonia residents, ACLF staff believes that the majority of participants could accomplish this.

Graduates of the program expressed an interest in participating in a second round of IDAs, if permitted. They recommended that the program expand its eligibility for additional rounds. They also supported the expansion of the program's guidelines to allow for the broadest possible definition of allowable home improvement, rehabilitation, and repair.

Based on the high debt loads faced by IDA participants (Table 7) it is also advisable that IDAs be used for paying off debts and improving credit scores. It is standard advice among financial counselors that individuals should pay off debts first and increase their savings only after this has been accomplished (De LaRosa 2004). Making the retirement of debts an eligible use of IDAs would place the program in agreement with this well-founded principle. It would also be advisable for the program to allow for the establishment of a "rainy day" fund, for use on unforeseen household emergencies or repairs. Once again, this goal would be in agreement with standard financial counseling practice.

The results of the Colonias IDA Pilot Program demonstrate that IDAs can be a powerful tool for addressing the housing needs of colonias families. Within two years, 21 participants were able to reach their savings goal and either purchase a home or make improvements on their homes. Of these families, 16 were unbanked prior to participating in the program.

CASE STUDY #3: UMATILLA SAVES: CONFEDERATED TRIBES OF THE UMATILLA RESERVATION

Native American Lands

Native Americans are a very diverse population, consisting of members of over 500 tribes in disparate locations around the United States. Nevertheless, some important similarities exist across communities. Native Americans are historically one of the poorest groups in the country, and persistent poverty and inadequate housing conditions continue to be key issues on Native American lands nationwide. In addition, social problems such as substance abuse and a lack of access to quality education limit quality of life for many rural Native Americans (HAC 2002).

As of 2000, there were 2.9 million Native Americans in this country. Only 32 percent of Native Americans reside on Native American lands and 39 percent of all Native Americans live in rural areas. Native Americans make up only 17 percent of the population on Native American lands, while whites comprise the majority (65 percent) of the population on these lands. The geographic location of most Native Americans was dictated in large part by a series of regulations and laws passed to secure the lands taken by the government. During the 19th and 20th centuries, a series of acts and treaties established the reservation system and imposed a way of life for many Native Americans. There are now approximately 310 Native American reservations in the United States. (Shumway and Jackson 1995)

Poverty and housing issues are more extreme for Native Americans living on reservations than for those who reside elsewhere. One primary factor exacerbating the low quality of housing on Native American lands is a lack of financing for affordable homeownership opportunities. For decades a plethora of legal, socioeconomic, and cultural constraints have severely curtailed the level of residential financing on trust lands. Subprime and manufactured home loans are common on Native American lands and Native American borrowers experience a high rate of loan denials (HAC 2004a).

Umatilla Reservation

The Confederated Tribes of Umatilla Reservation is located in the northeastern corner of the state of Oregon, bordered by Washington state to the north and Idaho to the east. An 1855 treaty with the United States government forced the three main tribes of the confederation – the Cayuse, Umatilla, and Walla Walla – to cede all but 250,000 of the 6.4 million acres they had occupied. Legislation in the late 1800s further reduced their land to what is now 172,000 acres, most of it east of Pendleton, Ore., and a smaller portion southeast of Pilot Rock, Ore. The current tribal enrollment is slightly more than 2,400, which is about one-third of the population prior to European contact (CTUIR 2004).

As has been the case on most reservations, public policies eroded tribal lands, and the Confederated Tribes reservation exhibits a “checkerboard” pattern of ownership, with 1,500 non-Indian residents almost matching the combined 1,100 tribal members and 500 members of other tribes who now reside within the reservation boundaries (CTUIR 2004).

The tribes once pursued an economy of intertribal and fur company trade, livestock, hunting, gathering and fishing, while the present economy is dependent on agriculture, some hunting, timber, fishing, recreation activities, and commercial development, including the Wildhorse Casino and Resort, which employs over 500 people. The casino has brought much needed revenue to the tribe and its members, and is contributing to a diversification of businesses and services. Yet, although incomes are on the rise, the stock of housing is not keeping pace with increased demand, and the cost of development on tribal or individual trust lands remains high (CTUIR 2004).

Though employment opportunities have improved considerably since the casino and resort opened in 1994, a legacy of bad debt and insufficient savings challenges individuals and families who now seek homeownership. These considerable issues, when mixed with the more general challenges of securing accessible land with adequate services, and convincing lenders of their ability to lend on restricted lands, present barriers to members of the Confederated Tribes of Umatilla that most urban residents rarely need to consider. (Roloff 2004)

The Program

The Umatilla IDA program emerged from the challenge of preparing tribal member families to participate in the world of mortgage financing. Prior efforts on the part of the Umatilla Reservation Housing Authority staff to help families find mortgage financing illustrated a need for credit counseling, homebuyer education, and a savings program before homeownership could become a real prospect. The housing authority staff and another Indian housing authority helped advocate for the creation of Oregon's IDA program, but Umatilla was the only Native American entity that applied for a grant. (Roloff 2004)

The Umatilla Reservation Housing Authority (URHA) was established in 1967 and serves the Umatilla Reservation through a partnership with the Confederated Tribes of the Umatilla Indian Reservation (CTUIR). The URHA strives to provide affordable housing to tribal members of all income levels. The URHA supplements and leverages HUD funding and provides additional housing services and financial loan options to its tribal clients. It also provides a development, acquisition, and rehabilitation housing program to tribal members and presents members with opportunities for homeownership, investment, and wealth building (CTUIR 2004).

In 2001 a consumer protection training program was launched by the URHA along with an effort to assist tribal members with homeownership. Eventually, a separate entity was created within the housing authority to administer the "Umatilla Saves" IDA program for the tribal members on the reservation. Initially, program participants were sent to banks to begin the mortgage process on their own and did not have good experiences. When the manager of the program, who is not a tribal member but is a Native Hawaiian, began providing assistance the barriers for participants began to break down. Having an advocate who was "Native American" helped ease the way into this new world of mortgage finance. (Roloff 2004)

URHA developed a partnership with First Nations Development Institute to administer the Umatilla Saves IDA program. The mission of First Nations, which was established in 1980, is to assist Native Americans to control and develop their assets, and the organization supports economic development that promotes Native American culture. For the IDA program, First

Nations Development Institute provided the match funds through a one-time grant award of $45,000, which is supplemented by a $22,500 grant from the state of Oregon. The mortgage loans that had been approved by the time this research was conducted in mid 2004 were primarily from Wells Fargo Bank and were guaranteed through the Department of Housing and Urban Development's Section 184 program.[1]

State of Oregon funds may be used only for low-income participants, while First Nations' match funding is not restricted by income. Though the program initially could be used only for homeownership, in 2004 staff were considering including rehabilitation as an eligible activity, since many families under the housing authority's mutual help program would soon be homeowners. Additionally, the program might be expanded to include saving for earnest money deposits, appraisals, and surveys.

Washington Mutual Bank (WAMU) maintains the IDA accounts. One of the bank's employees had helped to promote IDA legislation in Oregon and eventually approached the Umatilla Tribe to create a partnership for an IDA program. In addition to maintaining the account, WAMU also provides education training that focuses on the importance of assets, and makes an effort to create banking relationships with tribal members. WAMU does not charge fees for the IDA account holders and has proposed establishing an ATM on the reservation to help bolster the relationship between the bank and the tribal members. Since WAMU is located approximately 50 miles from the Umatilla Reservation, an ATM would increase the likelihood of the members opening any additional accounts with the bank. (Johnson 2004)

The Umatilla Saves IDA offers a 3:1 match on a participant's savings up to $1,500, for a total of $6,000 to be applied toward a downpayment on a home. The housing authority attempts to serve as many tribal members with this program as possible. Factors that hinder its ability to reach this goal include availability of matching funds, readiness of participants in the financial literacy classes, and the capacity of the staff. Participants must save $60 a month for at least six months, with an initial goal of $1,500, to access the match funds through the program. The final goal of $6,000 is based on a downpayment cost for a home with a purchase price of $80,000, assuming $2,500 in closing costs. (Roloff 2004)

First-time homebuyers over the age of 18 are eligible for Umatilla Saves. A first-time homebuyer is someone who has not owned a home during the three-year period prior to the purchase of a home with the program. Eligible applicants must also be enrolled tribal members of the Umatilla Indian Reservation. Only one tribal member per household is eligible to receive the IDA funds and the home purchased must be within the Umatilla Reservation boundaries.

Applicants must also complete a five-week financial literacy class and one eight-hour homebuyer course in order to participate in the IDA program. Ongoing support group meetings, educational workshops, and counseling are also offered to assist program participants through the process. Individual counseling gives participants the opportunity to

[1] The Section 184 Loan Guarantee Program was created by the Housing and Community Development Act of 1992 to address the lack of mortgage lending in Indian Country. The 184 program offers a federal loan guarantee to private sector lenders who make mortgage loans to eligible borrowers for homes located in Indian Country.

review their tri-merge credit reports[1] as well as to have ongoing consultations throughout the course of the program. The time spent with each client tends to vary and involves such subjects as land issues and working with lenders as individuals pursue homeownership (Roloff 2004).

Counselors prioritize potential participants according to their readiness to enter the program based on their performance in the financial literacy sessions and individual credit counseling. Elements taken into consideration include motivation, ability to gather personal financial documents, and existing savings. Counselors describe to the participants the structure of the program and the timeline, informing them that it could take several months or years to be able to purchase a home. (Roloff 2004). Other Native American IDA programs had considerably higher matching rates, but no longer operate, mainly because the counseling and preparation came after individuals entered the IDA program, rather than before.

Income eligibility is determined by funding sources, although IDA funders typically restrict eligibility to 80 percent of area median income. Since financial literacy education has never been offered on the Umatilla Reservation before, however, and significant job creation has only occurred in the last few years, there are many tribal members living at over 80 percent of the median income who do not have successful savings records or skills. The First Nations program allows for above-income eligible applicants to participate in the Umatilla Saves program, if those funding sources are available and in compliance with the sponsor's guidelines. (Roloff 2004)

Participant Experiences

From the inception of the Umatilla Saves IDA program in 2001 through mid 2004, 15 people graduated from the program. The URHA hoped to continue it for an extended period to reach as many tribal members as possible.

A total of seven participants were interviewed in person to determine their experiences with the program thus far. All were very well educated and several had children. When interviewed, they had participated in the program for varying amounts of time, ranging from six months to three years. Their total savings amounts ranged from $800 to $2,500, with an average savings of $1,452 among them. All of these participants made their deposits directly to the bank through payroll deduction. Four of the seven interviewees had not been involved in any type of savings program before they began to participate in the IDA program.

Very few of the participants interviewed claimed that there were any challenges that made the program difficult. Difficulties that were mentioned included dealing with credit issues, attending the financial literacy classes, and not being able to use the funds for anything other than homeownership.

One of the participants who became a homeowner was not able to use the match since he purchased a home outside of the reservation boundaries. He was still in the program, however,

[1] A tri-merge credit report is a merged report from all three of the national credit bureaus. These reports are used by mortgage lenders when financing or refinancing homes and are also by auto dealers and collection companies. They provides information on every reportable item in the three national credit repositories.

with hopes of building a home on his family's land within the reservation. Another participant who became a homeowner bought a home within the reservation boundary, but on fee simple land. [1] She, too, wanted to build on family land, but it lacked access and the cost of creating access would be considerable. One participant, previously a renter, paid $100 less per month for housing after becoming a homeowner through the IDA program.

The program clearly made a difference in the participants' lives and it gave several the opportunity to become homeowners. Several had never known more than one Native American homeowner before, which gave them the encouragement to complete the program. Many were determined to develop savings habits that would last their lifetimes, and encouraged their family members and their children to make sacrifices to achieve the same goal. Everyone interviewed was proud of his or her commitment, and grateful for what s/he learned and achieved.

Overcoming Challenges

The participants and the administrators of the Umatilla Saves Program have encountered several challenges throughout the program's existence. The availability of match funds, which has been an obstacle for many rural organizations, has proven to be a challenge for URHA as well. While it has secured funding from two separate entities, URHA is unsure if these organizations would have the capabilities to continue to fund the program for as long as it would like them to. Another challenge for URHA is the capacity of its staff. While two full-time staff people work on Umatilla Saves, there are over 1,000 tribal members on the reservation, many of whom are interested in participating in the program.

Another obstacle encountered on the Umatilla Reservation is changing mindsets after generations of dependency on government assistance. URHA has found it difficult to encourage some people to participate in the IDA program because they have not previously been involved in a program like it. Many tribal members must be informed about the benefits of asset building to be encouraged to get involved with the IDA program. The financial counseling often provides potential participants with enough information to encourage them to begin to build their own wealth. (Roloff 2004)

UHRA staff also have been careful about providing training that is culturally sensitive to the tribal members and takes into account the unique land tenure issues that limit homeownership among Native Americans on native lands. They must develop a multi-faceted program for a community with many needs. They are also forced to deal with the goal of helping all tribal members with a limited amount of funds. While the main goal of the IDA program is to increase homeownership among tribal members on the reservation, the lack of housing on the reservation adds to the difficulty of successfully implementing the program. (Roloff 2004)

[1] Fee simple land is unrestricted ownership of real property that may be bought, sold, and transferred between Native American and non-Native American purchasers without review by the tribe or Bureau of Indian Affairs (BIA).

CONCLUSIONS

Asset building strategies have been proven to provide opportunities for low-income individuals to break the cycle of poverty. In rural communities, IDAs are one component in a comprehensive effort to improve the economic status of individuals and families, as well as revitalize the communities in which they live. There are, however, specific challenges to administering IDA programs in rural areas that require innovative strategies in design and implementation.

Common Challenges

Organizations administering IDAs identified a number of challenges to offering these programs in rural areas. While some challenges are not unique to rural communities, the issues take on increased significance given the lack of resources in many rural areas.

- **Spatial issues**: Many organizations' staff must travel long distances to market and administer the program as well as provide training for the participants.

- **Lack of transportation:** There are additional costs for the groups who administer these programs across large, geographically dispersed areas. The lack of transportation also contributes to the inability of some people to participate.

- **Low incomes**: It can be difficult to encourage participants with limited disposable income to save enough to achieve their savings goals.

- **Poor credit among participants**: Large amounts of debt can delay or prevent people from participating in the program or qualifying for a mortgage loan.

- **Identifying matching funds:** Securing match funds is often more difficult for rural organizations than for others, due to a lack of resources in rural areas.

- **High housing costs**: Housing costs are often so high that even if participants meet program savings goals they often do not have enough for downpayments on homes, due to the cost of the units.

Solutions

Several innovative strategies to overcome these challenges were identified through the case studies of IDA programs in high needs areas.

- **Combining multiple programs that are interrelated:** Incorporate different types of counseling simultaneously (i.e., credit, homeownership, etc.). ACLF had already successfully provided housing for families through its sweat equity program in which families built their own cascarones. ACLF's IDA program allowed it to successfully combine its cascarone method with its savings program to allow IDA participants to achieve homeownership.

- **Using technology:** Use the internet to maintain “virtual” relationships with the program participants and to provide credit counseling.

- **Being realistic:** Develop realistic figures, as the Umatilla Reservation Housing Authority did, to determine match and savings amounts by taking housing costs and prevailing wages into consideration.

- **Being flexible:** Design programs with clear rules and standards, but enough flexibility to encourage continued participation. The colonias IDA program took into consideration the needs of the migrant farmworker participants by allowing flexible deposit patterns that reflect the picking season and other factors. Also, the predominant homeownership and development patterns require that home rehabilitation be included as an eligible expense.

- **Meeting the cultural needs of the target population:** For a Spanish-speaking population, materials must be provided in Spanish, such as financial literacy material and information from financial institutions. Involving Native Americans in the design of the curriculum and presentation of the Umatilla program ensured their program was culturally relevant.

- **Identifying and using local and national partners:** Monies from a variety of sources were used in the case study examples, including a federal agency (HUD), a national foundation (W.K. Kellogg), and local and regional sources.

Policy Recommendations

Organizations identified several programmatic challenges that prevented their constituents from taking full advantage of the programs. A number of policy recommendations are highlighted below.

- **States should provide match funding for AFI grants.** Recipients of the Assets for Independence Demonstration Act (AFI) funding are required to raise match funds from other sources. Many small rural organizations found it difficult to raise funds, due in part to their geographic isolation and the unwillingness of banks and foundations to contribute to this type of program. State governments can fill this gap by working with these organizations to facilitate the creation of consortia to access HUD Community Development Block Grant funds or state monies.

- **Funders should provide rural nonprofit organizations with additional grant funds to cover transportation and case management costs.** Many rural organizations find it difficult to administer IDA programs when the participants are spread across a service area that covers hundreds of miles. Additional funding would enable organizations to send case managers to remote locations.

- **Eligible uses of rural IDAs should be expanded to allow for automobile purchases.** Most IDA programs allow only for home purchases, microenterprise, or post-secondary education. Residents of rural areas experience extremely high levels of unemployment, due mostly to their inability to access job sites because of lack of transportation (Mathematica 2005).

- **Develop two levels of IDAs.** Several organizations realized that families and individuals are at different levels of readiness in terms of participating in an asset-building program. Instead of creating one IDA program with one set of requirements, it has been suggested that two separate IDAs should be developed: a "lower level" IDA would prepare participants for the more advanced IDA, which would have higher saving requirements. The lower level IDA would provide participants with the resources and structure needed to address credit issues and reduce overall debt, preparing them for the goal of saving for a home, small business, or education.

- **Public assistance asset limits should be removed or raised.** TANF policies prevent people from saving more than a set maximum amount of money. People who exceed asset limits may receive less assistance or be cut off completely. Although many states have raised their savings limits, and some states have even allowed IDA savings to be excluded, all rural residents should be assured by changes in state legislation that their IDA savings will not interfere with their public assistance.

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APPENDIX A

IDA SITE VISIT PROTOCOL

LOCAL ORGANIZATION

1. When did the IDA pilot program begin?
2. How long will the program last?
3. What are the eligibility criteria for the program?
4. What population is being served by this program?
5. What are the match rates?
6. Have the match rates always been the same?
7. What is the maximum match per year?
8. What is the monthly savings amount for each participant?
9. What is the minimum savings amount for each participant?
10. What is the maximum savings amount for each participant?
11. What is the number of IDA accounts at this time?
12. How many accounts are currently open?
13. How many more accounts do you anticipate opening in the future?
14. How many participants have graduated from the program?
15. What is the account structure?
16. How are individual deposits made?
17. How were the matching calculations performed and by whom?
18. What design features will encourage individuals to maintain regular deposits?
19. Who will prepare IDA statements, including personal and matched contributions?
20. What is the withdrawal process?
21. Who is the financial institution partner?

22. What is their role?

23. What factors dictated the selection of an appropriate financial institution?

24. What are the permissible uses of the IDA?

25. What percentage of the participants will use their IDA funds for homeownership or home rehabilitation?

26. What education services are provided in house?

27. What educational services are provided by other organizations?

28. Who are your community-based partners, if any?

29. What are the funding source(s) for the program, including all financial institutions, foundations, private, federal, and/or state partners?

30. What is the total number of staff members that are dedicated to the IDA program?

31. What are the costs to administer the program?

32. How do you conduct your outreach efforts?

33. Has it been difficult to market the program?

34. How will the number of IDA participants affect IDA administration?

35. Are there additional investment options available to the participants of this program?

36. Are there any strategies that your organization must use that are specific to the region or culture?

37. Has your state adopted any IDA policies? If so, how do they affect your program?

38. What are the obstacles and challenges in administering the program?

39. Have you been able to address any of these challenges? If so, how?

40. What additional resources would help you to overcome these challenges?

APPENDIX B

IDA SITE VISIT PROTOCOL

PARTICIPANTS

1. How did you find out about the IDA program?

2. Did you have a previous relationship with the community organization?

3. Did you have a previous relationship with the financial institution?

4. Had you been involved in any other savings or investment program in the past? If so, what?

5. Are there any other investment options available to you in your community?

6. How long have you been participating in the program?

7. How much have you saved?

8. How much do you plan on saving in total?

9. What do you plan on doing with your savings?

10. How often do you communicate with the community organization?

11. How often do you communicate with the financial institution?

12. How do you make your deposits?

13. How do you make your withdrawals?

14. What have been the challenges in participating in the program?

15. What is your occupation?

APPENDIX C

IDA SITE VISIT PROTOCOL
FINANCIAL ORGANIZATION

1. How did your organization become involved in the pilot IDA program?
2. Who approached you initially?
3. Did you already have a previous relationship with the community organization?
4. What is the bank's role in the IDA program?
5. How many staff people are working on the IDA program?
6. What is the cost for you to participate in the program?
7. Do you have regular communication with the community organization?
8. Do you have regular communication with the participants?
9. What are the risks involved with you participating in the program?
10. Who provides and tracks the match amount?
11. Do you provide any education or financial literacy to participants?
12. Do you provide marketing efforts for the program?
13. What are the obstacles in administering this program?

APPENDIX D

PHONE/E-MAIL IDA PROTOCOL

The Housing Assistance Council (HAC) is a national nonprofit intermediary that provides lending, technical assistance and training, and research and information to local developers of affordable housing in rural communities. As a part of our research agenda for the 2004 fiscal year, HAC is researching IDAs that are being administered in rural areas. In order to learn more about how this program serves rural recipients, we are asking you to complete this short survey to allow us to assess the difficulties that are encountered when administering this program in rural areas. This information will be compiled into a research report entitled "*Designing and Implementing Rural IDA Programs*."

Please take a few moments to fill out this survey and email it to jenniferp@ruralhome.org by Wednesday, April 21. If you have any questions regarding this study or HAC, or if you would rather complete the survey via telephone, please contact Jennifer Pinder or Cequyna Moore at 202-842-8600. Thank you for your time.

Organization	
Contact Person	
Address	
Phone	
Fax	
Email	
Website	

1. What percentage of your IDA program participants are rural residents?

2. What have been the challenges of administering an IDA program in a rural area? Have the problems been economic? Social? Programmatic? Other?

3. How have you addressed the challenges you have faced in creating IDAs for rural residents?

4. What additional tools would you need to overcome these challenges?

5. What resources (e.g., financial, programmatic) would help you to overcome these challenges?

APPENDIX E

PHONE AND E-MAIL INTERVIEWEES

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Central Vermont Community Action 195 US Rt. 302-Berlin Barre, VT 05641	Mary Niebling Tel: 802-479-1053 Fax: 802-479-5353 mniebling@CVCAC.org Linda Macris Tel: 802-479-1053 Fax: 802-479-5353 Lmacris@CVCAC.org	The Merchants Bank Union Bank Vermont Development Credit Union
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South Carolina Association of Community Development Corporations P.O. Box 295 4840 Forest Dr. Columbia, SC 29206	Peg Piper Tel: 803-579-9855 Fax: 803-579-0232 pegpiper@hotmail.com	Branch Bank and Trust Co. Fleet National Bank
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Individual Development Accounts (IDAs) are matched savings accounts that help low-income families accumulate money to achieve specific asset-building goals. This report uses surveys, a location analysis, and in-depth case studies of programs operating in high needs regions to examine the implementation of IDAs in rural communities around the United States. It identifies characteristics of successful IDA programs, and concludes that certain policy changes could increase the efficacy of rural IDAs.

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