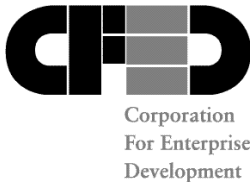


**2002
Federal
IDA
Briefing
Book**

How
IDAs
Affect
Eligibility
for
Federal
Programs



IDAs



Founded in 1979 as a nonprofit, nonpartisan organization in Washington, D.C., the Corporation for

Enterprise Development promotes asset-building and economic opportunity strategies, primarily in low-income and distressed communities, by bringing together community practice, public policy, and private markets in new and effective ways. CFED envisions widely shared, sustainable economic well-being and an inclusive economy where everyone is fully engaged and appropriately rewarded. CFED clusters its work in three program areas—individual assets, enterprise development, and sustainable economies. CFED's goals include:

- Creating incentives and systems that encourage and assist all Americans to acquire and hold assets.
- Identifying, preserving, and building financial, human, social, and environmental assets, especially in low-income communities.
- Advocating economic development policies and practices that build a dynamic and inclusive economy.

CFED contracts with both public and private partners and is sustained by philanthropic support. In general, the organization provides four types of services—research and field demonstrations; field services; policy analysis, design, and advocacy; and communications.



Entering its twenty-first year, the Center on Budget and Policy Priorities is a nonprofit research organization and policy institute in Washington, D.C., that conducts research and analysis on an array of federal and state government policies and programs, with emphasis on those affecting low- and moderate-income households.

The expertise of the Center's staff spans a wide range of federal and state budget and tax issues, specific low-income policy areas, social insurance, and trends in poverty and income distribution. The Center specializes in research, policy analysis, and program design related to low-income tax credits, Medicaid and the State Children's Health Insurance Program, cash assistance, Social Security and retirement income, food assistance, housing, employment, and immigrant benefits issues. The Center builds on its policy work by providing technical assistance and training in budget, tax, and low-income policy to nonprofit organizations and policymakers at both federal and state levels.

The Center also operates two outreach campaigns to help eligible low-income working families receive the Earned Income Tax Credit and publicly funded children's health coverage. In addition, the Center has developed an International Budget Project that helps non-governmental organizations and researchers analyze and improve budget policies and processes in developing countries and emerging democracies. Most recently, the Center established the DC Fiscal Policy Institute to engage in research and public education on fiscal issues in the District of Columbia.

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Acknowledgments

In addition to the writers, several people worked hard to bring this report together. Formerly with the Corporation for Enterprise Development (CFED), Ray Boshara and with the Center on Budget and Policy Priorities (CBPP), Robert Greenstein and John Springer all contributed very valuable editorial comments.

Finally, we thank the Ford Foundation and the Charles Stewart Mott Foundation, which made the writing, production, and distribution of this report possible.

Executive Summary

This briefing book, which was developed in conjunction with the Center on Budget and Policy Priorities (CBPP), aims to explain the treatment of Individual Development Accounts (IDAs) in federal programs affecting low-income people. Over the last six years asset-building strategies have made their way into various state and federal programs, most notably in the 1996 welfare law and the Assets for Independence Act (AFIA) of 1998. In addition to welfare and AFIA, IDAs have also been included in various U.S. Department of Treasury programs and initiatives. As the use of IDAs has become more widespread, it is increasingly apparent that practitioners should have a clear understanding of the treatment of IDAs and asset rules in federal programs that provide important benefits to low-income people.

Generally, IDAs affect eligibility or benefit levels in the following manner:

Temporary Assistance for Needy Families (TANF) IDAs: The TANF statute prohibits any assets that accumulate in IDAs established under its specific IDA provision—including an individual’s contributions, matching contributions, and interest—from being considered when determining eligibility or benefit levels in any federal program that considers an individual’s financial circumstances.

AFIA IDAs: The 2000 amendments include a provision that prohibits any assets that accumulate in AFIA IDAs—including an individual’s contributions, matching contributions, and interest—from being considered when determining eligibility or benefit levels for any federal program that considers assets or interest income.

Non-TANF, non-AFIA IDAs: Some IDA programs were established before there were any federal funds available to support them. As a result, many IDA programs still rely on state, local, or private funds for support. Since these IDAs are not funded through TANF or AFIA, they have no statutory exemption from consideration in eligibility and benefit determinations, even if they conform to the TANF or AFIA program design criteria. Thus, non-TANF, non-AFIA IDAs may be treated like any other assets in eligibility and benefit determinations.

Thus, the treatment of savings, match, and interest in determining eligibility and benefit levels for means-tested programs depends on how the IDA is authorized and funded. Although the rules are complex, the treatment of non-TANF, non-AFIA IDAs under specific programs can be summarized as follows:

TANF: TANF block grant funds are used by states to provide cash assistance, employment services, and work supports like child care and

transportation subsidies. States have broad flexibility with regard to spending and policy development. States determine program rules regarding how income and assets are counted and can choose to exclude all assets in non-TANF, non-AFIA IDAs.

The Food Stamp Program: Food stamp benefits are designed to fill the gap between the money a family has available to purchase food and the estimated cost of a modest diet. Most food stamp eligibility rules are set at the federal level, with day-to-day administration of the program carried out by states or counties. However, in some areas states have flexibility to set policy within federal parameters. Food stamp eligibility depends in part on a household's resources or assets; a household may not have assets in excess of the program's asset limits. Once a household is eligible for food stamps its assets do not affect the amount of monthly benefits it receives.

Until now, non-TANF, non-AFIA IDAs that contain a participant's IDA contributions have generally counted toward the food stamp asset limit of \$2,000. However, the food stamp provisions of the 2002 Farm Bill enable states to exclude (as of October 1, 2002) certain types of resources from the food stamp asset limit if the state does not count these resources toward its asset limit for TANF cash assistance recipients or, alternatively, toward its asset limit for families covered under Medicaid. It is likely that such states will be able to use the new provision to exclude non-TANF, non-AFIA IDAs from the food stamp asset limit. States that do not choose to conform their food stamp asset test to the TANF or Medicaid asset test, as well as states that do not exclude non-TANF, non-AFIA IDAs from the TANF or Medicaid asset

limit, have alternative ways to disregard certain IDAs from counting toward the food stamp asset limit.

Medicaid: Medicaid is a public health insurance program for low-income individuals and families. In determining Medicaid eligibility, states consider not only whether a person fits within a category that may be covered under the program but also a person's income and assets. The federal government has given states considerable flexibility in setting income and asset limits, as well as in how they count income and assets. As a result, states' policies in these areas vary widely.

Since the enactment of the 1996 welfare law, many states have liberalized their Medicaid asset test to take advantage of a number of state options provided under federal law. Some 44 states and the District of Columbia have waived the asset test for children entirely, and 17 states and the District of Columbia have eliminated the asset test for families with children.

Although states may consider as assets any savings held in non-TANF, non-AFIA IDAs, states have the flexibility to exclude such savings.

State Children's Health Insurance Program (SCHIP): As part of the Balanced Budget Act of 1997, Congress established the SCHIP, under which the federal government is providing \$40 billion over 10 years to states to expand health insurance coverage to low-income uninsured children.

States may count non-TANF, non-AFIA IDAs as assets, but Oregon is the only state that has

an asset test in its SCHIP program for children. Hence, IDAs in all other states currently have no effect on SCHIP eligibility.

Supplemental Security Income (SSI): The SSI program is a means-tested, federally funded and administered program that provides cash benefits for low-income aged, blind, and disabled individuals. In addition to age and disability status, eligibility for SSI is based on income and assets. In general, eligibility for SSI is limited to individuals with no more than \$2,000 in countable assets and couples with no more than \$3,000.

Generally, non-TANF, non-AFIA IDAs would be counted as assets in determining SSI eligibility because SSI ordinarily treats accounts in a financial institution as assets. This is not the case if the non-TANF, non-AFIA IDA is approved as a plan for achieving self-support (PASS). The Social Security Act excludes assets committed to a PASS that has been approved by the Social Security Administration.

Low-Income Housing Programs: Federal rental assistance is provided through several different programs. Each has its own eligibility criteria, but none has an asset test. However, countable assets do have some consequences for recipients of federal housing assistance.

Under federal regulations, the interest or other income earned on most assets—including interest earned on non-TANF, non-AFIA IDAs—is counted as part of a family's income and is used to determine the family's eligibility for housing programs and the amount of its rental subsidy. In addition, if a family has net assets in excess of \$5,000, a percentage of the value of the family's

assets is counted as income if that amount exceeds the family's actual net income from the assets, but Department of Housing and Urban Development regulations do not state whether IDA assets should be counted in determining whether a family has net assets in excess of \$5,000.

IDAs in U.S. Department of Treasury Programs and Initiatives

IDA provisions can also be found in U.S. Department of Treasury programs and initiatives. All federally insured depository institutions are eligible to take advantage of various Treasury programs if they engage in a wide range of IDA-related activities. In addition, the Internal Revenue Service (IRS) issued a ruling clarifying the tax treatment of AFIA IDAs. Thus, starting in 1998, IDAs and related activities have been incorporated as an allowable activity (but not required) under the following Treasury programs:

Community Reinvestment Act (CRA): There are a number of ways that depository institutions can receive CRA credit for participating in IDAs. In 1998, the federal banking regulators explicitly recognized that depository institutions could be eligible for CRA credit by participating in any of the following IDA-related activities:

- Providing IDA deposit accounts to IDA holders
- Making grants to IDA programs or matching funds for IDA holders
- Making grants or loans as operating funds to IDA programs

- Providing staff to participate in the development and oversight of IDA programs
- Making loans to IDA holders

The Bank Enterprise Award (BEA): The BEA program is a grant program administered by the U.S. Treasury Department's Community Development Financial Institutions Fund (CDFI Fund). Based on the premise that financial institutions are essential to supporting economic growth in low- and moderate-income communities, the BEA program provides annual financial awards to any Federal Deposit Insurance Corporation-insured depository institutions for *increasing* their activities in economically distressed communities and for making investments in certified Community Development Financial Institutions (CDFIs). The amount of the award is based on the increase in the BEA-eligible activities, which are ranked according to BEA program priorities.

IDAs are one type of eligible activity for which depository institutions can be eligible for a BEA program award. However, under the current BEA program, other types of activities are given greater priority than IDAs. Going forward, however, the CDFI Fund is considering a new ranking system that would place IDAs higher on the priority list.

First Accounts Initiative (FAI): In 2001, Treasury was appropriated \$12 million for First Accounts,¹ of which \$8 million will be made available for developing pilot projects to establish low-cost accounts with mainstream financial institutions for low- and moderate-income individuals.² The Notice of Funding Availability (NOFA) for the \$8 million for

pilot projects was released December 27, 2001; applications were due March 20, 2002. As of this writing, it is unclear whether additional First Accounts funding will be available in the future.

On May 1, 2002, Treasury announced that 15 projects were awarded First Accounts grants totaling \$8.35 million. Grant recipients included nonprofit organizations, insured depository institutions, insured credit unions, a CDFI, a faith-based organization, and a foundation. Two awardees, Mile High United Way in Denver, CO, and Boat People S.O.S. in Falls Church, VA, specifically received funding to link IDA holders to the financial mainstream by offering low-cost bank products, financial management assistance, and financial literacy training.

Tax Treatment of IDAs: The IRS issued a Revenue Ruling in October 1999 on the tax treatment of IDAs established under AFIA. The ruling clarified the tax treatment of interest on funds deposited by an IDA holder, match money contributions, and donations to a nonprofit for an IDA project. The IRS made the following conclusions in its Revenue Ruling:

- The interest on the funds deposited by the IDA holder is taxable to the participant in the year that it is earned.
- The match money is treated as a gift at the time it is paid out and is therefore not taxable income to the participant.
- Donations to a charitable IDA provider are tax deductible by the

donor. Under section 170 of the Internal Revenue Code, donors may deduct a contribution to a not-for-profit organization described in section 501(C)(3) of the Internal Revenue Code or government IDA provider for an IDA project, subject to the limitations of that section.

The similarity between the basic structure of AFIA IDAs and common non-AFIA IDAs will very likely produce the same tax treatment for both. As mentioned before, the tax treatment varies as a particular IDA differs from the basic structure of the IDA under AFIA.

Policy Options

From a policy perspective, the coordination of asset limits in means-tested programs is the next step toward ensuring that low-income families have opportunities for asset accumulation similar to those available to the non-poor. There are several policy options available, such as removing barriers to asset accumulation in means-tested programs by revising and coordinating asset limits across federal programs; further incorporating financial access and saving into a wide range of economic development, business formation, and financial inclusion initiatives; and expanding the use of dedicated tax and other policies for IDAs.

Introduction

Over the last six years, IDAs have made their way into federal policy in a wide range of federal programs. Presently, there is a lack of information available to practitioners on the treatment of IDAs in federal benefit programs. To support the increasing use of IDAs as a viable tool to help low-income families build assets and make the transition toward self-sufficiency, this gap in information needs to be closed. For IDAs to become an effective asset-building tool for low-income families, practitioners should be clear about the treatment of IDAs and other assets in various federal programs for low-income households. This first edition of the briefing book, which was developed in conjunction with the Center on Budget and Policy Priorities, aims to provide the necessary knowledge base about the treatment of IDAs and other assets in programs that serve low-income individuals.

The briefing book explains the treatment of IDAs under eligibility rules in Temporary Assistance for Needy Families (TANF), food stamps, Medicaid, the State Children's Health Insurance Program (SCHIP), Supplemental Security Income (SSI), and federal housing

assistance programs. The briefing book also includes a section on U.S. Treasury Department programs which explains the integration of IDAs under the Community Reinvestment Act (CRA), the Bank Enterprise Award (BEA), the First Accounts Initiative (FAI), and the tax treatment of IDAs.

Chapter 1 addresses the role of assets and IDAs in reducing poverty. Chapters 2 through 7, which were prepared by the Center on Budget and Policy Priorities, explain the treatment of assets and IDAs under eligibility and benefit rules for the federal programs listed above, provide an overview of each program, and highlight opportunities for policy improvements. Chapters 8 through 10 provide an overview of U.S. Treasury Department programs and initiatives where IDAs have been incorporated, including a description of each program, and policy opportunities. Finally, Chapter 11 explains the tax treatment of IDAs.

Additional information can be found on the IDANetwork at <http://www.idanetwork.org> and the Center on Budget and Policy Priorities website at <http://www.cbpp.org>.

What is an Individual Development Account?

Individual Development Accounts (IDAs) are matched savings accounts designed to help low-income and low-wealth families accumulate a few thousand dollars for high-return investments in education or job training, homeownership, and microenterprise. Low-income individuals save regularly, typically over a three-year period, and have their savings matched by public or private funders. Financial institutions, foundations, churches, private donors, and state and local governments fund the matches to the personal savings of IDA holders (usually at a rate ranging from \$1 to \$4 for each dollar saved). Account holders typically receive financial education and counseling.

Chapter 1

The Role of Assets and IDAs

Anti-poverty policymakers have traditionally focused on income, spending, and consumption. However, a new vision is steadily emerging—one that focuses on savings, investment, and asset accumulation that work in conjunction with, *not instead of*, traditional anti-poverty programs. Although the trend toward asset accumulation can be traced as far back as the Homestead Act, only recently has the savings and asset base of the poor gained any attention. Over the last six years, with help from federal and state policies, private funding has led to the creation of more than 10,000 IDAs nationwide in programs run by more than 400 community-based organizations, with at least 100 more programs in development. In addition, over 350 banks, thrifts, and credit unions are partnering with community-based organizations to hold IDAs and provide financial products such as mortgages, college loans, and related services.

Role of Assets

The role of assets in poverty alleviation can be simply stated: assets matter. Assets provide more than just an economic cushion—assets provide a psychological orientation that income alone cannot provide. Assets help to address the growing wealth gap and the increasing racial disparities of asset ownership. As an asset-building tool, IDAs provide low-income families the opportunity to accelerate savings for a first home, postsecondary educa-

tion, and small business capitalization. In some programs, allowable uses also include computer purchases, automobiles, and retirement. Lastly, IDAs begin to address the asset base of the poor.

Research over the last 20 years, especially the last 10, shows asset holding in the form of homeownership is associated with enhanced property value, decreased residential mobility, increased property maintenance, and increased social and civic involvement. Research also indicates that asset holding in the form of homeownership is associated with educational attainment among children, a decrease in intergenerational poverty, and healthier and more satisfied parents.³

Various research studies on the wealth gap, asset ownership, and asset poverty all indicate a general trend toward high levels of asset accumulation and ownership for only a small percentage of the population. IDAs can be a modest step in addressing the wealth gap and the growing asset poverty rate. While strides have been made to reduce income poverty, asset poverty estimates indicate that as many as 25% of all Americans are asset poor—meaning they would have insufficient net worth to live more than three months at the poverty level. Similarly, using Survey of Income Program and Participation (SIPP) data from 1988, Oliver and Shapiro found the following⁴:

OVER THE LAST SIX YEARS, WITH HELP FROM FEDERAL AND STATE POLICIES, PRIVATE FUNDING HAS LED TO THE CREATION OF MORE THAN 10,000 IDAS NATIONWIDE IN PROGRAMS RUN BY MORE THAN 400 COMMUNITY-BASED ORGANIZATIONS, WITH AT LEAST 100 MORE PROGRAMS IN DEVELOPMENT.

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AND INCREASED
SOCIAL AND CIVIC
INVOLVEMENT.

- One half of all American households had less than \$1,000 in net financial assets.
- One third of all American households (and 60% of African American households) had zero or negative net financial assets.
- 40% of all white children and 73% of all African American children grow up in households with zero or negative net financial assets.
- Depending on the data set used, 13–20% of all American households did not have a checking or savings account.

Data on Latino household wealth and net worth are more discouraging. Recent research,⁵ using the Federal Reserve's Survey of Consumer Finances, shows that financial wealth for the average Latino family between 1992 and 1998 was equal to zero. The same research also found that the total net worth of the average Latino family dropped 43% between 1995 and 1998. Lastly, according to a Federal Reserve Bulletin in January 2000, 30% of all Latino families do not have a transaction account⁶.

Public policy plays a large role in determining levels of household wealth. Tax code incentives for housing, retirement, and investment/business development are highly regressive, and low-income families are less likely to benefit from these tax incentives. Thus, the bulk of tax expenditures that support asset accumulation go to the non-poor. For example, according to the U.S. Congress Joint Commit-

tee on Taxation's estimates of fiscal year 2002 federal tax expenditures, households with incomes over \$50,000 received nearly 94% of the expenditures for the mortgage interest deduction, and households with incomes over \$100,000 received 63% of the expenditures. This unequal distribution is not insignificant considering that in 2001 the expenditures for the deduction totaled nearly \$65 billion.

Policy Developments

There are several legislative opportunities in Congress to address asset limits in means-tested programs. As of this writing, there are two vehicles to watch: the Savings for Working Families Act (SWFA) and welfare reauthorization.

The Senate Finance Committee's recent passage of SWFA represents several years of improvements over previous versions of the legislation. The proposal provides \$0.45 billion over seven years and would authorize 300,000 IDAs. While language ensuring savings in an SWFA IDA would be disregarded from being considered when determining eligibility or benefit levels in any federal program was not included in the Finance Committee version, such a provision is likely to be included in the version under consideration by the entire Senate.

Welfare reauthorization could affect the availability of Temporary Assistance for Needy Families (TANF) block grant funds for IDAs. Many states used reserves of unspent funds, which accumulated when cash assistance caseloads fell in the first few years after enactment of the 1996 welfare law, for innovative programs for low-income working families. Those reserves, however, are rapidly dwindling.

TANF reauthorization bills now being considered in Congress would freeze TANF funding at current levels while at the same time increasing work requirements on states, increasing the competition for limited TANF resources. Once welfare reauthorization is complete, states should examine opportunities to complement their Welfare-to-Work initiatives with sensible asset-building policies.

IDAs in Federal Programs

The development of asset-building strategies for the poor in the early 90s, along with a series of policy successes, has provided policymakers with a viable tool in assisting low-income families to develop long-term savings, gain access to the financial mainstream, and accumulate assets. IDAs were first included in federal policy in 1996 as part of federal welfare reform, which replaced Aid to Families with Dependent Children (AFDC) with TANF. In 1997, IDAs were included in the Welfare-to-Work law, which allowed grantees to use funds for IDAs. In 1998, Congress authorized the Assets for Independence Act (AFIA), which is a five-year, \$125-million grant program that provides competitive grants to community-based organizations to run IDA programs. In addition, the Office of Refugee Resettlement (ORR) at the U.S. Department of Health and Human Services has organized a small refugee IDA program. IDAs have also been included in the Bank Enterprise Awards (BEA) program and in the Community Reinvestment Act (CRA) at the U.S. Department of Treasury. The Treasury Department is also administering the First Accounts grant program, which was created to promote access for low-income individuals to financial services. Lastly, the Internal Revenue Service (IRS) issued an

important ruling that interest on individual deposits in AFIA IDAs is taxable, but all matching funds and earnings thereon are non-taxable.

At the state level, IDAs have been developed under various strategies. Generally, these strategies can be categorized as follows: 1) direct appropriation, 2) state tax credit for IDA contributions, 3) refundable tax credits for IDA holders, and 4) allocation of Community Development Block Grant (CDBG) funds. In addition, some IDA programs are funded entirely with private funds.

Barriers to saving, thrift, and asset accumulation have arisen in federal programs because asset-building strategies that look at the asset base of the poor represent a new paradigm. Since means-tested programs are designed to maintain minimum levels of basic necessities, income and asset tests were devised to ensure that only households without sufficient resources of their own could qualify. Depending on the authorizing statute and funding stream, assets in IDAs may or may not count as income or assets in determining eligibility and benefit levels.

Generally, barriers to asset accumulation in an IDA can be removed in one of three ways:

- The asset limit in the public benefit program can be set high enough to accommodate IDA savings and other assets; or
- The rules of the public benefit program can exclude IDAs from being considered when determining eligibility or benefit levels; or

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- IDA legislation can stipulate that all IDA savings will be disregarded in determining eligibility for any need-based federal (or state) program. (This is the approach that has been taken with TANF and AFIA IDAs.)

The most appropriate strategy will depend on the degree of flexibility under current law:

- In programs like TANF or Medicaid, in which states have broad flexibility to determine how assets affect eligibility, state can be encouraged to set higher asset limits or exclude IDAs.
- In programs like Supplemental Security Income, where asset rules are federally determined and unlikely to be changed quickly, rules in IDA authorizing legislation would be the most effective way to prohibit IDAs from affecting eligibility or benefit levels.

Chapters 2 to 7 examine in more detail how assets in an IDA are treated when determining eligibility and benefit levels in federal programs targeted to low-income people.

Role of Financial Institutions, Credit Unions, and Thrifts

The role of financial institutions, credit unions, and thrifts to facilitate savings and

asset accumulation among low-income families cannot be understated. As the shift toward an asset-based policy emerges, it is increasingly important to have access to financial services. However, there is cause for alarm, as various studies conclude that a high percentage of low-income families do not have access to financial services. Without access to financial services, low-income families will find it difficult, if not impossible, to build assets.

Given the trend toward asset building for the poor and the growing need for financial services, the U.S. Treasury Department has included IDAs in several initiatives designed to promote financial access for low-income households. Taken together, these Treasury initiatives encompass key public policies to encourage the engagement of depository institutions in the IDA field. A clear understanding by both financial institutions and practitioners of these Treasury initiatives will facilitate the creation of an effective IDA product. Chapters 8 to 11 examine how IDAs have been incorporated and provide information where opportunities for policy improvements exist.

With this publication, practitioners can gain a better understanding of the opportunities to facilitate asset accumulation by individuals who rely on federal benefit programs.

Chapter 2

Overview of IDA Types

Types of IDAs

The laws and regulations governing IDAs vary depending on their authorizing statute and funding source. One area of difference is how assets accumulated in IDAs are treated when determining eligibility for other federal programs targeted to low-income people. The following chapters explain the treatment of IDAs under the eligibility rules in some of the major benefit programs for which IDA holders may be eligible.

The three types of IDAs discussed in this paper are:

Temporary Assistance for Needy Families (TANF) IDAs: These are IDAs that meet the statutory criteria specified in the 1996 welfare law, which created the TANF program.⁷ They can be funded with federal TANF funds, state maintenance-of-effort (MOE) funds, or Welfare-to-Work funds.

Assets for Independence Act (AFIA) IDAs: These are IDAs funded and authorized under the 1998 AFIA. The act created a federal IDA demonstration program, which provides grants directly from the U.S. Department of Health and Human Services to local organizations.⁸

Non-TANF, non-AFIA IDAs: This category includes: IDAs supported by private or state funds; IDAs supported by federal funds other than AFIA, TANF, or Welfare-to-Work funds;

and IDAs that are supported by TANF funds, MOE funds, or Welfare-to-Work funds but do not meet the IDA specifications in the TANF statute.⁹ States may use TANF, MOE, or Welfare-to-Work funds for IDAs that do not meet the TANF statutory criteria so long as the IDA program is reasonably calculated to accomplish one of the TANF goals and the program's participants are needy parents.¹⁰

How Different Types of IDAs Affect Benefit Eligibility

Many IDA holders are likely to qualify for other low-income programs, which would help households meet their daily expenses and free up other income to make regular IDA contributions. That, in turn, can help them leave cash assistance or avoid the need for it altogether. Organizations administering IDAs are well positioned to work with their clients and their states to ensure that IDA holders receive the full range of federal benefits for which they are eligible.

TANF IDAs: The 1996 welfare law specified that TANF funds, as well as MOE funds (the funds states are required to spend in order to obtain their federal TANF grant), may be spent on IDAs. In federal fiscal year 2001, 11 states reported using TANF or MOE funds for IDAs. Welfare-to-Work funds, which were provided to states and local entities by the Balanced Budget Act of 1997 to help

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hard-to-employ individuals find and keep jobs, also may be used for IDAs.

In authorizing the use of TANF funds for IDAs, the federal TANF statute specifies certain program criteria. IDAs that meet those criteria are referred to in this manual as TANF IDAs, even if they are supported with MOE funds or Welfare-to-Work funds rather than TANF funds.¹¹ Among the statutory criteria for TANF IDAs are that participants must be needy families with children and that savings may be used only for postsecondary educational expenses, to purchase a home, or to start a business.¹³

*The TANF statute prohibits any assets that accumulate in IDAs established under its specific IDA provision—including an individual's contributions, matching contributions, and interest—from being considered when determining eligibility or benefit levels in any federal program that considers an individual's financial circumstances.*¹⁴

AFIA IDAs: The 1998 AFIA created a federal IDA demonstration program that provides grants directly from the U.S. Department of Health and Human Services to local organizations to administer IDA programs. In order to receive such funds, IDA programs must meet certain statutory criteria. For example, savings may only be used for postsecondary educational expenses, to purchase a home, or to start a business. Participants also must meet certain income eligibility criteria. Specifically, they must be eligible to receive TANF assistance, must qualify for the Earned Income Tax Credit, or must have household income below 200% of the poverty line (\$36,200 for a family of four in 2002).¹⁵

Under the original AFIA statute, federal means-tested programs could not count matching contributions to AFIA IDAs in income or asset tests to determine an individual's eligibility or benefit level. They could, however, count an individual's own contributions to AFIA IDAs and the interest accumulating on those contributions, and certain programs (such as food stamps) generally did so. This policy was changed by the amendments to the AFIA, which were enacted in December 2000.¹⁶

*The amendments include a provision that prohibits any assets that accumulate in AFIA IDAs—including an individual's contributions, matching contributions, and interest—from being considered when determining eligibility or benefit levels for any federal program that considers assets or interest income.*¹⁷

As a result, AFIA IDAs now are to be treated in the same way as TANF IDAs: neither type of IDA can affect eligibility or benefit determinations. This approach should make it easier both for caseworkers to make eligibility and benefit determinations and for community-based organizations to administer IDA programs. Most important, individuals with IDAs now are more likely to be eligible for other means-tested benefits.

Non-TANF, Non-AFIA IDAs: IDA programs were established before there were any federal funds available to support them. As a result, many IDA programs still rely on state, local, or private funds for support. Since these IDAs are not funded through TANF or AFIA, they have no statutory exemption from consideration in eligibility and benefit determinations, even if they conform to the TANF or AFIA program design criteria.

Thus, non-TANF, non-AFIA IDAs may be treated like any other assets in eligibility and benefit determinations. As explained below, however, in some benefit programs, states have a great deal of flexibility to exempt these assets.

Several federal funding streams may be used to support non-TANF, non-AFIA IDAs. TANF and Welfare-to-Work funds may be used for an IDA program that does not meet the IDA specifications in the TANF statute so long as the program is reasonably calculated to accomplish one of the TANF goals and the matching funds are provided to needy parents.¹⁸ For such IDAs, states have broad discretion over program policies such as the match rate and the allowable uses of savings. For example, state-designed IDAs might allow IDA savings to be used to purchase an automobile, which is not permitted under IDAs governed by the TANF statute. According to the U.S. Department of Health and Human Services, 14 states use TANF funds for IDA programs that permit the use of savings for certain expenses that fall outside the TANF statute, such as purchasing an automobile, home maintenance, or medical expenses.¹⁹ Non-custodial parents could also participate in such IDA programs but not in TANF IDAs that fall within the statutory criteria. It is important to note, however, that assets in IDAs funded with TANF dollars but not governed by the TANF statute are not excluded automatically from consideration in federal benefit determinations.²⁰

Other federal funding streams that may be used to support non-TANF, non-AFIA IDAs include Office of Refugee Resettlement funds and Community Development Block Grant funds.²¹ Although each funding source has its

own programmatic criteria regarding IDAs, none includes protection of individual IDA contributions, matching contributions, or interest in eligibility or benefit determinations. Thus, IDAs supported by these federal funds do not receive special protection in eligibility and benefit determinations.

Because non-TANF, non-AFIA IDAs do not necessarily receive special treatment in the context of eligibility and benefit determinations, how they are treated depends on the rules of each federal benefit program. In some programs, if IDA matching contributions are placed in a separate account that is not accessible to the participant, the matching contributions will be excluded from eligibility and benefit determinations, while amounts in accounts containing the participant's own contributions will be counted. The chapters that follow describe in greater detail how IDAs are treated in the eligibility and benefit determinations for TANF, food stamps, Medicaid, Supplemental Security Income (SSI), and federal low-income housing assistance programs.

Each chapter also describes any state flexibility under current law to expand benefit eligibility for IDA holders. In TANF and Medicaid, for example, states have the option to establish asset policies that prevent holders of *any* IDA—including non-TANF, non-AFIA IDAs—from losing benefits as a result of their IDAs. In the food stamp program, states can exclude many (and possibly all) non-TANF, non-AFIA IDAs from counting in eligibility determinations. Specifically:

- In TANF, states determine program rules regarding how income and assets are counted and can elect to

exclude all assets in non-TANF, non-AFIA IDAs.

- Likewise in Medicaid, states have broad discretion with regard to how they count assets and can exclude all IDA assets simply by amending their state plan.
- In the food stamp program, a state can exempt non-TANF, non-AFIA IDAs that receive TANF or MOE funds. To exclude other non-TANF, non-AFIA IDAs from the program’s asset test, a state would need a waiver. Since no state has yet sought such a waiver, U.S. Department of Agriculture policy on this matter remains unclear.

No state flexibility exists with regard to SSI. Federal housing programs also lack state flexibility, but they do not consider assets in determining eligibility.

For IDAs that meet the statutory requirements of TANF IDAs but are not classified

as TANF IDAs because they are not funded with TANF, MOE, or Welfare-to-Work funds, states have another way to expand IDA holders’ benefit eligibility. States can transform the IDAs into TANF IDAs, which would mean that all assets in the IDAs would be disregarded in eligibility determinations for all benefit programs. One way to do this, if state funds are used for the IDAs, is to claim the state funds as TANF MOE spending. Another way is for states to put a small amount of TANF or MOE funds into the IDAs.

In addition, staff administering any type of IDA can facilitate benefit receipt for participants by working with state agencies or eligibility workers to ensure that federal laws and state policies are properly applied. In the case of TANF or AFIA IDA programs, staff could provide participants with a notice explaining that federal law prohibits their IDA from being considered in eligibility or benefit determinations; participants could share this notice with caseworkers when they apply for benefits.

Can IDA Assets Be Counted in Eligibility Determinations?					
	TANF	Food Stamps	Medicaid and State Children’s Health Insurance Program	Supplemental Security Income	Housing Assistance
TANF IDA	No	No	No	No	No
AFIA IDA	No	No	No	No	No
Non-TANF, Non-AFIA IDA	State discretion	State discretion with regard to TANF- or MOE-funded IDAs; otherwise by state waiver; no state has applied for such a waiver so the treatment of such requests is not known	State discretion	Yes, unless the IDA is limited to use for a plan for achieving self-support (PASS) and approved by the Social Security Administration	No

Chapter 3

Temporary Assistance for Needy Families

Program Overview

The 1996 welfare law, which created the \$16.5-billion Temporary Assistance for Needy Families (TANF) block grant, transformed the way in which welfare benefits are funded and program rules are determined. TANF replaced the Aid to Families with Dependent Children (AFDC) program, which operated as a federal entitlement. Under AFDC, each state could draw down unlimited federal funds to pay for a portion of cash benefits to families who met federal and state eligibility requirements. In contrast, each state now receives a fixed level of TANF funding and has much greater flexibility over how it spends those funds. Also, states now determine many of the key policies that affect families receiving benefits. A list of the names of individual states' TANF programs is located at the end of this chapter.

States may use TANF funds for any activity that is reasonably calculated to accomplish one of the block grant's four statutory purposes: assisting needy families so children may be cared for in their own homes or in the homes of relatives; ending the dependence of needy parents on government benefits by promoting job preparation, work, and marriage; reducing the incidence of out-of-wedlock pregnancies; and encouraging the formation and maintenance of two-parent families. Since IDAs further one or more of these purposes, TANF funds may be used for them.

Under TANF, each state must meet a maintenance-of-effort (MOE) requirement each year by spending at least 75% of the amount it spent on AFDC-related programs in federal fiscal year 1994. MOE funds must be spent on activities that serve needy families and meet one of the purposes of the welfare law. Administering or making contributions to IDAs for needy families is an allowable use of MOE funds.

States also must establish work requirements and time limits for welfare recipients, within federal parameters.²² Federal law requires an increasing portion of state welfare caseloads to be engaged in work-related activities each year; the required number of hours of such activities has risen as well. With regard to time limits, the general rule is that no family may receive federally funded assistance for longer than five years. States may set shorter time limits, however. States also are allowed to use federal TANF dollars to extend the time limits beyond five years for up to 20% of a state's welfare caseload. Families receiving assistance funded entirely with state MOE funds are not subject to the federal time limit.

It is possible for states to provide TANF-funded benefits and services to families without having this assistance count against the federal time limit. Whether a family's five-year time clock is running depends on the kinds of benefits or services the family is receiving. Generally, if a family is receiving

A FAMILY NOT RECEIVING OTHER TANF ASSISTANCE MAY PARTICIPATE IN AN IDA PROGRAM WITHOUT THAT PARTICIPATION COUNTING AGAINST ITS TIME LIMIT AND THEREBY JEOPARDIZING ITS RECEIPT OF CASH ASSISTANCE IN THE FUTURE.

A STATE'S GENERAL ASSET POLICIES APPLY TO NON-TANF, NON-AFIA IDAs, REGARDLESS OF THEIR FUNDING SOURCE. SINCE STATES HAVE COMPLETE FLEXIBILITY REGARDING WHAT COUNTS AS ASSETS, A STATE CAN MAKE AN EXCEPTION TO ITS GENERAL ASSET RULES TO SPECIFICALLY EXCLUDE IDAs FROM TANF ELIGIBILITY AND BENEFIT DETERMINATIONS.

what federal TANF rules define as “assistance,” the clock runs and work requirements apply. Under TANF, assistance includes cash or other benefits designed to meet a family’s ongoing basic needs, such as food, clothing, or shelter.²³

Contributions to and distributions from IDAs are specifically excluded from the definition of assistance. This is very helpful. It means that a family not receiving other TANF assistance may participate in an IDA program without that participation counting against its time limit and thereby jeopardizing its receipt of cash assistance in the future if the family faces very hard times.

Treatment of Assets in TANF Eligibility Determinations

Although TANF and MOE funds may be used only to serve families with children, states have broad discretion to determine other eligibility criteria for various TANF-funded benefits and services.²⁴ Moreover, a state can set different eligibility tests for different TANF-funded programs. For example, a state could limit TANF cash assistance to very poor families but provide TANF-funded child care or matching IDA payments to working families with somewhat higher incomes.

Policies regarding how income and assets are considered in TANF eligibility determinations generally are set at the state level. Every state except Ohio has an asset limit. Most states have increased that limit above the \$1,000 level that was in place under the old AFDC program. Although asset limits vary, the majority of states set limits between \$2,000 and \$3,000.

States also may set separate vehicle asset limits. Roughly half of the states entirely disregard the value of at least one vehicle in determining TANF eligibility. The remaining states generally disregard the value of a vehicle up to a certain limit, ranging from \$1,500 to \$12,000.

Because state asset policies vary in so many ways and can be changed at any time, it is important to ascertain your state’s asset limits and what items the state counts as assets in order to determine whether a non-TANF, non-Assets for Independence Act (AFIA) IDA (or other asset) will affect TANF eligibility or benefits. The sources of that information are state law, state TANF regulations, or a state’s TANF plan. As a starting point, there are several compilations of state asset limits and vehicle policies. The Center on Budget and Policy Priorities and Center for Law and Social Policy have prepared a database of state asset limits and vehicle asset limits through 1999.²⁶

Treatment of IDAs in TANF Eligibility Determinations

Federal law prohibits states from counting individual contributions, matching contributions, and interest earned in TANF IDAs and AFIA IDAs when determining TANF eligibility or benefit levels. This prohibition applies even if the IDA is partially funded with state or private dollars. In addition, IDAs funded with TANF funds or MOE funds are not considered assistance under the TANF regulations and therefore do not trigger time limits or work requirements, regardless of whether they meet the TANF statutory criteria for IDAs.²⁷

Prior to enactment of the AFIA amendments in December 2000, states had discretion over

whether to count individuals' contributions to, and the interest earned on, AFIA IDAs when making TANF benefit determinations. Now, such contributions and interest earnings must be disregarded. Some state TANF administrators and caseworkers may be unaware of this change in law, however.²⁸

A state's general asset policies apply to non-TANF, non-AFIA IDAs, regardless of their funding source. Since states have complete flexibility regarding what counts as assets, a state can make an exception to its general asset rules to specifically exclude IDAs.

Opportunities for Policy Improvements

Any state can establish policies that exclude all IDA assets from TANF eligibility and benefit determinations:

- States can specifically exclude all IDAs from consideration when determining TANF eligibility or benefit levels. This option allows all IDA holders to be treated similarly, including participants in IDA programs that do not conform to the TANF or AFIA statutory criteria and therefore do not receive federal statutory protection. If a state pursues this option, it is important to ensure that individual contributions

as well as matching contributions are not considered assets and that matching contributions are not counted as income.

- Alternatively, states can effectively exclude all IDAs from consideration when determining TANF eligibility or benefit levels by raising overall asset limits to a level where most IDAs would not affect TANF eligibility. This option would allow all low-income savers to accumulate a limited amount of assets, including TANF recipients who rely on more traditional saving mechanisms like savings accounts.

If for some reason a state does not wish to exclude all IDAs from TANF eligibility and benefit determinations, it can create a narrower exclusion for IDAs that are supported by TANF or MOE funds but do not meet the TANF statutory criteria. For example, a state that established an IDA program that permitted savings to be used to purchase a car (which the TANF statutory criteria do not allow) can easily exclude the savings in such IDAs from being considered in TANF eligibility and benefit determinations. Such an exception would be a sensible policy, enabling the state to ensure that the IDAs it has itself deemed beneficial for TANF participants do not interfere with receipt of other TANF benefits.

What States Call Their TANF Programs

Alabama	FA (Family Assistance Program)
Alaska	ATAP (Alaska Temporary Assistance Program)
Arizona*	EMPOWER (Employing and Moving People Off Welfare and Encouraging Responsibility)
Arkansas	TEA (Transitional Employment Assistance)
California	CALWORKS (California Work Opportunity and Responsibility to Kids)
Colorado	Colorado Works
Connecticut	JOBS FIRST
Delaware	ABC (A Better Chance)
D.C.	TANF
Florida	WAGES (Work and Gain Economic Self-Sufficiency)
Georgia	TANF
Guam	TANF
Hawaii*	TANF
Idaho	Temporary Assistance for Families in Idaho
Illinois	TANF
Indiana	TANF, cash assistance; IMPACT (Indiana Manpower Placement and Comprehensive Training), TANF work program
Iowa	FIP (Family Investment Program)
Kansas*	Kansas Works
Kentucky	K-TAP (Kentucky Transitional Assistance Program)
Louisiana	FITAP (Family Independence Temporary Assistance Program), cash assistance; FIND Work (Family Independence Work Program), TANF work program
Maine	TANF, cash assistance; ASPIRE (Additional Support for People in Retraining and Employment), TANF work program
Maryland	FIP (Family Investment Program)
Massachusetts*	TAFDC (Transitional Aid to Families with Dependent Children), cash assistance; ESP (Employment Services Program), TANF work program
Michigan	FIP (Family Independence Program)
Minnesota*	MFIP (Minnesota Family Investment Program)
Mississippi	TANF
Missouri	Beyond Welfare
Montana	*FAIM (Families Achieving Independence in Montana)
Nebraska*	Employment First
Nevada	TANF
New Hampshire*	FAP (Family Assistance Program), financial aid for work-exempt families; NHEP (New Hampshire Employment Program), financial aid for work-mandated families
New Jersey	WFNJ (Work First New Jersey)
New Mexico	NM Works
New York	FA (Family Assistance Program)
North Carolina	Work First
North Dakota	TEEM (Training, Employment, Education Management)
Ohio	OWF (Ohio Works First)
Oklahoma	TANF
Oregon*	JOBS (Job Opportunities and Basic Skills Program)
Pennsylvania	Pennsylvania TANF
Puerto Rico	TANF
Rhode Island	FIP (Family Independence Program)
South Carolina*	Family Independence
South Dakota	TANF
Tennessee*	Families First
Texas*	Texas Works (Department of Human Services), cash assistance; Choices (Texas Workforce Commission), TANF work program
Utah*	FEP (Family Employment Program)
Vermont	ANFC (Aid to Needy Families with Children), cash assistance; Reach Up, TANF work program
Virgin Islands	(FIP) Family Improvement Program
Virginia*	VIEW (Virginia Initiative for Employment, Not Welfare)
Washington	WorkFirst
West Virginia	West Virginia Works
Wisconsin	W-2 (Wisconsin Works)
Wyoming	POWER (Personal Opportunities With Employment Responsibility)

* State currently operating under a waiver from the federal TANF rules.
Source: U.S. Department of Health and Human Services

Chapter 4

The Food Stamp Program

On May 13, 2002, the President signed the reauthorization of the food stamp program into law as a part of the 2002 Farm Bill, HR 2646. States were granted new flexibility in the treatment of resources, including IDAs. These new provisions, described below, do not take effect until October 1, 2002.

Program Overview

The federal food stamp program began as a small pilot in 1961 and gradually grew into the nation's largest food assistance program. Some 18.5 million individuals received food stamps as of November 2001.

Food stamp benefits are designed to fill the gap between the money a family has available to purchase food and the estimated cost of a modest diet. They generally are available to families with gross incomes below 130% of the poverty line, although families also must meet an asset test (see below) and certain other eligibility requirements.

Most food stamp eligibility rules are set at the federal level, with day-to-day administration of the program carried out by states or counties. As explained below, however, in some areas—including the treatment of assets—states have flexibility to set policy within federal parameters.

The food stamp program differs from other major benefit programs in several key ways. Food stamps serve a wide range of needy

people and are not restricted to specific populations such as the elderly, families with children, or disabled individuals.²⁹ This makes the program a particularly important part of the safety net for low-income households.

In addition, food stamp benefits are 100% federally financed. The federal government shares the costs of administering the program equally with the states.

Treatment of Assets Within Food Stamps

Food stamp eligibility depends in part on a household's resources or assets.³⁰ Once a household is eligible for food stamps, however, its assets do not affect the amount of monthly benefits it receives. Instead, a household's benefit level is based on its income: the greater a household's countable income, the more money it is assumed to have available to purchase food and the smaller the monthly food stamp benefit it receives.

The food stamp program's asset or "resource" test³¹ has two related parts: an

THERE ARE NOW SEVERAL ROUTES A STATE CAN FOLLOW TO EXCLUDE ALL IDAS FROM THE FOOD STAMP ASSET TEST.

overall limit on the total amount of countable assets a household may have and a vehicle asset limit. Benefit programs often have entirely separate rules for countable assets and vehicles. In food stamps, this is not the case: *the portion of the value of a household's vehicle that exceeds the program's vehicle limit counts toward the program's overall asset limit.* If a household's resources exceed the countable asset limit, the household does not qualify for benefits.

Overall Asset Limit: In general, households are not eligible for food stamps if they have more than \$2,000 in countable assets, or more than \$3,000 if at least one household member is disabled or age 60 or older.³² Countable assets include cash on hand or in the bank, stocks, bonds, Individual Retirement Accounts, and the “excess value” of vehicles, as explained below.³³

Items that do *not* count as assets include a household's home, personal items, the cash value of any life insurance policy or pension fund, property the household uses to make money (such as farm equipment), and items the household cannot sell or use to purchase food (such as money in a trust fund or the security deposit on an apartment).³⁴

The assets of any household in which *all* members receive cash assistance through Temporary Assistance for Needy Families (TANF) or maintenance-of-effort (MOE) funds and/or Supplemental Security Income (SSI) are entirely disregarded in food stamp eligibility determinations. For these households and individuals, the food stamp program effectively follows the asset rules of these other programs.³⁵

In addition, under federal regulations issued in November 2000, states may exempt entirely the assets of *individuals* who receive various TANF- or MOE-funded services, such as case management or job counseling, so long as the state determines that these services benefit the entire household. States have broad discretion about which TANF- or MOE-funded benefits or services trigger this exemption from the asset test.³⁶

If a state uses TANF or MOE funds to help support a non-TANF, non-Assets for Independence Act (AFIA) IDA program, the state may include these IDAs among the TANF- or MOE-funded benefits that trigger this exemption from the food stamp asset test. By so doing, a state can ensure that all TANF- or MOE-funded IDAs—including IDAs that do not meet the TANF statutory requirements for IDAs—are exempt from being counted against the food stamp asset limits.

Finally, the food stamp provisions of the 2002 Farm Bill provide states with new flexibility to exclude additional assets from the food stamp asset limit.³⁷ As of October 1, 2002, a state may exclude certain types of resources from the food stamp asset limit if the state does not count these resources toward its asset limit for TANF cash assistance recipients or, alternatively, toward its asset limit for families covered under Medicaid. While Department of Agriculture (USDA) has not yet issued guidance on this provision, it is likely that states will be able to use this provision to exclude *all* IDAs, including non-TANF, non-AFIA IDAs. So long as a state elects to exclude all IDAs from either its TANF or its Medicaid asset test, it should be able to exclude them from the food stamp

asset test as well. Moreover, this means that a state now will be able to adopt a uniform policy across TANF, Medicaid (for families), and food stamps that excludes all IDAs from being counted as assets under any of these programs. (Note: There are certain types of assets that states will not be able to exclude, regardless of how these assets are treated under TANF and Medicaid. States will not be able to exclude cash on hand, amounts in financial institutions that can readily be withdrawn, and certain other resources as determined by the USDA through regulations. Based on floor statements made by some of the Farm Bill's leading sponsors, however, Congress' intent appears to be to allow states to use this new provision to exclude IDAs.)

The Farm Bill includes a similar provision regarding what states count as "income" under the food stamp program. This provision gives state food stamp programs the flexibility not to count as income various items that a state excludes from income in its TANF program or under its Medicaid program for families. This should permit states to exclude interest income earned on non-TANF, non-AFIA IDA accounts from being counted as part of a household's income under the food stamp program. So long as a state excludes such interest income in its TANF or Medicaid programs, it should be able to exclude this interest income in the food stamp program as well.³⁸

Vehicle Asset Limit:³⁹ Although there are very specific federal rules regarding how to consider vehicles in food stamp eligibility determinations, states now have considerable flexibility to establish their own food stamp vehicle policies that are less restrictive than the federal rules.

Households may have an unlimited number of vehicles but a portion of their value may count toward the overall asset limit. Under *federal* food stamp rules, "the excess value" of most vehicles—defined as the amount by which the vehicle's fair-market value exceeds \$4,650—is counted toward a household's countable assets. For example, if a household owns a vehicle that must be counted toward the vehicle asset limit and the value of the vehicle exceeds the \$4,650 limit by \$500 (because the vehicle is worth \$5,150), the household is presumed to have \$500 in countable assets from the vehicle. That \$500 is then added to the value of the household's other resources, such as bank accounts, to see if the household's total countable assets fall below the overall asset limit of \$2,000 (or \$3,000 for a household with an elderly member). For households with more than one vehicle, each vehicle is evaluated separately against the \$4,650 threshold.

Under the federal rules, not all vehicles must be counted toward the vehicle asset limit. A vehicle need not be counted, for example, if the household has less than \$1,500 equity in it, if the vehicle is used primarily for income-producing purposes (such as a taxi cab), or if the vehicle is needed for long-distance, employment-related travel (other than daily commuting) or to transport a physically handicapped household member.

States may, however, establish their own food stamp vehicle policies that are less restrictive than the federal rules. States may even eliminate the vehicle test altogether. Almost 30 states now exclude at least one vehicle in determining food stamp eligibility, and approximately 18 of these states exclude the value of *all* vehicles.⁴⁰ Liberalizing or eliminating the

federal food stamp vehicle rule also has the effect of liberalizing the overall food stamp asset test because the “excess value” of vehicles no longer counts toward the \$2,000 limit.

Treatment of IDAs within Food Stamps

As noted above, all assets in TANF or AFIA IDAs must be disregarded when determining food stamp eligibility. Prior to enactment of the AFIA amendments in December 2000, AFIA IDAs could be counted as assets for families that did not also receive TANF or SSI. The USDA’s Food and Nutrition Service did not inform its regional offices of this change in law or direct the regional offices to notify state agencies of this change until June 2001. It is possible that some state food stamp administrators still are unaware of, or have not yet implemented, this beneficial change in law.

As also noted, the 2002 Farm Bill includes an important further improvement. States that elect to exclude non-TANF, non-AFIA IDAs from counting as an asset either in TANF or in Medicaid for families will, as of October 1, 2002, also be able to exclude these IDAs from counting as an asset under the food stamp program.

Until now, non-TANF, non-AFIA IDA accounts that contain a participant’s IDA contributions have generally counted toward the \$2,000 food stamp asset limit. Yet there are ways to exclude these IDAs even in states that do not elect to exclude non-TANF, non-AFIA IDAs from counting under the asset test for TANF cash assistance or the asset test for families covered by Medicaid (as well as in states that do not elect to conform their definition of

a countable asset in the food stamp program to the definition the state uses in TANF or Medicaid).

As explained earlier, the assets of any individual who receives various TANF- or MOE-funded benefits can be disregarded entirely in food stamp eligibility and benefit determinations. As a result, if a state uses TANF or MOE funds to help support a non-TANF, non-AFIA IDA program and the state includes IDAs on its list of TANF- or MOE-funded benefits that trigger this exemption from the food stamp asset rules, the state can ensure that all IDAs that receive TANF or MOE funds—including IDAs that do not meet the TANF statutory requirements for IDAs—are exempt from the food stamp asset test.

In short, there are now several routes a state can follow to exclude all IDAs from the food stamp asset test. Still another route is through a waiver. A state could seek a waiver to disregard assets in non-TANF, non-AFIA IDAs that 1) do not receive any TANF or MOE funds and 2) are not excluded from either the asset limit that applies to TANF cash assistance recipients or the asset limit that applies to families covered by Medicaid.⁴¹ Since no state has yet sought such a waiver, USDA policy on this matter remains unclear.

One of the general requirements for food stamp waivers is that they include funding offsets so that demonstration projects do not increase federal costs. In addition, food stamp law requires that a policy being implemented through a waiver be the subject of an evaluation. If a state were to seek a waiver to disregard IDA assets in non-TANF, non-AFIA IDAs, USDA’s Food and Nutrition Service

might raise the lack of an evaluation as an obstacle to granting the waiver. On the other hand, states might be able to meet the evaluation requirement by supplementing the Department of Health and Human Services' evaluation of AFIA IDAs, which was mandated by Congress and is currently underway.⁴² For example, states could evaluate the simplification achieved by treating all IDAs alike through interviews with caseworkers, managers, and recipients.

Finally, it should be noted that in states where the food stamp program does not exclude IDAs, the treatment of the accounts that contain matching contributions for IDAs will depend on how those accounts are structured. If the matching contributions are placed in a separate account that is inaccessible to the participant, the assets in that account do not count toward the food stamp asset limit, at least until the matching contributions are withdrawn. Upon withdrawal, if the matching funds are given to the participant rather than to a third party, these funds count as income and, if not quickly expended, also count as an asset. (Other types of accounts, such as custodial accounts or trusts, may be treated differently. To determine the policies covering those types of accounts, it is best to check with the policy department of the state agency that operates the food stamp program.)

Opportunities for Policy Improvements

- As of October 1, 2002, a state should be able to exclude from the food stamp asset test any IDAs that also are

excluded from either the state's asset test for TANF cash assistance or the state's asset test for Medicaid for families. Forthcoming guidance from the USDA should provide more details on this option.

- Alternatively, a state can use federal TANF or state MOE funds to provide partial support to a non-AFIA IDA program that meets the TANF statutory requirements for IDAs, thereby bringing it under the asset disregard for TANF IDAs. If this is done, these IDAs are exempt from food stamp eligibility determinations.
- States also have an alternate route to ensuring that those TANF- or MOE-funded IDAs that do *not* meet the TANF statutory requirements for IDAs are excluded from food stamp eligibility determinations. States can provide some TANF or MOE funding for these IDA programs and then include IDAs on the list of TANF-funded benefits in the state that trigger an exemption from food stamp asset rules.
- As explained above, a state could seek a waiver to disregard assets in non-TANF, non-AFIA IDAs that do not receive any TANF or MOE funds and are not excluded from the asset limit that applies to TANF cash assistance recipients or the asset limit that applies to families covered by Medicaid. However, that route generally should be pursued only where none of the other routes are available.

■ States that choose none of the above options for non-TANF, non-AFIA IDAs can help ease the problems that counting these IDAs as assets will create by raising or eliminating the food stamp vehicle limit. While this does not directly help families with IDAs to gain

food stamp eligibility, it creates more room under the \$2,000 overall asset limit. Since the “excess value” of vehicles counts toward the \$2,000 limit, eliminating the vehicle limit provides more room under the limit for families to hold savings, including IDAs.

Chapter 5

Medicaid and the State Children's Health Insurance Program

Program Overview

Medicaid: Established in 1965, Medicaid is a public health insurance program for low-income individuals and families. In 1998, Medicaid covered about 40 million people, including 21 million children, 8.6 million adults in families with children, seven million persons with disabilities, and four million elderly persons.

On average, the federal government pays 57% of state Medicaid costs; states pay the remaining 43%. States must comply with certain federal requirements, but there are important policy areas over which states have considerable flexibility. For example, to qualify for federal matching funds, states must cover several specific populations, including certain low-income children and pregnant women, families that would have qualified for Aid to Families with Dependent Children (AFDC) prior to the 1996 welfare law, and elderly and disabled persons who are eligible for Supplemental Security Income (SSI). This coverage must at a minimum include certain services, such as physician and hospital care. States also may cover certain optional populations and may provide additional services, such as prescription drugs and personal care services.

In determining Medicaid eligibility, states consider not only whether a person fits within a category that may be covered under the program but also a person's income and assets.

The federal government has given states considerable flexibility in setting income and asset limits, as well as in how they count income and assets. As a result, states' policies in these areas vary widely.

State Children's Health Insurance Program:

As part of the Balanced Budget Act of 1997, Congress established the State Children's Health Insurance Program (SCHIP), under which the federal government is providing \$40 billion over 10 years to states to expand health insurance coverage to low-income uninsured children. States may use SCHIP funds to expand children's coverage under Medicaid or to create separate state children's health insurance programs. If a state uses SCHIP funds for a Medicaid expansion, existing Medicaid benefits, cost sharing, and eligibility rules would apply.⁴³ If a state creates a separate program, the benefits under that program must meet federal benchmark standards.⁴⁴

States also have flexibility over income and asset eligibility limitations. In general, states may cover children in families with incomes up to 200% of the poverty line (\$30,040 for a family of three in 2002) or up to 50 percentage points above the income eligibility limit that was in use in the state's Medicaid program at the time SCHIP was enacted if that results in an SCHIP income limit above 200% of the poverty line. Currently, more than four million children are covered under SCHIP.

IN MOST CASES, STATES HAVE NOT REJECTED THE IDEA OF EXCLUDING NON-TANF, NON-AFIA IDAS FROM BEING COUNTED AS ASSETS WHEN DETERMINING MEDICAID ELIGIBILITY. MOST OF THESE STATES APPARENTLY HAVE SIMPLY NOT CONSIDERED (OR BEEN ASKED TO CONSIDER) THIS IDEA.

Treatment of Assets Within Medicaid and SCHIP

Medicaid: States have significant discretion in establishing asset tests for determining Medicaid eligibility. Traditionally, states set asset tests that were equivalent to those under closely-related programs: welfare program (AFDC) asset rules were applied for families with children, for example, while SSI asset rules were used for the elderly and disabled.⁴⁵ In recent years, however—and especially since enactment of the 1996 welfare law—many states have liberalized their Medicaid asset tests to take advantage of a number of state options provided under federal law.

For example, states have the option to waive the asset test for children entirely. Some 44 states and the District of Columbia now have done so.⁴⁶ (The elimination of the asset test for children also means that parents' assets will not affect their children's Medicaid eligibility.) In addition, 17 states and the District of Columbia have eliminated the asset test for *families* with children, rather than eliminating the test only for children and not for their parents as well.⁴⁷

Most of the states that have retained asset tests have used their flexibility to exclude from countable assets the entire value of one family automobile. Some states still count the value of a vehicle as an asset above certain fixed dollar amounts, usually no less than \$1,500. Since state asset tests—in SCHIP as well as Medicaid—apply to families rather than entire households, the assets of an extended family member (such as a grandparent) are not counted toward the family asset limit.

States also may abolish or establish less restrictive asset tests for various categories of Medicaid beneficiaries.⁴⁸ States have the flexibility under federal law to waive or liberalize asset tests for most Medicaid populations.

Since state asset policies vary from each other and for different categories of beneficiaries, it may be important to ascertain the category under which an IDA holder would be eligible for Medicaid and the specific asset rules that apply. The best source for such information, at least for families, is the Center on Budget and Policy Priorities' Medicaid eligibility survey, *Expanding Family Coverage: States' Medicaid Eligibility Policies for Working Families in the Year 2000*.⁴⁹ Asset policies for other groups of beneficiaries in a state can be found by examining the state's Medicaid plan, which can be found on the website of the Department of Health and Human Services' (HHS') Centers for Medicare and Medicaid Services (www.hcfa.gov).

SCHIP: As already noted, if a state has used SCHIP funds to expand its Medicaid program for children, the existing asset rules for children under the state's Medicaid program apply to the newly covered children as well. States that use SCHIP funds to finance separate children's health insurance programs have complete flexibility over whether to apply an asset test in these programs and, if so, how to design that asset test and what to count as assets.⁵⁰ Among states with separate SCHIP programs, all but one (Oregon) have decided not to apply an asset test for children.⁵¹ (As in the case of Medicaid, this also means that parents' assets do not affect their children's SCHIP eligibility.)

Under federally approved waivers, several states have used SCHIP funds to extend coverage to the parents of SCHIP-eligible children (and in some cases, to other adults).⁵² These states generally apply the same rules to parents as to children and thus generally apply no asset test to the parents either.

Treatment of IDAs within Medicaid and SCHIP

Medicaid: States may not count any savings held in Temporary Assistance for Needy Families (TANF) or Assets for Independence Act (AFIA) IDAs as assets when determining Medicaid eligibility. However, states may consider as assets any savings held in non-TANF, non-AFIA IDAs. A brief examination of Medicaid state plans reveals that *none* of the 33 states that still impose an asset test for families has yet used its flexibility in counting assets to exclude non-TANF, non-AFIA IDAs in determining Medicaid eligibility.⁵³ It is not clear that any of these states have ever focused on this issue. It appears that in most cases, these states have not *rejected* the idea of excluding these IDAs from being counted as assets when determining Medicaid eligibility. Most of these states apparently have simply not considered (or been asked to consider) this idea.

One related issue is how states treat matching contributions to non-TANF, non-AFIA IDAs placed in a separate, inaccessible account. Federal law does not appear to speak directly to whether such accounts should be excluded from being counted as assets because they are inaccessible to participants (except when withdrawn for an IDA-designated purpose).⁵⁴ It is unlikely that states are counting such matching accounts as assets. States do, however, have

discretion regarding what they count as assets, and in theory, a state could count the funds in a separate matching account as assets for purposes of determining Medicaid eligibility.

One other important issue warrants mention. In November 2000, the Health Care Financing Administration (now known as the Centers for Medicare and Medicaid Services) of the HHS sent a letter to state health officials in which HHS indicated that under federal Medicaid and SCHIP laws that give states flexibility in determining what is counted as *income*, states can disregard as income all earnings deposited in an IDA.⁵⁵ If a state were to implement such a disregard in determining eligibility for Medicaid and SCHIP, the state would subtract from an individual's income the earnings that the individual contributed to an IDA. For example, if an individual with a monthly income of \$500 placed \$50 in an IDA, the individual's monthly income would be considered \$450 for eligibility purposes. This state option applies to *all* IDAs—that is, both to TANF and AFIA IDAs and to non-TANF, non-AFIA IDAs. The most desirable policy is for a state to adopt this disregard and to apply it to *all* IDAs, regardless of their funding source or authorizing legislation.

(Note: Neither the TANF statute nor the AFIA amendments *require* that earnings deposited into TANF or AFIA IDAs be disregarded as income, but rather that once in an IDA, such deposits be disregarded as assets and that the interest earned on such funds be disregarded as income. Going a step further and disregarding as income any earnings deposited in an IDA can create an incentive for families to establish and contribute to IDAs. If IDA contributions are excluded from income, a

IF IDA
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FROM INCOME, A
FAMILY WHOSE
INCOME IS NEAR
THE STATE'S
MAXIMUM LEVEL
FOR MAINTAINING
MEDICAID
ELIGIBILITY COULD
EXTEND ITS
ELIGIBILITY BY
CONTRIBUTING
MONEY TO AN IDA
ACCOUNT AND
HAVING THOSE
DOLLARS
SUBTRACTED
WHEN THE STATE
DETERMINES ITS
INCOME FOR
MEDICAID
ELIGIBILITY
PURPOSES.

IN ALL STATES
EXCEPT OREGON,
IDAs CURRENTLY
HAVE NO EFFECT
ON SCHIP
ELIGIBILITY.

family whose income is near the state's maximum level for maintaining Medicaid eligibility could extend its eligibility by contributing money to an IDA and having those dollars subtracted when the state determines its income for Medicaid eligibility purposes.)

SCHIP: As with Medicaid, states may not count savings held in TANF or AFIA IDAs as assets in determining eligibility for state SCHIP programs. States may count non-TANF, non-AFIA IDAs as assets, but Oregon is the only state that has an asset test in its SCHIP program for children. Hence, IDAs in all other states currently have no effect on SCHIP eligibility.

Opportunities for Policy Improvements

States have considerable flexibility in how they count assets for most Medicaid and SCHIP populations. As a result, states have significant opportunities to encourage IDA participation by working families by changing their Medicaid or SCHIP asset rules:

- States that still impose a Medicaid asset test on families can disregard savings held in all IDAs, whether or not they conform to TANF or AFIA authorizing criteria. In many states, this would require state legislative approval. Once approval is obtained, however, states need only submit a state plan amendment to the Centers for Medicare and Medicaid Services to implement this disregard. The Centers for Medicare and Medicaid Services has provided guidance on how to draft such state plan amendments.⁵⁶

- States can waive their Medicaid asset tests entirely for both children *and* their parents. While only a handful of states still administer a Medicaid asset test for children, the majority of states retain an asset limit for parents.

- States can expand SCHIP through waivers to other populations besides children, such as low-income parents, and states have flexibility to apply a different asset test to these populations than to children. Up to this point, however, states that have expanded SCHIP to parents have elected not to apply an asset test to these parents, just as states (except for Oregon) apply no asset test in determining SCHIP eligibility for children. Applying the same rules to parents as to children makes the program simpler to operate. In the future, more states may expand SCHIP coverage to parents or other adults. Ensuring that asset tests are not applied to these new populations, as they are not applied to children, enables working parents covered by these programs to accrue savings without fear of losing their health insurance coverage.

States can also take steps with regard to whether contributions and interest earned on IDAs count as *income* in determining eligibility for Medicaid or SCHIP. To effectuate such policies, states simply need to submit a state plan amendment to the Centers for Medicare and Medicaid Services.

- States can exclude any matching contributions for non-TANF, non-AFIA IDAs from counting as income for the purposes of determining eligibility for Medicaid or SCHIP.
- States can exclude any interest accumulating on either individual or matching contributions for non-TANF, non-AFIA IDAs from counting as income for the purposes of determining eligibility for Medicaid or SCHIP.
- States can also exclude from counting as income for the purposes of deter-

mining Medicaid or SCHIP eligibility any contributions that an individual makes to an IDA. Under such a provision, an individual's IDA contributions would actually be subtracted from the income level that is used to determine the individual's eligibility for Medicaid or SCHIP. Since such a provision extends beyond the statutory protections that apply to TANF and AFIA IDAs, it is a state option that applies equally to all types of IDAs. States are free to adopt this option and apply it to TANF and AFIA IDAs and also to non-TANF, non-AFIA IDAs.

Chapter 6

Supplemental Security Income

Program Overview

Established through legislation proposed by President Nixon and enacted in 1972, the Supplemental Security Income (SSI) program is a means-tested, federally funded and administered program that provides cash benefits for low-income aged, blind, and disabled individuals. SSI assists both adults and children: in 2000, approximately 30% of the 6.6 million beneficiaries were 65 or older, while the other 70% were blind or disabled non-elderly adults (57% of all beneficiaries) or children (13% of all beneficiaries).⁵⁷

In addition to age and disability status, eligibility for SSI is based on income and assets. Individuals and couples are eligible for SSI benefits if their countable incomes fall below the maximum monthly SSI benefit, which is \$545 for individuals and \$817 for couples in 2002. Most, but not all, income an applicant receives is considered in determining SSI eligibility.⁵⁸ Some \$20 per month of unearned income—for example, from Social Security—is not counted. In addition, \$65 of earned income per month, plus 50% of any remaining earnings, are not counted.

Some states provide a supplement to the SSI benefit for aged and disabled individuals. These state programs generally have higher income limits than those under SSI, so some individuals with incomes too high for SSI may still receive supplemental benefits—and also

may be eligible for Medicaid. (In most states, an individual who receives either SSI or a state SSI supplement is automatically eligible for Medicaid.) State supplemental programs typically use SSI income and asset rules, although the rules for some state programs are more restrictive than those for SSI.⁵⁹

Treatment of Assets Within SSI

Rules regarding federal SSI eligibility and benefit levels are set by Congress. There is no state flexibility with regard to the treatment of assets. In general, eligibility for SSI is limited to individuals with no more than \$2,000 in countable assets and couples with no more than \$3,000.⁶⁰ As long as an individual or couple does not exceed this asset limit, the level of assets does not affect the SSI benefit level.

Some assets are *not* counted in determining SSI eligibility. These include the beneficiary's home, one vehicle (if it is used for employment or to obtain medical care or is modified to transport a person with a disability), up to \$2,000 in household goods and personal items, and life insurance with a face value of less than \$1,500.⁶¹

SSI does not treat savings for retirement uniformly for purposes of determining asset eligibility. Its asset test, like that of most means-tested benefit programs, is designed to exclude “inaccessible” resources and to count

“accessible” resources. *Defined-benefit plans*, which are employer-sponsored pension plans based on an employee’s wages and years of work, are considered inaccessible and are excluded from the SSI asset test. By contrast, *defined-contribution plans*, which are based on contributions of the worker and the employer to the worker’s individual account (like 401(k)s and Individual Retirement Accounts [IRAs]), generally are considered accessible even if there is a penalty for early withdrawal. Funds in these accounts are considered countable assets.

While retirement accounts such as 401(k)s and IRAs are counted as resources for adult SSI applicants, parents’ IRAs and 401(k)s are not counted in determining the SSI eligibility of a disabled child.⁶² (The value of the parents’ countable assets that exceeds the SSI resource limit is deemed available to the child.⁶³ For example, if a single parent has countable assets of \$2,500, the value of the resources deemed available to the child equals \$500; that amount is added to any amount of countable assets the child may have in determining whether the child meets the asset test.)

Treatment of IDAs within SSI

As mentioned in chapter 2, Temporary Assistance for Needy Families (TANF) and Assets for Independence Act (AFIA) IDAs are prohibited from consideration in the determination of SSI eligibility by virtue of their authorizing statutes. The Social Security Administration (SSA) has yet to update its regulations specifically to mention the exclusions of these IDAs. However, SSA revised its Program Operations Manual System (POMS) in May 2001 to reflect the AFIA amendments

of December 2000; the revisions are effective retroactively to January 1, 2001.⁶⁴

Because TANF and AFIA IDAs are not counted in determining SSI eligibility, individuals can use these two types of IDAs to build savings for a downpayment on a home without risking the loss of SSI benefits. Currently, this is the *only* way a recipient of SSI can save for the purchase of a home without exceeding program asset limits. While TANF IDAs must be created on behalf of an individual in a needy family with children, AFIA IDAs have no such requirement. Thus, individuals with disabilities and elderly individuals who live alone or as part of a childless couple can use an AFIA IDA—and both elderly and disabled individuals who live in a needy family with children can use either a TANF IDA or an AFIA IDA—to save for a home (or for other IDA-approved purposes).

Generally, non-TANF, non-AFIA IDAs would be counted as assets in determining SSI eligibility because SSI ordinarily treats accounts in a financial institution (such as savings, checking, and certificates of deposit) as assets.⁶⁵ This is not the case, however, if the non-TANF, non-AFIA IDA is approved as a plan for achieving self-support (PASS). The Social Security Act excludes assets committed to a PASS that has been approved by SSA.⁶⁶ A PASS is designed to help SSI recipients who are under age 65 and have disabilities reach a work goal, in part by setting aside money for purposes such as obtaining training or equipment needed to become employed.⁶⁷ Although the initial term of a PASS may not exceed 18 months, it may be extended to 48 months if the recipient is making satisfactory

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IDA CAUSES AN
INCREASE IN THE
AMOUNT OF THEIR
SSI BENEFIT,
OFFSETTING THE
LOSS OF INCOME
PUT INTO THE
PASS OR IDAS.

progress. After that period, it may be extended further in intervals of up to six months.⁶⁸

A PASS holder has access to the funds in a PASS account both during the term of the PASS and upon its expiration, but these funds may only be used for the purpose(s) for which the PASS was established. Once the PASS expires, any remaining funds in the PASS are counted as assets in determining the PASS holder's SSI eligibility.⁶⁹

SSA approval is required to establish a PASS account and for an IDA to be considered a PASS account.⁷⁰ The purposes of a PASS are consistent with those for which low-income people commonly establish IDAs, except that funds in a PASS may not be used to purchase or repair a home. If funds in a non-TANF, non-AFIA IDA are explicitly limited to carrying out an SSA-approved PASS, they can be excluded from the SSI asset test. Non-TANF, non-AFIA IDAs counts toward the \$2,000 or \$3,000 SSI asset limit unless they meet the exclusion for PASS accounts.

Not only does SSA exclude funds placed in a PASS from the SSI *asset* test; it also excludes such funds from the SSI *income* test.⁷¹ Nor does SSA count funds that individuals place in a TANF or AFIA IDA as income.⁷² As a result, individuals with disabilities whose income exceeds SSI eligibility limits can use a PASS, or a TANF or AFIA IDA, to reduce their countable income and thereby become eligible for SSI. This strategy also can enable some individuals to become eligible for Medicaid.

To see how this would work, consider the example of a woman with a disability who receives a monthly Social Security disability

benefit of \$650. She is ineligible for SSI because her countable income of \$630 (\$650 minus the general exclusion of \$20 a month in unearned income) exceeds the SSI maximum of \$545. However, if she obtains an approved PASS account or a TANF or AFIA IDA into which she places \$100 per month, her countable income drops to \$530 (\$650 minus \$20 minus \$100), and she becomes eligible for \$15 of SSI per month. Her SSI eligibility, in turn, makes her eligible for Medicaid.

The fact that SSA does not count funds placed in a PASS or a TANF or AFIA IDA as income also has another important implication. Individuals already participating in the SSI program may find that investing some of their income in a PASS or a TANF or AFIA IDA causes an increase in the amount of their SSI benefit, offsetting the loss of income put into the PASS account or IDA (though probably not on a dollar-for-dollar basis).⁷³ It is important to consult with knowledgeable SSA employees to ensure that SSI recipients receive the maximum benefit for which they are eligible.

One other aspect of IDAs or PASS accounts deserves note. Often an individual's IDA really is two separate accounts, one holding the individual's contributions and the other holding the matching contributions. Participants generally have no access to the funds in the account that holds the matching funds until it is time to use the IDA for the intended goal. So long as an IDA is a TANF or AFIA IDA, none of the contributions made to either of these types of accounts is treated as income or resources in SSI. In addition, as noted above, amounts in non-TANF, non-AFIA IDAs also do not count in SSI eligibility and benefit determinations if the IDA has been approved as a PASS account.

With regard to non-TANF, non-AFIA IDAs that have not been approved as a PASS, funds in the accounts into which an individual makes his or her contributions do count toward the overall SSI asset limit of \$2,000 for an individual and \$3,000 for a couple. By contrast, accounts that hold the matching funds generally will not be counted. SSA treats an account held in a financial institution as the individual's account only "if the individual owns the account and can use the funds for his or her support and maintenance."⁷⁴ Because the person does not have access to the funds in the matching account until it is time to use the IDA for the intended goal, SSA will not count the matching account as a resource.

Opportunities for Policy Improvements

Since SSI is a federal program and the rules for the treatment of income and assets apply nationwide, states have no flexibility regarding the treatment of income and assets under SSI rules. There are, however, ways in which IDA program staff can help SSI recipients build assets through IDAs and PASS accounts:

- IDA programs that administer TANF- or AFIA-funded IDAs should approach organizations that work closely with individuals with disabilities, such as independent living centers and protection and advocacy programs, to explain that these IDAs offer SSI recipients a unique opportunity to save for a home downpayment beyond SSI's \$2,000 asset limit. As noted, this is the only way an individual receiving SSI can save for the purchase of a home. They also should
- point out that, as in the case of an SSI PASS, the income placed in these accounts is not counted as income by SSA, so some individuals who currently are ineligible for SSI may become eligible for it (and for Medicaid as well in most states) by participating in a TANF or AFIA IDA.
- Because income placed in a PASS account or in a TANF or AFIA IDA is not counted toward the SSI income limit, having a PASS or a TANF or AFIA IDA can make certain individuals eligible for SSI by reducing their income below the SSI income limit.⁷⁵ In so doing, it also can make these individuals eligible for Medicaid, since in most states, SSI participants are automatically eligible for Medicaid. This can be especially important for low-income individuals who are elderly or disabled. In some states, such individuals are eligible for Medicaid only if they are eligible for SSI.
- These facts suggest that promoting TANF and AFIA IDAs among low-income elderly individuals—and both TANF and AFIA IDAs and PASS accounts among low-income individuals with disabilities—can be a useful strategy to help some of these individuals secure better health coverage.
- Individuals whose SSI eligibility depends on having a PASS must understand that a PASS account is time limited. Nevertheless, the funds that such individuals accumulate in a

PASS may improve their employment opportunities at the end of that period by allowing them to use these funds for the vocational goal they have identified. In addition, temporary receipt of SSI can make some individuals eligible for certain benefits—such as Medicaid—on an ongoing basis.⁷⁶ For some low-income individuals, use of a PASS account to qualify for SSI, as well as to build assets, thus can yield benefits long after their PASS expires.

- IDA program staff can increase the likelihood that SSA will approve a non-TANF, non-AFIA IDA as a PASS account. If a disabled SSI recipient under age 65 is considering establishing such an IDA, it is important to contact the SSA office first to make sure that all PASS rules are followed and the recipient's SSI eligibility is not jeopardized. If a non-TANF, non-AFIA IDA program serves a number of individuals with disabilities who receive SSI, IDA program staff should identify the SSA staff person in the region who works on PASS accounts. (Often, not every SSA field office will have such a person, but within each region of local SSA offices, there will be one or two PASS experts.)
- Before contacting the SSA office, it is often helpful to seek the advice of a local independent living center, which should have staff who are knowledgeable about PASS and SSI rules and are likely to know who at

the local SSA office (or at another SSA office in the region) works on PASS accounts. This practical information often can be decisive in gaining approval of a PASS.⁷⁷

- As mentioned earlier, some states provide a state supplemental benefit for SSI recipients. If the federal government administers the supplemental program for the state, the state must use SSI asset rules for the supplemental program, as well as SSI rules on what counts as income. Federal rules for PASS accounts and TANF and AFIA IDAs thus are built into states' own rules for recipients of these supplemental benefits.⁷⁸ However, if a state administers the supplemental program itself, the state is *not* bound by federal rules for recipients of the state-administered benefit. In particular, it is not bound by the rules that prevent TANF- and AFIA IDAs from counting as income or assets in determining eligibility for the benefit.
- Advocates in states with state-administered supplemental programs should find out if their state counts a PASS or IDA as a resource when determining eligibility for the supplemental benefit and, if it does, should urge the state to exclude these funds. They also should urge their state not to count as income the amounts placed into a PASS account or IDA. A state could decide to exclude PASS accounts and TANF and AFIA IDAs, or it could decide to exclude all IDAs. Any of these steps might encourage more

lower-income people with disabilities to consider creating a PASS or IDA, since it should ease concerns that

doing so would jeopardize their SSI supplemental benefits (and their Medicaid eligibility).

Considerations in Asset Development in SSI

Questions to Consider	TANF or AFIA IDA	Non-TANF, Non-AFIA IDA in an Approved PASS	Non-TANF, Non-AFIA IDA Not in a PASS
Does an IDA need to be set up as a PASS?	No—these IDAs are exempt from consideration in determining SSI eligibility under federal law.	If these IDAs are not approved as a PASS, resources in them will be counted in determining SSI eligibility. This means that if an IDA that was not a PASS brought a person's total countable resources to more than \$2,000 for an individual (or \$3,000 for a couple), the person would lose SSI eligibility.	
Can an aged SSI recipient (65 years or older) establish this IDA?	Yes – there is no age restriction.	Generally, no—a PASS is available only to individuals receiving SSI based on disability. However, if the person received SSI disability benefits prior to age 65, SSA can approve a PASS for that person even if it begins after age 65.	Yes, but the amount in the IDA will be counted toward the person's countable resources (see above).
Can a recipient of SSI disability benefits establish this IDA?	Yes.	Yes.	Yes. See answer above.
Must an individual establishing this IDA be part of a needy family?	TANF IDAs and other IDAs funded with TANF or MOE funds must be for needy families with children. (States also can fund IDAs for non-custodial parents with TANF funds.) AFIA IDAs, by contrast, do not require an individual to be a member of a family with children. Other IDA programs may have different rules.		
Must the person use earnings or earnings-related income (such as the EITC) for his or her contributions to the IDA?	Yes.	No, unless the IDA rules require that.	
Can this IDA be used to purchase a home?	Yes. (Currently, this is the only way an SSI recipient can save for a home.)	No—this is not a goal of PASS.	Yes, but the low resource limit in SSI (\$2,000 for an individual) does not make this a practical way to save for a home.
Can this IDA be used to purchase a car?	No.	Yes, if the IDA program so allows and if SSA approves this for the work goal. The PASS also may include fuel costs, maintenance, insurance, etc.	Yes, depending on the rules of the IDA program.
Can this IDA be used to start a business or secure an education?	Yes.	Yes—but the IDA must spell out the occupational goal that the person intends to meet with the funds in order to be approved as a PASS.	Yes, but if so, the IDA probably could qualify as a PASS, and it would be wise to approach SSA to secure approval of it as a PASS.
Does SSA need to approve this IDA?	No—but it would be wise to inform SSA about the IDA so SSA doesn't mistakenly reduce or terminate SSI benefits.	Yes—SSA approval is needed before funds are deposited into the IDA.	No, but make sure SSA knows about the IDA so it can track the resource. If the IDA plus other countable resources exceeds \$2,000 for an individual or \$3,000 for a couple, the person will lose SSI eligibility. (Approval of the IDA as a PASS would be preferable.)

continued on page 38

Considerations in Asset Development in SSI *continued*

Questions to Consider	TANF or AFIA IDA	Non-TANF, Non-AFIA IDA in an Approved PASS	Non-TANF, Non-AFIA IDA Not in a PASS
Is there a time limit for this IDA?	The income is not counted in SSI. This means an individual not receiving SSI could become eligible for SSI if he or she puts sufficient monthly income into the IDA so that his or her remaining income is below the SSI income limit.	The income is not counted in SSI. This means an individual not receiving SSI could become eligible for SSI if he or she puts sufficient monthly income into the IDA so that the remaining income is below the SSI income limit.	The income is treated as available to the individual in the month it is received.
How is the income put into this IDA treated?	No. No part of the IDA can be counted in any federally-funded means-tested program.	No, all IDA funds would be excluded if SSA approves the PASS.	SSA will count as a resource the funds in the account to which the individual makes contributions. If the person does not have access to the funds in the donor account, SSA will exclude those funds from the resources it counts.
Is the donated match treated differently from the portion the individual contributes?	Yes. The IDA is not counted as income in SSI and the reduction in income may result in the person becoming eligible for SSI and Medicaid.	Yes, if the person is not already eligible, because the income put into the IDA is not counted as income in SSI.	No, and unless it is carefully monitored, this type of IDA can lead to disruption of eligibility for SSI and Medicaid if the person's countable resources exceed the allowable levels.
Could creation of this IDA make an individual eligible for SSI and Medicaid?	No, unless the local IDA program has a time limit in its rules.	Yes—the initial PASS term is 18 months, but it can be extended to 48 months and, after that, in intervals of 6 months if needed to meet the occupational goal.	No, unless the specific IDA program includes one. Note that the longer an IDA exists, the greater the chance that accumulated savings will jeopardize the person's ongoing SSI eligibility (and possibly Medicaid eligibility).

Chapter 7

Low-Income Housing Programs

Program Overview

Federal rental assistance is provided through several different programs, described below. Each has its own eligibility criteria, but *none has an asset test*.

Public Housing: The United States public housing program, established by the U.S. Housing Act of 1937, is the nation's oldest effort to provide decent and safe rental housing for low-income families, elderly persons, and people with disabilities who have low incomes. Public housing comes in many sizes and types, ranging from scattered single-family houses to high-rise apartments. The Department of Housing and Urban Development (HUD) administers federal aid to local public housing agencies (PHAs), which manage the housing for low-income residents. Families in public housing generally pay rent equal to 30% of their monthly-adjusted income.

Approximately 1.2 million households currently live in public housing units managed by more than 3,000 PHAs across the country.⁷⁹ A PHA determines eligibility for public housing based on annual income (a family's income may not exceed 80% of the HUD-adjusted median income for a family of its size in the local area) and U.S. citizenship or eligible immigration status.

Some public housing is restricted to elderly or disabled households. However, nearly half of

all households served by public housing are families with children. At least 40% of new admissions to public housing each year must be families and individuals with income at or below 30% of the area median income, which is generally comparable to the federal poverty line. Once admitted, tenants may remain in public housing regardless of changes in their income level.

Housing Choice Voucher Program: Formerly known as the tenant-based Section 8 program, the Housing Choice Voucher Program is the largest federal program for helping low-income families and individuals afford decent rental housing. Through it, some 2,600 PHAs administer housing vouchers for approximately 1.8 million low-income households. Generally, the program provides vouchers that families use to rent housing they locate in the private market. However, PHAs also may permit families and individuals to use their vouchers toward the monthly costs of homeownership. PHAs are responsible for ensuring that the units rented with these vouchers meet minimum health and safety standards.

The maximum rental subsidy that a family may secure through a voucher generally equals the amount estimated to rent a moderately priced dwelling of a particular size in the local housing market. The family pays 30% of its monthly income for rent, while the voucher covers the difference between 30% of the fam-

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COULD START
BUILDING ASSETS.

ily's income and the maximum rental subsidy. (If the actual rent the owner charges exceeds the maximum allowable amount of the housing subsidy, the family also pays the difference between the maximum subsidy amount and the actual rental charge.)

The Housing Choice Voucher Program has the same income eligibility limit as public housing: 80% of the HUD-adjusted median income for a family of its size in the local area. Similarly, recipients must be citizens or legal immigrants. Vouchers typically are targeted to poor applicants: each PHA must ensure that three fourths of the new families that receive vouchers each year in its area have incomes at or below 30% of the area median income.

In both public housing and the voucher program, PHAs nearly always have more applicants than they can serve. In both programs, PHAs may establish local preferences for selecting which applicants to serve. For example, a PHA may give preference to families moving from welfare to work or other working poor families and/or to the homeless.

Project-Based Section 8 Programs: Project-based Section 8 programs provide subsidies for rental units in privately owned apartment buildings. The owners may be either for-profit or nonprofit entities, and the subsidies may cover all of the units in a given housing development or a designated number of a building's units. The tenant pays rent to the owner in an amount equal to 30% of the tenant's income. The federal government pays the remainder of the rent (the subsidy amount).

Project-based Section 8 programs are *not* administered by the local PHA; owners con-

tract directly with HUD or indirectly with HUD through an intermediary state housing finance agency. Owners maintain their own waiting lists and decide whom to admit, subject to federal non-discrimination and other requirements. At least 40% of the households that newly receive these subsidies each year must be households with incomes at or below 30% of the area median income. All other households that start receiving these subsidies must have incomes below 80% of the area median income. Owners also may establish preferences in the selection of their tenants. Approximately 1.3 million households currently receive project-based housing assistance in privately owned dwellings, with about a quarter of these being families with children.

HOME Investment Partnership Program and the Low-Income Housing Tax Credit:

The HOME Investment Partnership Program and the Low-Income Housing Tax Credit (LIHTC) are designed to encourage the production and rehabilitation of affordable housing. HOME funds may be used for such purposes as assistance to homebuyers; new construction, rehabilitation, or acquisition of rental housing; and rental assistance.

HOME funds are allocated by a formula based on a jurisdiction's need for affordable housing. Sixty percent of the funds goes to cities, urban counties, and consortia of two or more towns, cities, or counties; the other 40% goes to states.

The income eligibility limit for households whose rent is lowered by a HOME subsidy is 80% of the area median income. A local jurisdiction receiving HOME funds must assure, however, that 90% of the households assisted

by such funds have incomes at or below 60% of the area median income.

The LIHTC is the primary federal tool for producing new and rehabilitated rental housing for low-income households. The credit provides a tax reduction for those who invest in qualifying rental properties. To qualify, a property must set aside a certain share of its units for low-income households. Each state receives a tax credit allocation and awards the tax credits to qualifying projects, which issue the tax credits to investors in return for investments in the projects.

The income eligibility limit for households living in units developed with LIHTC funds is 60% of the area median income. Under both the HOME program and this tax credit, poorer families usually need a separate rental subsidy (such as a housing voucher) if they are to be able to afford the rent for an LIHTC unit. About one third of the residents of HOME- or LIHTC-financed housing receive a separate federal rent subsidy, usually a Section 8 voucher.

Treatment of Assets in Federal Low-Income Housing Programs

*Federal housing assistance programs do not have an asset test for determining eligibility.*⁸⁰ Nonetheless, countable assets do have some consequences for recipients of federal housing assistance.

Under federal regulations, the interest or other income earned on most assets—including interest earned on non-Temporary Assistance for Needy Families (TANF), non-Assets for Independence Act (AFIA) IDAs—is counted

as part of a family's income and is used to determine the family's eligibility for housing programs and the amount of its rental subsidy. If a family has net assets in excess of \$5,000, a percentage of the value of the family's assets is counted as income if that amount exceeds the family's actual net income from the assets.⁸¹ HUD determines the percentage based on the current passbook savings rate. HUD regulations do not state whether IDA assets should be counted in determining whether a family has net assets in excess of \$5,000.

In general, assets count only if they are accessible to the family. If an IDA is structured so that matching contributions are placed in a separate account from which funds can be withdrawn only for a designated IDA purpose, they would likely not be considered accessible to the family.⁸²

Treatment of IDAs in Federal Low-Income Housing Programs

As mentioned in chapter 2, the TANF and AFIA statutes explicitly state that interest income on TANF and AFIA IDAs must be excluded from eligibility and benefit determinations for federal programs, including housing. These IDAs, however, are not on a list HUD periodically publishes of sources of income that federal statutes specifically exclude from being counted as income under HUD programs.⁸³ The omission of TANF and AFIA IDAs from the HUD list may mean that some housing agencies are counting this income despite the fact that federal law clearly does not allow that.

Interest earned on participant contributions to non-TANF, non-AFIA IDAs apparently is

considered in determining some families' rent levels. (If IDA matching contributions are placed in a separate account to which the participant does not have access, interest earned on such matching funds would not be counted as income.) Although the impact of IDA interest income on rent levels is likely to be very small, tracking interest income can create an administrative burden for families, PHAs, and the private owners that determine families' rent obligations for some Section 8 subsidies.

IDAs and the Family Self-Sufficiency Program: Some individuals receiving federal housing assistance have the opportunity to build assets through HUD's Family Self-Sufficiency (FSS) program. FSS participants accumulate assets in an escrow account, into which their PHA deposits the increased rental charges the family pays as its earnings rise. Upon completion of the program, the family may have access to these assets and use them for any purpose.⁸⁴

Some PHAs have arranged for contributions to FSS escrow accounts to be matched with private funds, with the result that these accounts more closely resemble IDAs. It is unclear whether an entity administering an IDA supported by TANF or AFIA funds may consider the rental payments deposited in these accounts as a participant's contribution to a TANF or AFIA IDA and thus may use TANF or AFIA funds to make matching payments. (Such a use of deposits into FSS escrow accounts would be consistent with the Department of Health and Human Services' [HHS'] policy of allowing an Earned Income Tax Credit refund to be deposited in an IDA account and matched by funds from a TANF-funded IDA program.⁸⁵)

Opportunities for Policy Improvements

Control over the treatment of assets in federal low-income housing programs rests with HUD rather than the states. There are several steps HUD could take to provide better guidance and clarity to state and local governments and PHAs on the regulations governing assets and IDAs. Specifically:

- HUD should add TANF and AFIA IDAs to the list of sources of income that are specifically excluded from being counted as income to eliminate any confusion caused by the omission and should publish an updated list of these income sources.
- HUD also could exclude interest earned on non-TANF, non-AFIA IDAs from being counted as income. HUD could accomplish this either by changing the regulation or issuing guidance, although technically the new policy would be enforceable only if HUD changes the regulation. By creating a uniform policy toward IDAs, this exclusion would free PHAs from the administrative burden of determining the funding source of a particular IDA and might encourage more PHAs and public housing tenants to participate in IDA programs.
- HUD and HHS could clarify whether FSS escrow funds may serve as the participant contribution for TANF or AFIA IDAs.

In addition, IDA program staff could encourage greater use of IDAs by public

housing tenants and voucher recipients by educating tenant leaders, as well as PHA administrators, on the benefits IDAs offer, as well as by pointing out that IDA assets will not cause participants to lose eligibility for federal housing assistance programs because those programs do not have asset tests.

In areas where PHAs have established FSS programs, IDA program staff also should encourage public housing tenants and voucher recipients to consider participating in these programs. Through FSS, families that cannot afford to participate in an IDA program because they need all of their income to meet current expenses could start building assets.

Chapter 8

The Community Reinvestment Act

Overview

The Community Reinvestment Act (CRA) is one of the most far-reaching regulatory tools to ensure that federally insured depository institutions⁸⁶ (depository institutions) provide credit and services to low- and moderate-income individuals and low- and moderate-income areas.⁸⁷ Enacted in 1977, the CRA obligates the federal banking regulators to ensure that each depository institution is helping to meet the credit needs of the geographic areas from which it takes deposits, including low- and moderate-income areas, consistent with safe and sound banking practices. Between 1993 and 1999, federally insured depository institutions and their affiliates made almost \$800 billion in home mortgage, small business, and community development loans to low- and moderate-income borrowers and communities.⁸⁸ This volume of lending was due in part to the CRA.

There are a number of ways that depository institutions can receive CRA credit for participating in IDAs. In 1998, the federal banking regulators⁸⁹ (banking regulators) explicitly recognized that depository institutions could be eligible for CRA credit by participating in any of the following IDA related activities⁹⁰:

- Providing IDAs to IDA holders
- Making grants to IDA programs or matching funds for IDA holders

- Making grants or loans as operating funds to IDA programs
- Providing staff to participate in the development and oversight of IDA programs
- Making loans to IDA holders

To date, there are over 10,000 active IDAs and over 350 participating depository institutions. This success has been encouraged, in part, by the CRA and how the CRA examination process gives credit to depository institutions for administering and establishing IDAs.

To understand how a depository institution's participation in IDAs allows them to be eligible for consideration for CRA credit, the following chapter explains why an adequate CRA examination score is an important consideration for a depository institution and how the CRA examination process works. Although the type of CRA examination process that is administered depends upon the depository institution's size and type, each CRA examination process allows for some form of credit for participating in IDAs.

The Importance of the CRA Examination:

A depository institution's CRA rating directly affects the types of activities in which it may engage. Banking regulators are required to

consider an institution's CRA performance, in addition to other factors, when deciding to approve a depository institution's application for a charter or for Federal Deposit Insurance Corporation (FDIC) insurance; to allow a depository institution to relocate a main office or to establish or relocate a branch; or to allow a depository institution to merge, consolidate, or acquire the assets or liabilities of another depository institution.

The methodology for evaluating compliance under the CRA varies by the size and type of the depository institution and is described in the following section. A depository institution receives a final composite score of either outstanding, satisfactory, needs to improve, or substantial noncompliance. If the depository institution fails to receive a satisfactory CRA rating or higher, the depository institution may be denied an application for the activities described above.

More recently, a depository institution's failure to attain a satisfactory rating can have additional consequences, including the inability to engage in the new activities authorized under the Gramm Leach Bliley Act (GLBA) of 1999. The GLBA allows for the creation of new financial holding companies which can engage in a host of new expanded activities including, securities, insurance, and underwriting, as well as banking. For any financial holding company (or subsidiary or affiliate of the holding company) to engage in any of the newly authorized activities, its depository institutions must have earned at least a satisfactory rating on the most recent CRA exam. A less than satisfactory CRA rating can preclude the financial holding company (or its affiliates or subsidiaries) from participating in new activities.

The CRA Evaluation Process: Under the CRA, federal banking regulators must periodically assess depository institutions on the extent to which they meet the credit needs of their assessment areas,⁹¹ the geographic area in which performance is evaluated. Depository institutions each define their own assessment area; however, the regulations provide guidelines for defining an assessment area. Depository institutions are required to maintain a publicly available CRA file, including information about the institution's CRA performance. CRA also allows for public comment on the community lending activity of the institution, which must then be factored into the banking regulator's CRA assessment of the institution.

CRA examinations can be broken out into four categories, depending on the size and type of the institution. Those categories are:

- *Examinations for large depository institutions:* Large depository institutions are defined as those with assets over \$250 million or more or those that belong to a parent holding company with \$1 billion or more in bank and thrift assets.
- *Examinations for small depository institutions:* Small depository institutions are defined as those with assets less than \$250 million or those that do not belong to a parent holding company with \$1 billion or more in bank and thrift assets.
- *Examinations for wholesale and limited purpose institutions:* Wholesale institutions are financial institutions that make loans to large businesses. These

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institutions are not in the business of extending home mortgage, small business, small farm, or consumer loans to retail customers. Limited purpose institutions offer only a narrow product line (such as credit cards or motor vehicle loans) to a regional or broader market.

- *Examinations based on a strategic plan:* Any of the institutions listed above can choose a strategic plan in lieu of the other evaluation types.

Because any of these depository institutions can be eligible for CRA credit for participating in IDAs in some fashion, each evaluation will be explained. In practice, typically it is the large and small depository institutions that hold IDAs. However, limited purpose and wholesale institutions can participate in IDAs by providing grants and loans to IDA programs. The four types of examinations are described below in the following sections.

CRA Examination for Large Institutions:

Banking regulators assess large depository institutions on a three-part examination: 1) an institution's lending activity, 2) an institution's service activity, and 3) an institution's investment activity.

An institution's lending activity is weighted the most in the examination, accounting for 50% of the total score. When assessing a depository institution under the lending test, banking regulators consider overall lending volumes, borrower characteristics, geographic distribution, and the level of innovation applied to meeting the lending needs of their communities.

Banking regulators also consider under the lending test a depository institution's community development loans: these are loans that have community development as their primary purpose and that benefit an institution's assessment area or a broader statewide or regional area that includes its assessment area. They may include loans to local non-profits that serve low-to-moderate income individuals, loans for affordable housing rehabilitation, loans to community development financial institutions, and loans to local lending consortia.

The second component of a large depository institution's CRA examination is an assessment of its investment activities. This component comprises approximately 25% of the three-part CRA examination. For an investment activity to be considered for credit under CRA, it must have a primary purpose of community development. Examples of eligible investment activity may include grants and deposits in community development organizations and corporations, community development financial institutions, and community development programs.

Banking regulators assess depository institutions on their investment activity by considering a number of factors, including the institution's dollar amount of qualified investments, innovativeness or complexity of the investment, responsiveness to identified credit and community development needs, and the extent to which those investments are not met by private investors.

The services test, the third component of the CRA examination for large institutions, is also weighted at 25%. Under this compo-

ment, banking regulators assess an institution on the availability and effectiveness of its retail banking services and the extent and effectiveness of its community development services. With respect to the retail banking services, an institution is assessed on the distribution of the institution's branches among areas of different median incomes, its record of opening and closing branches, especially in low- and moderate-income areas, and the effectiveness of products and services that are offered to low- and moderate-income individuals and in low- and moderate-income areas.

Under the service test, banking regulators also consider a depository institution's provision of community development services. These services have a primary purpose of community development and are not evaluated as a part of the institution's retail banking services. Examples of these services may include credit counseling and financial literacy training for low- and moderate-income people, low-cost bank accounts, and free check cashing options. In addition, banking regulators consider an institution's innovation and responsiveness to the financial service needs of the community.

Example of a Large Institution Participating in IDAs: If a large depository institution holds IDAs, provides staff to teach financial education, and makes loans for the IDA holders who use their IDA to purchase a home, those activities would likely be eligible for CRA credit. For holding the IDA and for providing staff time, it could be eligible for CRA under the services exam; for making a loan to an IDA holder, it could be eligible under the CRA lending test.

CRA Examination for Small Institutions: The CRA examination for small depository institutions includes five performance criteria that constitute a "streamlined" test focused on lending and other lending-related activities in a depository institution's assessment area. Under this examination, banking regulators consider an institution's loan-to-deposit ratio; lending activity in the assessment area; lending to borrowers of different incomes and businesses of different sizes; geographic distribution of loans; and the institution's response to public complaints regarding its CRA activities.

Example of a Small Institution Participating in IDAs: A small institution could be eligible for CRA credit by offering an affordable mortgage product to IDA holders. The institution would also be eligible for CRA credit under lending-related activities such as offering homeownership counseling or making grants to nonprofits that provide homeownership counseling.

CRA Examination for Limited Purpose and Wholesale Institutions: The community development test is used to evaluate limited purpose and wholesale financial institutions. As mentioned before, limited purpose institutions offer a narrow product line such as credit cards to a regional or broader market; wholesale financial institutions' business does not involve extending home mortgage, small business, small farm, or consumer loans to retail customers.

The community development test assesses these institutions for the number and amount of community development loans, qualified investments, or community development services they provide either in their assessment area

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AS THE IDA FIELD
EVOLVES.

or in a broader statewide or regional area that includes the assessment areas.⁹² Banking regulators also consider the innovation and complexity of a loan, investment, or provision of services and responsiveness to credit and community development needs.

Example of a Limited Purpose or Wholesale Institution Participating in IDAs: Grants provided by a limited purpose or wholesale financial institution to community organizations that administer IDAs could be eligible for CRA credit.

CRA Evaluation of a Strategic Plan: Any depository institution may opt to develop a CRA strategic plan. To do so, the plan must have input from the community and be approved by the appropriate banking regulator. The plan must specify how—through lending, investment, and/or services—the depository institution will meet the credit needs of low- and moderate-income individuals and areas. After completing the plan and getting input from the banking regulator and the community, the institution can be certain of its CRA score. Some institutions prefer a strategic plan to be sure of their final CRA score before initiating new activities.

Example of a Depository Institution Participating in IDAs and Evaluated with a Strategic Plan: Given the financial service options that now exist as a result of the GLBA, an insurance company could, for example, establish a depository institution as a subsidiary, with the intention of selling banking products through its agents. To be confident that its new approach to banking would be acceptable, it could submit a strategic plan, explaining how it would effectively serve its assessment area,

including the provision of IDAs. The insurance agents would market the IDAs to customers, while the depository institution would hold the IDAs and provide match moneys for the accounts. Having submitted the strategic plan up front, it could operate with a level of certainty that it otherwise would not have had under any of the other CRA examinations.

Treatment of IDAs under the CRA

To recap, any federally insured depository institution is eligible to be considered for CRA credit for participating in IDAs, as IDAs are explicitly addressed in the Federal Financial Institutions Examination Council's interagency question-and-answer document.⁹³ The document specifically describes what activities a depository institution can engage in to be considered for CRA credit. Again, those activities include the following:

- Providing IDA deposit accounts
- Providing matching dollars or operating funds to an IDA program
- Designing or implementing IDA programs
- Providing consumer financial education to IDA holders or prospective accountholders
- Other means not explicitly stated in the question-and-answer document

Opportunities for Policy Improvement

The banking regulators are currently reviewing the CRA regulations and the examination

process to assess the effectiveness of the regulations in 1) emphasizing an institution's actual performance in addressing its CRA responsibilities, 2) promoting consistency in evaluations, and 3) eliminating any unnecessary burden in complying with the CRA. The regulators will propose amendments to the regulations if, following their review of public comments, they determine that changes are warranted.

It is important to recognize that the CRA offers one set of incentives for depository insti-

tutions to offer IDAs. Going forward, bankers, community-based organizations, and regulators should engage in conversations on how IDAs can be developed to meet their respective goals. This dialogue could help to ensure the CRA reflects the new opportunities that are created as the IDA field evolves. In addition, the banking regulators are in a solid position to disseminate this type of information through their newsletters and websites. This will further enable IDA practitioners and bankers to learn new ways to offer and support IDAs in their communities.

Chapter 9

The Bank Enterprise Award

Overview

The Bank Enterprise Award (BEA) program⁹⁴ is a grant program administered by the U.S. Treasury Department's Community Development Financial Institutions Fund (CDFI Fund).⁹⁵ Based on the premise that financial institutions are essential to supporting economic growth in low- and moderate-income communities, the BEA program provides annual financial awards to any depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) for *increasing* their activities in economically distressed communities⁹⁶ and for making investments in certified Community Development Financial Institutions (CDFIs).⁹⁷ The amount of the award is based on the increase in the BEA-eligible activities, which are ranked according to BEA program priorities.

Since the first BEA program awards in 1996, the CDFI Fund has awarded over \$182 million to depository institutions. For the fiscal year 2002, about \$20 million will be available in BEA program awards, with a maximum award available per applicant of \$2 million.

IDAs are one type of activity for which depository institutions can be eligible for a BEA program award. However, under the current BEA program, other types of activities are given greater priority than IDAs. Moreover, the applicant must report on all categories of activities carried out in the distressed community

(including all lending activities). Therefore, it would be unlikely that a depository institution would apply for a BEA program award solely on the basis of its IDA activity. Going forward, however, the CDFI Fund is considering a new ranking system that would place service activities, including IDAs, higher in the priority list. Although nothing has been finalized, the CDFI Fund is currently taking comments on the potential changes to the BEA program.

The remainder of this chapter will provide a description of eligible BEA activities and information on how those activities are currently ranked; an overview of how the BEA program works; a discussion of how IDAs fit into the program; and a brief discussion of possible changes in the BEA program and suggestions for program changes to further support IDAs.

Eligible BEA Activities: Eligible BEA activities are divided into two large categories: *development and service activities* and *CDFI-related activities*. CDFI-related activities are specifically financial investments and loans and deposits in CDFIs. Development and service activities are further divided into two categories: development activities, which focus on lending activities; and service activities, which include retail services, various types of transaction accounts, and various types of financial and community services. IDAs fall under the category of service activities. The table lists the different types of activities under each of the categories.

Eligible BEA Activities		
Development and Service Activities		
	Service Activities	<ul style="list-style-type: none"> — Deposits — Financial Services — Electronic Transfer Accounts — IDAs — First Accounts — Community Services
	Development Activities	<ul style="list-style-type: none"> — Consumer Loans — Single-Family Loans — Multi-Family Loans — Commercial Real Estate — Business Loans (<\$1 million) — Agricultural Loans (<\$500,000) — Project Investments
CDFI-Related Activities		
		<ul style="list-style-type: none"> I. Equity Investments (grants, investments, equity like loans) II. CDFI Support Activities (loans, deposits [certificates of deposit], technical assistance)

BEA Program Process: The BEA application is structured as a two-step process to gauge the *increase* in the level of eligible activities that are being carried out by depository institutions with CDFIs and in distressed areas. The first component requires depository institutions to submit an initial application, which describes a six-month baseline level of BEA-eligible activities. Depository institutions must provide descriptions of the activities, project dollar amounts, the terms and conditions of the assistance they will offer, and the structure of each activity.

The second component of the BEA application is the final report. It includes information on the depository institution's eligible activities actually carried out during a six-month assessment period. In order to determine the potential award, which is based on the *increase* in activity, the activities in the assessment period are compared to activities in the baseline period.

The CDFI Fund ranks eligible activities according to category, with equity investments being the first priority and development and service activities being the third. Within each category, applicants are ranked according to the ratio of their activity level to their asset size. The CDFI Fund makes awards until all funding is awarded.

BEA Program Emphasis on CDFIs and CDFI-Related Activities: Given the overall mission of the BEA program to support CDFIs, BEA applicants that are also CDFIs are eligible for an award equal to 33% of the increase in their CDFI support activities and 15% of the increase in their development and service activities. In contrast, BEA applicants that are not CDFIs are only eligible to receive an award equal to 11% of the increase in their CDFI support activities and 5% of their development and service activities. All applicants are eligible for an award equal to 15% of the increase in their equity investments in CDFIs.

THE CDFI FUND IS CURRENTLY CONSIDERING CHANGES TO THE BEA PROGRAM THAT WOULD INCREASE BEA PROGRAM SUPPORT FOR CDFIS CARRYING OUT FINANCIAL AND SERVICE ACTIVITIES. THIS REPRIORITIZATION WOULD PROVIDE SIGNIFICANT SUPPORT FOR CDFIS PARTICIPATING IN IDAS.

Within the two large categories of eligible BEA activities, the BEA program is directed by its statute to favor CDFI-related activities. Given that BEA program awards are made on a competitive basis and that the BEA program favors CDFI-related activities, a depository institution would likely only apply for an award for offering IDAs if it were engaged in other BEA-eligible activities.

BEA Program Emphasis on Development Activities over Service Activities: Within the development and service activities category, the BEA program also favors development activities over service activities. Under the scoring process, the maximum level of service activities must be equivalent to and no greater than the level of development activities. For example, if an applicant were eligible for \$10,000 under the development activity, it could receive a maximum of \$10,000 for carrying out activities under the category of service activities. As a result, a depository institution would not apply for a BEA program award for engaging only in service activities, such as IDAs.

Treatment of IDAs under the BEA Program

As mentioned above, IDAs are an eligible activity within the development and service activities category as long as IDAs are used for those purposes identified in the Assets for Independence Act (AFIA).⁹⁸ Allowable IDA uses under AFIA include purchasing a first home; capitalizing a small business; and paying for postsecondary education, vocational training, or recertification.

Under the BEA program, depository institutions are eligible for up to \$100 per IDA that is opened during the evaluation period. In addition, applicants may be eligible for additional funding for providing financial literacy, which would be reported as a community service activity under the development and services activities category of the application.

Opportunities for Policy Improvement

The CDFI Fund is currently considering changes to the BEA program that would increase BEA program support for CDFIs carrying out financial and service activities. The CDFI Fund is exploring a new ranking order for BEA-eligible activities, which would prioritize them in the following way, beginning with the greatest priority: 1) equity investments, 2) CDFI support activities, 3) CDFI banks carrying out financial activities or service activities in distressed communities, 4) service activities, 5) innovative distressed community activities, 6) targeted distressed community activities, and 7) distressed community financing activities.

This reprioritization would provide significant support for CDFIs participating in IDAs. However, expanding that category to include not only CDFIs but all depository institutions could further support IDAs and other asset-building products and services for low- and moderate-income people.

In addition, by distinguishing between service activities and development activities, BEA applicants can apply for and be eligible for carrying out service activities, including IDAs, without requiring them to carryout an equivalent level of development activities.

Chapter 10

First Accounts Initiative

Overview

First Accounts is a new grant program administered by U.S. Department of the Treasury's Office of Financial Institutions to promote access to financial services for low-income individuals who do not have access to an account with a mainstream financial institution, such as a bank or credit union. According to the 1998 Federal Reserve Survey of Consumer Finances, approximately 22% of families earning under \$25,000 lacked a bank account.⁹⁹

In 2001, Treasury was appropriated \$12 million for First Accounts,¹⁰⁰ of which \$8 million will be made available for developing pilot projects to establish low-cost accounts with mainstream financial institutions for low- and moderate-income individuals.¹⁰¹ The Notice of Funding Availability (NOFA) for the \$8 million for pilot projects was released December 27, 2001; applications were due March 20, 2002. As of this writing, it is unclear whether additional First Accounts funding will be available in the future.

On May 1, 2002, Treasury announced that 15 projects were awarded First Accounts grants totaling \$8.35 million. Grant recipients included nonprofit organizations, insured depository institutions, insured credit unions, a Community Development Financial Institution (CDFI), a faith-based organization, and a foundation. Two awardees, Mile

High United Way in Denver, CO, and Boat People S.O.S. in Falls Church, VA, specifically received funding to link IDA holders to the financial mainstream such as no- or low-cost bank products, financial management, and economic literacy training.

The remainder of this chapter will explain the types of organizations that were eligible for First Accounts funding; examples of eligible First Accounts activities and features; opportunities and limitations for IDAs under First Accounts; and suggestions for changes to First Accounts to better support IDAs, if additional funding becomes available in the future.

Organizations and Financial Institutions that Are Eligible for First Accounts Participation: Only projects that propose new or expanded activities will be considered for First Accounts funding. Eligible applicants include insured depository institutions; insured credit unions; financial service electronic networks; employers of “unbanked,” low-income individuals; CDFIs; nonprofits; Indian tribal governments; and labor organizations.

Eligible First Accounts Activities: Although the NOFA does not exhaustively list all types of eligible First Accounts activities and account features, the NOFA indicates the following would be acceptable: access to online point-of-sale networks, automatic teller machine (ATM) transactions, balance inquiries, check

IF ADDITIONAL
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MODIFYING THE
PROGRAM TO
ALLOW FUNDING
TO BE USED AS
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MANY MORE IDAS
TO BE OFFERED.

cashing, check writing, debit cards, direct deposit, interest-bearing accounts, monthly statements, money orders, teller access, and wire transfers.

Treatment of IDAs under the First Accounts Initiative

IDAs are one type of account that could be established using First Accounts funding; however, Treasury has explicitly stated that this funding cannot be used for IDA matching funds.¹⁰² Treasury does not emphasize one type of account over another; instead, it emphasizes applications that enroll as many “unbanked” individuals as possible into an

account with an insured depository institution or an insured credit union.

Opportunities for Policy Improvement

If additional First Accounts funding becomes available, modifying the program to allow funding to be used as match funding would enable many more IDAs to be offered. In addition, future First Accounts projects should provide more time for applicants to collect data and conduct research to determine financial service needs of their low- and moderate-income customers and potential customers to develop the most effective accounts and services.

Chapter 11

Tax Treatment of IDAs

Overview

In October 1999, the Internal Revenue Service (IRS) issued a Revenue Ruling¹⁰³ on the tax treatment of IDAs established under the Assets for Independence Act (AFIA)¹⁰⁴. The ruling clarified the tax treatment on interest on funds deposited by an IDA holder, match money contributions, and donations to a nonprofit for an IDA project.

Although the Revenue Ruling only pertained to IDAs established under the AFIA, subsequent discussions between the Corporation for Enterprise Development and the IRS indicated that IDAs established in a fashion similar to IDAs under AFIA would likely generate the same tax treatment. The risk of different tax treatment¹⁰⁵ increases as a particular IDA differs from the basic structure of the IDA under AFIA. Greater discussion of this is provided below.

Tax Treatment of AFIA IDAs

The IRS based its Revenue Ruling on the following information regarding AFIA IDAs. Participants in AFIA IDAs are low-income individuals or families who have been selected on that basis by the IDA provider. IDA providers under AFIA are motivated to help participants become self-sufficient, and they do so with detached and disinterested generosity. Under AFIA, IDA holders do not have access to the match

money during the saving period, and once the match money is made available, it may only be used for the purchase of an approved asset, such as a first-time home purchase, postsecondary education or training, or starting a small business, and only if the participant complies with the requirements of the program. Training in financial literacy and in the purchase and use of the chosen asset is offered in order to assist the participant to achieve his or her goal of self-sufficiency. Also under AFIA, at the date of the gift to the IDA holder the possibility that the gift would be returned to the donor is highly unlikely.

After reviewing the AFIA program, the IRS made the following conclusions in its Revenue Ruling:

- The interest on the funds deposited by the IDA holder is taxable to the participant in the year that it is earned.
- The match money is treated as a gift at the time it is paid out and is therefore not taxable income to the participant.
- Donations to a charitable IDA provider are tax deductible by the donor. Under section 170 of the Internal Revenue Code, donors may

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THE BASIC
STRUCTURE OF
IDAS UNDER
AFIA.

deduct a contribution to a not-for-profit organization described in section 501(C)(3) of the Internal Revenue Code or government IDA provider for an IDA project, subject to the limitations of that section.

Tax Treatment of Non-AFIA IDAs

Non-AFIA IDAs are commonly like AFIA IDAs in all regards relevant to the Revenue Ruling. The similarity between the basic structure of AFIA IDAs and common non-AFIA IDAs will very likely produce the same tax treatment for both. As mentioned before, the risk of different tax treatment increases as an

IDA differs from the basic structure of IDAs under AFIA.

Opportunities for Policy Improvement

Currently, there is not an opportunity for an IRS Revenue Ruling on non-AFIA IDAs, as a ruling would require that IDAs have a distinct legal definition, like AFIA IDAs. However, if the Savings for Working Families Act—a \$0.45 billion tax credit, which would create 300,000 IDAs—passes, the IRS would be in a position to issue another Revenue Ruling with respect to IDAs created under this act. It would be critical for policymakers and practitioners to provide input into the Ruling.

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Endnotes

- ¹ Funds were appropriated to the Treasury Department for First Accounts under the Consolidated Appropriations Act of 2001 and the Department of Transportation and Related Agencies Appropriations Act of 2001.
- ² In addition, Treasury will fund financial education for low- and moderate-income people and undertake research on the financial service needs of low- and moderate-income individuals. Information about the latter two First Accounts projects is currently unavailable.
- ³ For a more thorough treatment of asset effects on neighborhoods, families, and children see Boshara, R., et al. (2001). *Building assets: A report on the asset-development and IDA field*. Washington, D.C.: Corporation for Enterprise Development.
- ⁴ Oliver and Shapiro, T. (1995) *Black Wealth/White Wealth*, Chapter 4, page 87-89.
- ⁵ Wolff, E. (2000). *Recent Trends in Wealth Ownership, 1982-1998*.
- ⁶ Federal Reserve Board. (2000). 1998 Survey of Consumer Finances. Federal Reserve Bulletin, Vol. 86.
- ⁷ See 42 U.S.C. § 604(h) and 45 C.F.R. §260.20 through §260.23.
- ⁸ See P.L. 105-285, Title IV, and 42 U.S.C. § 604 note.
- ⁹ As explained in chapter 4 of this manual, IDAs supported with federal TANF or state MOE funds are treated differently than other non-AFIA, non-TANF IDAs when determining eligibility for food stamps.
- ¹⁰ See question 5 of the HHS' Administration for Children and Families' Office of Family Assistance TANF program policy questions and answers on IDAs at <http://www.acf.dhhs.gov/programs/ofa/polquest/idas.htm>.
- ¹¹ See 42 U.S.C. § 604(h) and 45 C.F.R. §260.20 through §260.23.
- ¹² See question 6 of the HHS' Administration for Children and Families' Office of Family Assistance TANF program policy questions and answers on IDAs at <http://www.acf.dhhs.gov/programs/ofa/polquest/idas.htm>.
- ¹³ Individual contributions to TANF IDAs must be from earned income. See 42 U.S.C. § 604(h)(2)(C). The HHS has made clear that TANF recipients may make contributions to IDAs from EITC refunds or any other tax refund based on earnings, as long as the total annual contributions do not exceed a recipient's earnings.
- ¹⁴ 42 U.S.C. § 604(h)(4)
- ¹⁵ Individuals who qualify by virtue of EITC eligibility or by having income below 200% of the poverty line also must have a household net worth that does not exceed \$10,000. 42 U.S.C. § 604 note, § 408(a)(2).
- ¹⁶ P.L. 106-554, Title VI, Consolidated Appropriations Act for Fiscal Year 2001.
- ¹⁷ Under Section 610 of the amendments, Section 415 of the AFIA (42 U.S.C. § 604 note) is amended to read, "Notwithstanding any other provision of federal law (other than the Internal Revenue Code of 1986) that requires consideration of 1 or more financial circumstances of an individual, for the purpose of determining eligibility to receive, or the amount of, any assistance or benefit authorized by such law to be provided to or for the benefit of such individual, funds (including interest accruing) in an individual development account under this Act shall be disregarded for such purpose with respect to any period during which such individual maintains or makes contributions into such an account."
- ¹⁸ See question 5 of the HHS' Administration for Children and Families' Office of Family Assistance TANF program policy questions and answers on IDAs at <http://www.acf.dhhs.gov/programs/ofa/polquest/idas.htm> and question AA44 of the Department of Labor's Employment and Training Administration's Welfare-to-Work program policy questions and answers on allowable activities at <http://wtw.doleta.gov/q&a/allowable.asp>. Matching funds may be provided to non-custodial parents or custodial parents. State MOE funds may be used like federal TANF funds for non-TANF, non-AFIA IDAs.
- ¹⁹ See U.S. Department of Health and Human Services. (2000). *Temporary Assistance for Needy Families (TANF) program third annual report to Congress*, pp. 212-214. Washington, D.C.: U.S. Government Printing Office, available online at <http://www.acf.dhhs.gov/programs/opre/annual3.pdf>.
- ²⁰ See question 5 of the HHS' Administration for Children and Families' Office of Family Assistance TANF program policy questions and answers on IDAs at <http://www.acf.dhhs.gov/programs/ofa/polquest/idas.htm>.
- ²¹ HUD has clarified that Community Development Block Grant funds may be used to match IDA contributions by low- or moderate-income individuals. See *Community Planning and Development Notice CPD-01-12*, August 14, 2001, available online at <http://www.hud.gov/offices/cpd/communitydevelopment/library/indivdevacc.pdf>.
- ²² Several states are exempt from some TANF requirements because they are operating under a waiver already in effect when the 1996 welfare law was enacted. Arizona, Hawaii, Kansas, Massachusetts, Minnesota, Montana, Nebraska, New Hampshire, Oregon, South Carolina, Tennessee, Texas, Utah, and Virginia are currently operating under waivers.

- ²³ See 45 C.F.R. §260.31.
- ²⁴ An exception to the broad flexibility that states generally have to establish TANF eligibility rules is that federal law bars states from using federal TANF dollars to assist most legal immigrants who entered the country after August 22, 1996 (the date the welfare law was signed), until they have been in the United States for at least 5 years. This restriction applies not only to cash assistance but also to TANF-funded work supports and services such as child care, transportation, and IDAs. States can use state MOE funds to provide benefits to recent immigrants; fewer than half do so.
- ²⁵ The table is based on a database of state welfare policies through 2000 developed by the Urban Institute. The data base may be accessed by registering at <http://anfdata.urban.org/drsurvey/login.cfm?CFID=19762&CFTKEN=57393190>.
- ²⁶ This database may be accessed at the website of the State Policy Documentation Project at <http://www.spdp.org>. The Welfare Information Network has compiled a summary of state plan provisions regarding assets, which may be accessed at <http://www.welfareinfo.org/Diversions.htm>. The most recent compilation of asset limits compiled by the HHS appears in U.S. Department of Health and Human Services. (2000). Temporary Assistance for Needy Families (TANF) program third annual report to Congress, pp. 208–211. Washington, D.C.: U.S. Government Printing Office, available online at <http://www.acf.dhhs.gov/programs/opr/annual3.pdf>.
- ²⁷ See 45 C.F.R. § 260.31(b)(5).
- ²⁸ See the revision to the answer to question 5 of the HHS' Administration for Children and Families' Office of Family Assistance TANF program policy questions and answers on IDAs at <http://www.acf.dhhs.gov/programs/ofa/polquest/idas.htm>. In addition, HHS notified AFIA organizational grantees of the change in an information memorandum dated March 2, 2001, which is available at <http://www.acf.dhhs.gov/programs/ocs/demo/ida>.
- ²⁹ Under the food stamp program, a household is generally defined as a group of people who live together and buy food and prepare meals together.
- ³⁰ 7 § C.F.R. 273.8
- ³¹ 7 § C.F.R. 273.8(b). The Farm Bill raised the asset limit for the disabled from \$2,000 to \$3,000. This change will take effect October 1, 2002.
- ³² 7 § C.F.R. 273.8(c)
- ³³ 7 § C.F.R. 273.8(e)
- ³⁴ 7 § C.F.R. 273.8(j)
- ³⁵ 7 § C.F.R. 273.2(j)(2)(i)
- ³⁶ Under rules that the USDA's Food and Nutrition Service published on November 21, 2000, recipients of TANF- or MOE-funded services are considered recipients of TANF "benefits" for purposes of this provision of the law and hence have their assets excluded for purposes of determining food stamp eligibility. See 7 C.F.R. § 273.8(e)(17). In addition, *households* in which all members receive either SSI or assistance or services supported with TANF or MOE funds often will be completely exempt from the food stamp asset test at state discretion. See 7 C.F.R. § 273.2(j)(2). For a more detailed discussion of these rules, see Super, D., & Dean, S. (2001). *New state options to improve the food stamp vehicle rule*, pp. 9-11. Washington, D.C.: Center on Budget and Policy
- Priorities, available online at <http://www.cbpp.org/1-16-01fs.pdf>.
- ³⁷ Section 4107 of H.R. 2646 amends Section 5(g) of the Food Stamp Act.
- ³⁸ Section 4102 of H.R. 2646 amends Section 5(d) of the Food Stamp Act.
- ³⁹ This explanation of food stamp vehicle asset rules has been simplified for clarity. For a more detailed explanation of the vehicle asset test, see Super, D., & Dean, S. (2001). *New state options to improve the food stamp vehicle rule*, pp. 6–7. Washington, D.C.: Center on Budget and Policy Priorities, available online at <http://www.cbpp.org/1-16-01fs.pdf>.
- ⁴⁰ For a description of each state's vehicle asset policy, see Dean, S., & Horng, R. (2002). *States' vehicle asset policies in the food stamp program*. Washington, D.C.: Center on Budget and Policy Priorities, available online at <http://www.cbpp.org/7-30-01fa.htm>.
- ⁴¹ Non-TANF, non-AFIA IDAs that receive TANF or MOE funding do not require such a waiver if a state includes them among the TANF-funded benefits that trigger exemption from food stamp asset rules, as described above.
- ⁴² Some precedent exists for using the AFIA evaluation to help meet Food and Nutrition Services' waiver evaluation requirement. Under prior law, when individual contributions to AFIA IDAs were counted in food stamp eligibility determinations, Food and Nutrition Services encouraged states to request waivers to exempt such assets. FNS did not require states to conduct an evaluation if states cooperated with the HHS' evaluation of all AFIA IDAs.
- ⁴³ In other words, an SCHIP-funded Medicaid expansion is treated as a Medicaid expansion and the state's Medicaid eligibility rules for children (such as asset policies) apply.
- ⁴⁴ The benefits have to generally be equivalent to: 1) the benefits under the Blue Cross-Blue Shield Standard Option under the Federal Employees Benefits Health Plan, 2) the benefits of the plan of the largest health maintenance organization in the state, or 3) the benefits of the state employees' health plan.
- ⁴⁵ SSI rules limit assets to no more than \$2,000 for individuals and \$3,000 for couples. An exception is for Medicaid beneficiaries who are also eligible for Medicare. Under federal laws, the asset test for such "dual eligibles" is set at twice the SSI limits.
- ⁴⁶ Social Security Act § 1902(l)(3)(A). The only states that continue to require a resource standard for children in determining Medicaid eligibility are Colorado, Idaho, Montana, Nevada, Texas, and Utah. (Nevada eliminated its asset test effective July 2002.) See Ross, D.C., & Cox, L. (2000). *Making it simple: Medicaid for children and CHIP income eligibility guidelines and enrollment procedures*. Washington, DC: Kaiser Commission on Medicaid and the Uninsured. Data updated by CBPP.
- ⁴⁷ The 18 states that have completely eliminated the Medicaid asset test for families with children are Arizona, Connecticut, Delaware, the District of Columbia, Illinois, Massachusetts, Michigan, Mississippi, Missouri, New Jersey, New Mexico, Ohio, Oklahoma, Pennsylvania, Rhode Island, South Carolina, Vermont, and Wisconsin. Some additional states have eliminated the asset test for their medically needy programs, which cover individuals with catastrophic medical expenses. See Broadus, M., Blaney, S., Dude, A., Guyer, J., Ku, L., &

Peterson, J. (2000). *Expanding family coverage: States' Medicaid eligibility policies for working families in the year 2000*. Washington, D.C.: Center on Budget and Policy Priorities, available online at <http://www.cbpp.org/1-202health.htm>.

⁴⁸ Social Security Act § 1902(r)(2)(A).

⁴⁹ The survey is available at <http://www.cbpp.org/1-2-02health.pdf>.

⁵⁰ Section 2102(b)(1)(A).

⁵¹ Oregon sets an asset limit of \$5,000 for a child's family.

⁵² The states are Arizona, California, New Jersey, Rhode Island, and Wisconsin.

⁵³ States are beginning to exclude certain other specific types of savings from countable assets. For example, Kentucky does not count retirement savings like Individual Retirement Accounts and 401(k) plans. Wisconsin excludes up to \$13,000 in savings held in "Independence Accounts" for individuals with disabilities returning to work who buy into Medicaid. Oregon does not include as assets up to \$10,000 held in approved accounts for the working disabled.

⁵⁴ In theory, a state also could count matching contributions as income in the month they are received, whether or not they are placed in a separate and inaccessible account. States have flexibility to determine what counts as income, and there is no provision in federal law that prevents a state from counting such contributions as income. To the best of our knowledge, however, no state counts the matching contributions as income.

⁵⁵ This letter is available at <http://www.hcfa.gov/init/ch111400.htm>.

⁵⁶ Letter from the Centers for Medicare and Medicaid Services (formerly the Health Care Financing Administration) to state Medicaid directors (November 14, 2000) is available at <http://www.hcfa.gov/init/ch111400.htm>.

⁵⁷ Social Security Administration. (2002). *Annual statistical supplement to the Social Security Bulletin, 2001*, Table 7.E4, p. 291. Washington, D.C.: U.S. Government Printing Office.

⁵⁸ 42 U.S.C. §1382a. See also 20 C.F.R. §416.110, Purpose of program.

⁵⁹ The Social Security Administration's annual publication, *State assistance programs for SSI recipients*, SSA Publication No. 13-11975, January 2001 (Washington, D.C.: U.S. Government Printing Office), details the eligibility rules in states with supplemental programs.

⁶⁰ Conditional SSI payments may be made to individuals who have resources over these limits if some of the resources are nonliquid and require time to be converted to cash. Individuals may receive these SSI payments if their countable liquid resources do not exceed an amount equal to three times the maximum monthly SSI benefit and the individuals agree in writing to convert the excess nonliquid assets within 9 months and to repay the amount received in benefits during the period their assets exceed the limit. See Social Security Administration. (2001). *2001 Social Security handbook*. Washington, D.C.: U. S. Government Printing Office.

⁶¹ If no vehicle is excluded from SSI asset limits based on these criteria, \$4,500 of the market value of one vehicle is excluded from countable assets. The value of such a vehicle in excess of \$4,500 would count against the resource limit, as would the

full value of any additional vehicles. For more detail on SSI asset policies relating to vehicles, see 20 C.F.R. §416.1218, Exclusion of an automobile.

⁶² See 20 C.F.R. § 416.1202(b), Deeming of resources.

⁶³ See 20 C.F.R. § 416.1202.

⁶⁴ Social Security Administration. (2002). Program Operations Manual System, Part 05—Supplemental Security Income, Chapter 011—Resources, Subchapter 30—Resources Exclusions, SI 01130.678 and SI 01130.679. Washington, DC: US Government Printing Office. These sections already included the statutory disregard of assets in a TANF IDA. See also the income sections, SI 00830.665 and 00830.670.

⁶⁵ See 20 C.F.R. § 416.1208. SSI regulations exclude accounts containing money obtained from certain relatively unusual sources, such as crime victims' compensation funds and federal relocation assistance. See 20 C.F.R. §§ 416.1210 and 416.1236(a). To be excluded on this basis, funds may not be commingled with other funds. See 20 C.F.R. § 416.1236(b). Thus, IDAs funded entirely with such funds could be excluded from SSI asset calculations.

⁶⁶ 42 U.S.C. § 1382b(a)(4). In addition, income set aside in a PASS is not considered income for the purposes of SSI benefit determinations. 42 U.S.C. § 1382a(b)(4)(B)(iv).

⁶⁷ A person who is age 65 or older can only be approved for a PASS if the person received SSI disability benefits before turning 65.

⁶⁸ For more information about the PASS as well as other SSI work incentive provisions, see Social Security Administration. (2002) *2002 Red Book on employment support*. SSA Publication No. 64-030, ICN 436900, Washington, D.C.: U.S. Government Printing Office, available on-line at <http://www.ssa.gov/work/ResourceToolkit/redbook.pdf>. See also Program Operations Manual System SI 00870 for detailed information on PASS accounts, available online at <http://policy.ssa.gov/poms/nsl/>. Note that, according to the Program Operations Manual System, a 1995 change in the law requires that the Social Security Administration take into account the length of time that the individual needs to achieve the employment goal when determining how long a PASS will last. This information is reflected in the Social Security Administration's Program Operations Manual System, at SI 00870.006(D)(1)-(3), but not in the Social Security Administration's regulations, which have not yet been updated.

⁶⁹ The Social Security Administration begins counting these funds on the first day of the month following the month in which the PASS ends. The Social Security Administration may begin to count funds in a PASS as a resource *before* the expiration of the PASS if the PASS holder fails to follow the conditions of the plan, abandons the plan, or reaches the goal outlined in the plan. 20 C.F.R. §416.1227.

⁷⁰ See the Social Security Administration's explanations of IDAs and PASS accounts at <http://www.ssa.gov/notices/supplemental-security-income/spot-individual-development.htm> and <http://www.ssa.gov/notices/supplemental-security-income/spot-plans-self-support.htm>.

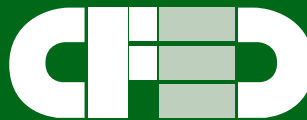
⁷¹ See 20 C.F.R. §416.1180; 416.11229(a)(9) (earned income); 416.1124(a)(13) (unearned income).

⁷² By contrast, the Social Security Administration counts funds placed into non-TANF, non-AFIA IDAs that have not been

approved as PASS accounts as income in the month in which the income was received. If a person receives Medicaid because of receipt of SSI, the Social Security Administration rules on how it treats income placed in a PASS or a TANF or AFIA IDA effectively apply for that person in Medicaid as well, so long as the person continues to receive SSI.

- ⁷³ For example, if an SSI recipient begins to work, some of his or her earnings will not count against her SSI benefit. Generally, the amount disregarded is \$65 a month plus half of the remainder of the person's earnings. The remaining half of earnings (after the \$65 deduction) will be counted as income and will reduce the person's SSI benefit dollar-for-dollar. If the person decided to place a portion of his or her earnings in a PASS or a TANF or AFIA IDA each month, that could reduce the amount of income that would be counted in calculating the person's SSI benefit. In some circumstances, the amount of earnings counted could be reduced to zero. (This could occur if, after the IDA contribution, the remaining earnings were less than \$65 a month and thus were fully deducted.)
- ⁷⁴ 20 C.F.R. §416.1208(a). If the person's name is not on the account, the Social Security Administration will not treat it as his or hers. If the person's name is on the account and the Social Security Administration determines that the account should be treated as the individual's and is available to meet support and maintenance, the SSI recipient has the opportunity to rebut the presumption of ownership by providing evidence that establishes that some or all of the funds in the account do not belong to him or her and to correct the title on the account, if needed. 20 C.F.R. §416.1208(b)(3) and (4).
- ⁷⁵ See the Social Security Administration Program Operations Manual System SI 00830.665(C)(1)[TANF IDAs] and Program Operations Manual System SI 00830.670 [AFIA IDAs]. The Program Operations Manual System is available at <http://policy.ssa.gov/poms.nsf/>.
- ⁷⁶ Under SSI work incentives known as "Section 1619" provisions, SSI disability recipients who work and whose medical condition does not improve can receive SSI benefits at income levels somewhat higher than the program's standard income limits; they also can retain Medicaid even if their earnings rise to the point where they become ineligible for SSI.
- ⁷⁷ the Social Security Administration recently created a new position in its field offices called the Employment Support Representative (ESR). To learn more about ESRs and to view a list of the locations that ESRs serve and their telephone numbers, see <http://www.ssa.gov/work/esr.html>. However, because ESRs do not exist in all areas at this time, the local independent living centers remain an important resource for identifying key Social Security Administration staff in many areas of the country.
- ⁷⁸ States with at least some federally administered state supplemental payments include Arkansas, California, District of Columbia, Georgia, Hawaii, Iowa, Kansas, Louisiana, Maryland, Massachusetts, Michigan, Mississippi, Montana, Nevada, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, South Dakota, Tennessee, Utah, Vermont, and Washington. States with a state-administered state supplemental payment for at least some individuals include: Alabama, Alaska, Arkansas, Colorado, Connecticut, Florida, Hawaii, Iowa, Kentucky, Louisiana, Maine, Maryland, Minnesota, Mississippi, Missouri, Nebraska, New Hampshire, New Mexico, New York, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, South Carolina, South Dakota, Texas, Vermont, Virginia, Washington, Wisconsin, and Wyoming. States
- vary regarding the categories of people who are eligible for these supplemental benefits. For more information about a state's supplemental program, check with the state or refer to the Social Security Administration publication mentioned in footnote 56.
- ⁷⁹ The data on occupied units and the percentage of occupied units occupied by families with children are based on the resident characteristics summaries for each program from May 2001 posted by HUD at <http://www.hud.gov/mctcs/public/guest.cfm>.
- ⁸⁰ Homeless programs, like Shelter Plus Care (24 C.F.R. § 582.310 (b) (1)), and housing programs for the elderly and disabled, like Section 202 and Section 811 (24 C.F.R. § 891.105), follow the pattern of Section 8 and other federal housing assistance programs in not having an asset test for determining eligibility.
- ⁸¹ See 24 C.F.R. § 5.609 (b) (3). This rule applies to public housing, Section 8 programs, and the determination of eligibility for LIHTC units. 26 C.F.R. § 1.42 - 5 (vii). In HOME rental units, state and local governments decide whether to follow these rules or to define income as the IRS or Census Bureau does. 24 C.F.R. § 92.203 (b). Where IRS or Census Bureau rules are followed, only actual income from assets would be counted in determining eligibility.
- ⁸² See 24 C. F. R. § 5.609(a)(4). Similarly, the matching contributions to such inaccessible accounts would likely not be counted as income, nor would HUD consider matching contributions that are placed in an account where they are combined with individual contributions to be income in the month they are received, since HUD rules generally exclude lump-sum additions to family assets from the definition of income. See 24 C. F. R. § 5.609(c)(3).
- ⁸³ The most recent version of this HUD list was published on April 20, 2001.
- ⁸⁴ For a detailed discussion of the FSS program, see Sard, B. (2001). *The Family Self-Sufficiency Program—HUD's best kept secret for promoting employment and asset growth*, p. 10. Washington, D.C.: Center on Budget and Policy Priorities, available online at <http://www.cbpp.org/4-12-01hous.htm>. For a more general overview of the FSS program, see Sard, B. (2001). *The Family Self-Sufficiency Program*. Washington, D.C.: Center on Budget and Policy Priorities, available at <http://www.cbpp.org/5-5-99hous.htm>.
- ⁸⁵ See question 1 of the HHS' Administration for Children and Families' Office of Family Assistance TANF program policy questions and answers on IDAS at <http://www.acf.dhhs.gov/programs/ofa/polquest/idas.htm>.
- ⁸⁶ Insured depository institution includes any bank or savings association, the deposits of which are insured by the FDIC. 12 U.S.C. § 1813. Credit unions and independent mortgage companies are not subject to the CRA.
- ⁸⁷ Under the CRA, low-income individuals are defined as those with less than 50% of the area median income. Moderate-income individuals are those with incomes of at least 50% and less than 80% of the area median income. Low- and moderate-income areas are defined as census tracts that have median family incomes of less than 80% of the median family income of the metropolitan area in which they are located
- ⁸⁸ Barr, M. (2001). *Access to financial services in the 21st century: Five opportunities for the Bush Administration and the 107th Congress*. Washington, D.C.: The Brookings Institution.

- ⁸⁹ Depending on the depository institutions charter, bank and thrifts are assessed by one of the federal banking regulators. The Office of the Comptroller of the Currency oversees nationally chartered banks; the Board of Governors of the Federal Reserve System oversees state-chartered banks that are members of the Federal Reserve System; the Office of Thrift Supervision oversees thrift institutions; and the FDIC oversees state chartered banks and savings banks that are not members of the Federal Reserve System or the Office of Thrift Supervision.
- ⁹⁰ Activities that depository institutions can engage in for CRA credit, including IDAs, are stated in the Federal Financial Institutions Examination Council's questions-and-answers document. The Consumer Compliance Task Force of the Federal Financial Institutions Examination Council issues an interagency questions-and-answers document regarding community reinvestment. The document is prepared by staff of each of the federal banking regulators to provide guidance for agency personnel, financial institutions, and the public with respect to community reinvestment.
- ⁹¹ Assessment areas must generally consist of one or more metropolitan statistical areas or one or more contiguous political subdivisions. The assessment area must also include geographic areas where the bank has its main office, branches, and deposit-taking ATMs, as well as the surrounding areas where the bank has originated or purchased a substantial portion of its loans. CRA Subpart C (Records, Reporting, and Disclosure Requirements), § 25.41 Assessment Area Delineation.
- ⁹² Wholesale and limited purpose institutions may also be assessed for their community development activities anywhere outside of their assessment area, as long as they have adequately met the assessment areas' needs.
- ⁹³ http://www.ffiec.gov/cra/doc/ffiec_qa01.doc
- ⁹⁴ The BEA program was created through the Community Development Banking and Financial Institutions Act of 1994. 12 U.S.C. § 4701 *et seq.*
- ⁹⁵ The CDFI Fund certifies and provides grants, loans, and technical assistance to CDFIs.
- ⁹⁶ A distressed community is defined as a geographic area with contiguous boundaries that is located within the boundaries of one unit of local government and that meets certain minimum population, poverty, and unemployment requirements. See 12 C.F.R. §1806.200.
- ⁹⁷ CDFIs are specialized financial institutions, located in and serving low- and moderate-income areas. CDFIs provide a wide range of financial products and services, including mortgage financing, commercial loans, and financial services. Certified CDFIs include community development banks and thrifts, credit unions, loan funds, venture capital funds, and microenterprise funds.
- ⁹⁸ Public Law 105-285, available online at <http://www.acf.dhhs.gov/programs/ocs/demo/ida/afia.txt>.
- ⁹⁹ Federal Reserve Board. (2000). 1998 Survey of Consumer Finances. Federal Reserve Bulletin, Vol. 86.
- ¹⁰⁰ Funds were appropriated to the Treasury Department for First Accounts under the Consolidated Appropriations Act of 2001 and the Department of Transportation and Related Agencies Appropriations Act of 2001.
- ¹⁰¹ In addition, Treasury will fund financial education for low- and moderate-income people and undertake research on the financial service needs of low- and moderate-income individuals. Information about the latter two First Accounts projects is currently unavailable.
- ¹⁰² See First Accounts' list of frequently asked questions online at <http://www.ustreas.gov/firstaccounts/faqs.html>.
- ¹⁰³ IRS Revenue Ruling 99-44.
- ¹⁰⁴ Public Law 105-285.
- ¹⁰⁵ In February 2002, on behalf of the Corporation for Enterprise Development, Dick Hall created an advisory letter on the tax treatment of IDAs not funded through AFIA.



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