

# Virginia Individual Development Accounts Program

## Program Design

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## **Program Overview**

The Virginia Individual Development Accounts (VIDA) program is administered by the Virginia Department of Housing and Community Development (DHCD) in partnership with the Virginia Department of Social Services (VDSS). The program is designed to encourage savings and improve personal financial planning to help low-income individuals build productive assets and self-sufficiency. Individual development accounts (IDAs) provide matching funds for individuals saving into a designated account for a specific purpose, such as home ownership, education, or business start-up. Matching funds are provided to encourage saving and to help individuals build assets more quickly.

VIDA uses two sources of funds. The first is VDSS' Maintenance of Effort (MOE) funds that match the Temporary Assistance for Needy Families (TANF) federal funds. The second source is federal funding through the Assets for Independence (AFI) grant matched by state funds from the Virginia Housing Development Authority (VHDA); these funds are only for home ownership<sup>1</sup>. Both funding sources provide match up to a 2:1 ratio (for every one dollar the participant saves, it will be matched with two dollars). Up to two eligible individuals in a household may participate. The match cannot exceed \$4,000 per saver. These accounts are generally available on a first-come, first-serve basis. Individuals who successfully purchase one asset through VIDA may also reapply for the purchase of a different asset.

DHCD works through local service providers (intermediaries) who recruit, support, and train the savers. When a candidate is enrolled in the program, they become an enrolled saver. At that time a savings account is opened for them by DHCD and held at a designated financial institution. All enrolled savers receive financial management training that includes such topics as improving credit, setting up a budget and savings schedule, and the basics of money management. In addition, enrolled savers must attend training that is specific to the asset for which they are saving (e.g., how to start a small business; buying and maintaining a home).

VIDA is designed to complement existing programs that are being used by organizations whose mission is to assist low-income individuals working towards self-sufficiency. An intermediary would make use of VIDA in conjunction with current counseling and training efforts.

## **Intermediary Responsibilities**

The VIDA program is administered at the local level through intermediaries that work with enrolled savers towards attaining economic self-sufficiency. The VIDA program is intended to supplement and work in tandem with other services provided by the selected VIDA intermediaries to offer a comprehensive strategy for low-income families to achieve self-sufficiency.

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<sup>1</sup> The AFI grant is a collaborative effort of DHCD, Virginia Community Action Partnership, VHDA, and VDSS to increase homeownership in Virginia. Wachovia N.A. and BB&T are financial partners in this project.

Intermediaries are selected for participation into the program on the basis of a brief application. DHCD will accept applications at any time, but review them and accept intermediaries into the program on a quarterly basis. Applications received by close of business on the first Friday of the beginning of each quarter (January, April, July, October) will be reviewed for that quarter. Applications received after that date will be reviewed the first month of the next quarter. While not a competitive application process, DHCD gives strong consideration to the organization's capacity to effectively meet the following responsibilities and to bring savers successfully to asset purchase. Intermediaries are expected to enroll at least five savers in the first 12 months of participation.

Each VIDA intermediary is responsible for the following:

- Recruit candidates and review their applications including credit reports and budgets before sending applications to DHCD for final approval for enrollment into the VIDA program. Intermediaries are expected to enroll at least five savers in the first 12 months of participation.
- In cases where candidates have not been accepted by DHCD into the program, continue to work with them to position them to be successful applicants and savers at some future time. With the intermediary, candidates are encouraged to address barriers to success and to make application again, if appropriate.
- Develop a savings goal and action plan with each enrolled saver. The plan must identify:
  - a) A monthly savings amount of at least \$25 of earned income every calendar month. Qualified sources of savings are defined under Enrolled Saver Responsibilities.
  - b) The savings goal. See 'Eligible Uses of Funds' as listed below.
  - c) An action plan that outlines the activities necessary to prepare the saver to reach the identified goal. This would include required training, credit repair, etc.
- Encourage use of the Earned Income Tax Credit program to augment savings.
- Provide training or partner with an organization that can provide training in basic financial management including topics such as *personal financial management training, budgeting and credit repair, loans and grant resource development, and personal financial planning (i.e. savings and investments, insurance, wills, and tax planning)*.
- Provide training or partner with an organization that can provide training specific to the identified asset that the saver is working towards.
- Provide enrolled savers services and/or technical assistance targeted to their particular savings goal, such as housing counseling, or career counseling or micro-enterprise services, to develop asset management skills.

- Maintain files that include documentation of income eligibility, savings goal, action plan, financial information, records of training attendance, progress and follow-up reports on the use of the funds.
- Provide a monthly report on training and technical assistance activity and any other pertinent program activity to DHCD, including additional information on savers as requested by DHCD.
- Work with enrolled savers to implement the action plan, including budgeting to save the needed funds.
- Work with enrolled savers to obtain the identified asset. Intermediaries will assist the enrolled saver in requesting funds from DHCD to secure the asset. Enrolled savers can only withdraw funds for the asset purchase upon completion of all training and after making monthly deposits for a minimum of six months. Exceptions to this minimum participation timeframe may be possible at the discretion of DHCD.
- Encourage and assist enrolled savers who are having difficulty saving to reach one asset goal to consider switching to another goal that would require less savings. For example, encourage participant who cannot save enough to purchase a home to consider using savings for postsecondary education. In such cases, the saver would need to receive the appropriate asset training for the new goal.
- In the case of a request for an emergency withdrawal of funds for a purpose other than the identified asset purchase, work with the enrolled saver to find alternative means of addressing the emergency. If no alternative means exist, the intermediary will assist the enrolled saver in requesting an emergency withdrawal of the saver's funds from the savings account. Emergency withdrawals are considered on a case-by-case basis for medical care, for payments necessary to prevent eviction, or for the saver to use to meet living expenses following loss of employment. In the case of an emergency withdrawal, the enrolled saver may access only the funds which they have deposited into the account. No match funds will be available. The saver will have five months to repay an emergency withdrawal from their VIDA account. Exceptions to this re-payment schedule may be possible at the discretion of DHCD.

### **DHCD Responsibilities**

The VIDA program is a partnership between local intermediaries and DHCD that is designed to encourage savings and improve personal financial planning to help low-income individuals build productive assets and self-sufficiency. In this partnership, DHCD will have the following responsibilities:

- Review applications for intermediary acceptance into the program on the following schedule:
  - Intermediary applications can be submitted at any time, but will be reviewed once each quarter

- Applications received by close of business, the first Friday of each quarter (January, April, July, October) will be reviewed and intermediaries will be notified of acceptance/denial within that month of the quarter
- Incomplete applications or applications received after close of business on the first Friday of that quarter will be held for review the next quarter
- Provide necessary guidance on VIDA program implementation to accepted intermediaries.
- Review and approve candidate applications for participation in VIDA, considering several factors: program eligibility, individual's readiness to achieve the savings goal within two years, and geographic distribution of participants.
- Provide match funds for enrolled saver accounts in a ratio of \$2 for every \$1 saved by the enrolled saver toward the purchase of a qualified asset. The saver will have two years from the date the VIDA account is opened to save for and purchase their asset.
- Monitor enrolled savers' monthly account activity and provide monthly reports to intermediaries on the progress of their enrolled savers. Advise intermediaries of any saver that has not made a deposit within the prior two months. If a saver fails to make a minimum \$25 deposit for three consecutive months, that saver will be terminated from the VIDA program.
- Review the progress of savers toward achieving their goal after the first year of enrollment and quarterly thereafter. If a saver is not achieving adequate progress toward obtaining the asset, the intermediary will be advised so that the individual can take corrective action or, if feasible, change the goal of the savings account. If a saver fails to make changes needed to achieve the purchase of an asset within two years, the saver will be terminated from the VIDA program.
- Approve withdrawal requests for a qualified asset purchase and process emergency withdrawal requests to access the enrolled saver's deposited funds. Withdrawal requests for a qualified asset purchase can only occur after the enrolled saver has made monthly deposits for a minimum of six months. Exceptions to this minimum participation timeframe may be possible at the discretion of DHCD.
- Emergency withdrawals are considered on a case-by-case basis for medical care, for payments necessary to prevent eviction, or for the saver to use to meet living expenses following loss of employment. The saver will have five months to repay an emergency withdrawal from their VIDA account. Exceptions to this re-payment schedule may be possible at the discretion of DHCD.
- Provide information to intermediaries on the EITC program and other resources.

### **Eligible Uses of Funds**

***Home Ownership:*** Matching funds and personal savings for home ownership must be used as down-payment assistance or for the qualified acquisition costs of purchasing a home. Qualified acquisition costs are the costs of acquiring a principal residence and include any usual or reasonable settlement, financing, or other closing costs. A principal residence is the main residence to be purchased by the saver where the total qualified acquisition costs do not exceed 120 percent of the average area purchase price applicable for the residence. This definition is included to protect the saver from fraudulent or discriminatory lending.

Qualified acquisition costs include the following:

- Down-payment
- Closing costs
- Mortgage pre-payment
- Settlement charges
- Attorney's fees
- Title insurance
- Appraisal fees
- Inspector's fees

Program funds are not available for home rehabilitation or other repairs. The purchaser must be a first-time homebuyer and attend both financial management training and home ownership training. A first-time homebuyer is an individual who has not purchased a home within the last consecutive three years. Match will be available at a 2:1 ratio, with a cap of \$4,000 per individual and a maximum of two individual participants per household. Individuals or families **with or without** children are eligible to save for this option.

***Postsecondary Education:*** Matching funds and personal savings for postsecondary education and training may be used for tuition costs and/or the costs of books and resources required for a course provided by an eligible institution – an institution of higher education or a postsecondary vocational or technical education school. Eligible individuals may save for themselves, their spouse or a dependent child (under the age of 18). However, the timeframe for program participation is two years from the time of enrollment to the time of asset purchase (e.g., payment of tuition), thus this option is not meant as a long-term savings strategy for very young children.

For this savings goal, individuals must participate in financial management training and identify a career goal and develop a plan to reach that goal. Training must be directly linked to that goal. Match will be available at a 2:1 ratio, with a cap of \$4,000 per individual.

***Micro-enterprise/Small Business:*** Matching funds and personal savings for micro-enterprise may be used to start-up or expand a business or self-employment venture for a participant. For example, a micro-enterprise IDA can be used to capitalize a business and may be used in combination with other sources, including loan funds. For this savings goal, a participant is required to attend financial management training, provide a business plan and participate in relevant small-business training programs to ensure success. Match will be available at a 2:1 ratio, with a cap of \$4,000 per individual. VIDA matching funds cannot be used for working capital (i.e. payroll, accounts receivable).

## **Program Funds**

***Match Funds:*** Enrolled savers are limited to a maximum of \$4,000 match from DHCD's VIDA funds at a rate of \$2 for each \$1 saved. Intermediaries may supply additional in-kind match from other sources. However, these dollars cannot be counted as savings to obtain match funds. Match funds are not paid directly to the saver, but to the legal entity (or vendor) that provides the eligible asset identified in the savings plan.

Match funds will be forfeited if an account is closed at the discretion of the enrolled saver prior to the completion of the IDA program; for failure, without good cause, to meet the minimum savings amount; not fulfilling workshop training requirements; and/or not taking the actions specified in the savings plan that will lead to the asset purchase.

***Administration:*** DHCD will pay VIDA organizations administration funds of \$300 per saver based on completion of his/her financial literacy training and an additional \$300 per saver based on his/her completion of asset-specific training, not to exceed a total of \$600 in administration funds per saver. Administration costs include those costs associated with the management of the program including costs such as training, technical assistance, development and implementation of a financial literacy course, and the production of marketing materials for VIDA. Payment procedures are discussed in detail in the Program Administration manual.

## Candidate Eligibility

Participation in the VIDA program is limited to individuals or households with incomes at the time of enrollment not more than 200 percent of the official federal poverty level. Up to two members of an eligible household are eligible to participate in the VIDA Program. Each participant must have earned income. Welfare payments, Supplemental Security Income (SSI), Social Security Disability Income (SSDI) payments, state or federal training program stipends and Unemployment Compensation are **not** considered **income** in the determination of participant eligibility. Salary and wage statements and W-2 forms of the participant are adequate documentation of income eligibility.

To summarize, candidates must:

- Be U.S. citizens or legal aliens
- Be 18 or older
- Meet income eligibility requirements
- Be employed
- Have a family with one or more children under the age of 18 who reside within the same household, **if saving for post secondary education or business**. Individuals or families without children are now eligible to save for the **homeownership** option. VIDA will use AFI funds for participants without children to match savings under this goal; unlike the TANF MOE funds no requirement exists for a child in the household.

**Federal Poverty Limits:** Individuals seeking to participate in VIDA must have household incomes at the time of enrollment **at or below** the annual **or** monthly amounts related to household size that are listed in the following chart. These amounts represent 200 percent of the federal poverty limit and are updated annually.

Effective for 2009

Total number of people within household	Maximum household income allowed annually	Maximum household income allowed monthly
1	\$21,660	\$1,805
2	\$29,140	\$2,428
3	\$36,620	\$3,052
4	\$44,100	\$3,675
5	\$51,580	\$4,298
6	\$59,060	\$4,922
7	\$66,540	\$5,545
8	\$74,020	\$6,168
<b>9 or more: add this amount to annual income for each additional person</b>	<b>\$7,480</b>	<b>\$623</b>

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***Criteria for Approval of Applicants and Desired Candidate Profile:*** Participation in the program will be generally on a first-come, first-serve basis. The ability of the individual to obtain the asset within two years will be a factor in the review process. This is of particular importance for the purchase of a home which requires considerable resources even beyond the savings in VIDA. Consideration will also be given to geographic distribution.

All eligible individuals are encouraged to participate in the VIDA program, provided that they are able to save at the level needed to purchase the asset, including depositing EITC refunds. The minimum deposit of \$25 per month for the two year enrollment period will not yield the maximum match of \$4,000. For those who may find it too challenging to purchase a home within two years of opening a VIDA account, the potential applicant should be encouraged to address credit and other issues impeding homeownership. Applicants may also consider the other two goals as steps toward increasing earnings and thereby improving their financial readiness to become homeowners. Individuals may be a participant under one goal and then after successful purchase of one asset, they may become an applicant again for the purchase of a second asset, not to exceed \$4,000 in total match for the participant.

Listed below are characteristics of candidates who have successfully taken advantage of the program to purchase and build assets. Typically, candidates have:

- established long-term goals for themselves and their children;
- a strong desire to purchase a home, start a small business, or attend school;
- stable employment;
- a credit history acceptable to most lenders for their asset purchase OR have the desire and ability to address credit issues in a timely manner;
- the ability to consistently make a deposit of at least \$25 or more per month from earned income into a savings account;
- a desire to improve their money-related knowledge and skills; and
- successful completion of financial literacy and asset-specific training.

DHCD will review each candidate application package submitted by the intermediary to determine final acceptance into the VIDA Program.

### **Enrolled Saver Responsibilities**

Each saver enrolled in the program is expected to do the following:

- Identify an approved asset.
- Allow DHCD to open a custodial account on their behalf at a designated financial institution. The saver will have two years from the date the VIDA account is opened to save for and purchase their asset. The saver can only withdraw funds for the asset purchase upon completion of all training and after making monthly deposits for a minimum of six months. Exceptions to this minimum participation timeframe may be possible at the discretion of DHCD.

- Save a minimum of \$25 per month to be matched by state dollars at a 2:1 ratio not to exceed \$4,000. All savings must be earned income. Earned income includes wages, salaries, or professional fees, and other amounts received as compensation for personal services actually rendered. Savers may also use the Earned Income Tax Credit for savings, and intermediaries should encourage them to do so. DHCD will notify intermediaries of any enrolled saver who has failed to make the minimum deposit for two consecutive months. If an enrolled saver fails to make the minimum monthly deposit for three consecutive months, that saver will no longer be permitted to participate in the VIDA program.
- Savers accounts may be hosted at either Wachovia bank or BB&T, at the savers choice. Wachovia and BB&T have agreed to waive their standard minimum balance requirements and all account fees for a period of one year from the date the account is opened. At the end of one year, a saver will be expected to maintain a \$300 minimum balance in order to avoid monthly fees. If the savers account falls below this minimum balance after one year, the saver will be subject to the standard service fees.
- Attend required training as outlined below.
- Participate in structured sessions for counseling or technical assistance tailored to the saver's identified savings goal.

## **Training Requirements**

***Basic Personal Financial Management Training:*** Every enrolled saver is required to successfully complete financial management training. The intermediary should provide the required training or partner with an organization that can provide the required training. This training should consist of at least eight hours of education and address at least the following topics:

- Household budgeting
- Goal setting
- Financial institution services
- Saving and interest
- Credit repair and debt management
- Asset planning

***Asset-Specific Training:*** Every enrolled saver is also required to successfully complete training specific to the asset which they seek to acquire. Training requirements for VIDA qualified asset goals are described below.

- Home Ownership. An enrolled saver planning to purchase a home should receive at least six hours of home ownership training to include such topics as: qualifying for a mortgage, affordable housing opportunities, finding and selecting a home, mortgage financing options, loan closing, and post-purchase success.

- **Postsecondary Education.** An enrolled saver planning to pursue postsecondary education should receive at least six hours of career counseling or training by a guidance counselor, career counselor or equivalent. At a minimum this should include such topics as: skills and interests, labor market needs, career planning, education planning, admission application assistance, financial aid application and scholarship application assistance, etc. In the case of an enrolled saver saving on behalf of a child or spouse, that child or spouse must complete the counseling.
- **Micro-enterprise/ Small Business.** An enrolled saver planning to start or expand a small business should receive at least six hours of business development training that leads to the creation of a business plan. Topics should include: legal structure selection, estimated start-up costs, market research, marketing, insurance needs, financial projections, taxation, etc.