The Michigan Credit Union – Individual Development Accounts Initiative

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Michigan Credit Union –
Individual Development Accounts Initiative

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The Michigan State University Center for Urban Affairs (MSUCUA) seeks out opportunities to demonstrate strategies that serve to bolster personal and community well being. The Michigan Credit Union – Individual Development Accounts Initiative, a twenty-seven month learning-demonstration initiative, is an example of this approach.

The Michigan Credit Union-Individual Development Account Initiative was a purposeful exploration of whether or not credit unions, as non-profit financial institutions, view themselves as community development vehicles to help low-income populations build assets. In order to address this larger question, Michigan credit unions were asked to design and implement, over a two-year period, Individual Development Accounts (IDAs), a structured savings tool designed to help low-income individuals build personal assets. As a result of their experience in offering Individual Development Accounts, credit unions could self assess their interest and capacity to continue offer financial services that had direct development impact in the community within which they served.

This learning demonstration initiative incorporated findings from the Corporation for Enterprise Development’s national American Dream Demonstration evaluation as well as introducing Michigan credit unions to effective practice exchanges with national community development credit unions hosting IDAs.

The CUA informed Michigan credit unions about IDAs, helped interested credit unions assess the feasibility of implementing IDAs, and provided direct technical assistance to create a supportive infrastructure for IDA services to be developed and delivered at participating credit unions.

Why IDAs?

As a conceptually simple community development and public policy tool that could be adapted to a wide range of applications and circumstances
IDAs appeared to be the consummate approach to savings mobilization and asset acquisition for low wage workers. IDAs incorporate needed financial and consumer-based education, consistent contributions from earned income to a savings account, financial incentives in the form of match funds to support continued savings behavior, and, finally, an asset purchase that is considered one with a high rate of return for the IDA holder. Individual Development Accounts promote investments in the overall community by building the financial capacity of participating low-income individuals to purchase a home, build a small business, or obtain an education.

**Why Credit Unions?**

MSU CUA research suggests that credit unions are a good vehicle for delivering IDAs. Specifically, research revealed that, as community based financial institutions, credit unions are able to provide access to financial services to the poor living in Michigan communities where banks have fled due to lack of profitability. The findings in the MSUCUA statewide learning and demonstration initiative yield similar results to their national study on credit unions who purposefully create products to serve the poor: credit unions can meet their goals of fulfilling their mission of offering affordable and accessible financial services to the underserved in their neighborhoods while meeting sage and sound financial standards. Given this compelling finding, building Michigan credit union capacity to serve the underserved will be a continued commitment by the MSUCUA.

**Why Michigan?**

In 1996, the MSUCUA was successful in convincing the Michigan Family Independence Agency to include Individual Development Accounts in its State Plan to the Department of Health and Human Services, as allowed through the Welfare Reform Act of 1996. Simultaneously, the MSUCUA worked with four Michigan legislators, each of whom introduced IDA bills in the House of Representatives. Representative Hubert Price was successful in garnering support for what became the only IDA bill to be passed by the Michigan legislature (September 1998 HB 4786). In 1999, based on the encouraging findings of the MSUCUA national study of community development credit union-initiated IDAs, the legislature authorized the Michigan Family Independence Agency (MFIA) to contract with the MSU CUA to create a “learning and demonstration initiative” to help build the capacity of community development credit unions in Michigan. With the signing of the TANF supplemental bill in June 2000 by Michigan Governor John Engler, for the first time in Michigan, TANF funds and leveraged Michigan foundation funds were available for Individual Development Accounts. The Michigan Credit Union – Individual
Development Accounts Initiative was timely in that it afforded Michigan stakeholders an opportunity to explore the value added of access to federally insured, affordable financial services through non profit financial institutions across the state.
The Strategy: Deliberate and Responsive

As stated earlier, the 1998 MSUCUA national study of twenty-three CDCUs found inherent compatibility between IDAs as an asset-building tool and CDCUs as mission driven financial institutions serving primarily low-income populations. Taking what was considered the most effective means for designing and implementing a developmental, financial services-oriented tool (in contrast to a more cost-prohibitive, maintenance or human services oriented model), the MSUCUA worked with credit unions to determine first the feasibility of offering an IDA program to members, and then tailor the IDAs tool to meet both the needs of the potential IDA holders as well as a means of bringing attention to the “asset deficits” within the community. The MSU CUA designed a purposeful methodology around five major stages:

1. Initial Contact
2. Feasibility and VISTA
3. Design and Implementation
4. Learning Exchanges
5. Transition

Initial Contact
MSU CUA attempted to make sure that every Michigan credit union who wanted to participate could. Through a partnership with the Michigan Credit Union League (MCUL), every Michigan credit union was contracted initially via a letter from the MCUL executive director, David Adams. To address credit unions serving primarily low-income communities, MCUL’s small credit union consultant, Carolyn Miller, personally invited all twenty-five low-income designated credit unions to become familiar with IDAs. Based on initial contact, fifteen credit unions expressed interest in learning more about the IDA project and agreed to on-site visits with MSU CUA team members.

Feasibility and VISTA
MSU CUA created a feasibility assessment tool to assist credit unions self assess organizational capacity for IDA start up and implementation. The feasibility tool also incorporated assessing capacity to supervise a VISTA member. Each credit union that determined it had a threshold of capacity to design and implement IDAs signed a “confirmation” letter, which allowed the CUA to proceed with VISTA site recruitment. By September 2000, thirteen Michigan credit unions located in both rural and urban communities, state and federally chartered, determined that IDAs were to be offered on a pilot basis. In October, the CUA conducted a follow up survey for feedback on value of the site visits in preparing credit unions for VISTA assignments and for the IDA program.
Design and Implementation

The Design and Implementation stage was based on two basic principles: 1) structure the IDA program so that it is consumer driven, and 2) create a learning environment based on the exchange of ideas and sharing of practice.

Learning Environment

Deepening both the VISTA awareness of asset building philosophy and credit union understanding of community development were the filters through which learning took place. With initial assistance from Cathie Mahon and Aron Weisner, colleagues from the National Federation of Community Development Credit Unions, the CUA engaged the pilot credit unions in a number of activities, including: Early Service Training with VISTAs and credit union managers; Roundtable Discussions around the key IDA components and how this would be operationalized through the credit unions, adaptations of key components to existing financial services; reaching the hard to reach through mobilized savings activity; accessing resources typically earmarked for 501©(3) not-for-profits or the private sector. A statewide electronic list-serv was established through the MCUL. The VISTA liaison facilitated bi-weekly conference calls or “learning exchanges” with VISTA’s. Printed materials such as the “VISTA Monthly Reports”, and a CUA newsletter whose content featured problem solving ideas and effective practice were disseminated on a monthly basis. Equally important were distance-learning exchanges with seasoned community development credit unions around subjects such as sustainability, becoming Community Development Credit Unions, and access to funding outside the credit union mainstream.

During the implementation phase, the MSUCUA conducted a three-month study of national credit unions who offered IDAs as an added value to the microenterprise assistance provided to members. This study can be found on MSUCUA website, and is cited in the publications section of the Appendix.

All eight credit unions applied for match funds through Michigan’s newly established Michigan IDA Partnership (MIDAP). The MSUCUA visited each of the eight credit unions to offer technical assistance in preparing what was the first grant proposal that each of the credit unions had written. Seven of the eight credit unions were successful in their request for MIDAP match funds. Others wrote numerous local and national grant proposals, including coalescing to apply for US Treasury First Account funds. The MSUCUA VISTA Liaison staff member, with assistance from an Urban Affairs Programs colleague, created an on-line grant-writing course for the VISTA members.

The MSUCUA was asked by the MCUL to create an IDA Manual for credit unions. At present, the IDA Manual, listed in the publication section in the
Appendix, is the only IDA Manual written exclusively for credit union-developed IDA programs.

**Transition**

Each of the credit unions was apprised of the “end date” of the MSUCUA formal contract with the Michigan Family Independence Agency. The transition from working closely with the MSUCUA to credit union “independence” in offering IDAs as part of their ladder of services was begun in earnest in December 2001, six months prior to the contract end date of June 30, 2002. The MSUCUA met with the MCUL, NFCDCU, MFIA, and each credit union to discuss elements of a successful transition plan, identify specific outcomes that demonstrated that the transition had taken place, and specific activity that was to occur among all the stakeholders to ensure success in the transition.

The tracking document was a helpful tool to review accomplishments and gaps in the IDA program with the VISTA member and the credit union manager. The tracking document offered both a “balance sheet” as well as a review of what was working and what was not working. This tracking document served as the guide for transition from CUA-driven assistance to sustainability over time. Membership to the NFCDCU was offered each credit union. Six credit unions became NFCUCU members. One credit union has finished initial paper work to become a CDFI. Two other applications are in process. Seven of the eight have had success as grant proposal writers. The MSUCUA hosted Legislative forum with district Michigan legislators as part of the final event. Each VISTA member is being assisted with a portfolio within which is a plan for the VISTA member’s exit from the credit union site.

**Current Status: IDAs At A Point In Time**

Three credit unions discontinued having a VISTA member after one year. Since the VISTA member was viewed by the credit union as a necessary component for the IDA program coordination, two of the three credit unions discontinued offering IDAs. One of the three credit unions fulfilled its number of designated accounts, and is currently working with a non profit housing organization that coordinates the IDA program. One credit union allocated a significant portion of its budget to maintain the IDA program even without VISTA support; this credit union is the first in Michigan to create a line item in its budget for IDAs. The third credit union returned its portion of its allocated match funds to its original source. Each of the remaining six credit unions have continued to seek monies outside the credit unions for match and operational dollars.

*As of June 2002*
Each of the eight credit unions has opened IDA accounts, with a total of 82 open accounts.

Total accumulated savings was $21,786.

The number of months IDA holders saved ranged from 1-12 months; the average number of months saved was 5 months with a monthly savings range of $25-$55.

Seven credit unions were awarded a sum of $312,000 in match funds from MIDAP.

Two credit unions had started youth accounts through local public schools; five of the credit unions offer first time home ownership and small business as permissible uses.

All of the participating credit unions are located in or have branches in communities whose poverty level average is 14%; Michigan’s statewide poverty level average is 11%.

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**Early Thoughts About Michigan’s Credit Union – IDA Initiative**

An IDA combines four components -- financial education, structured savings, asset purchase/high return investment, and matching funds for that purchase – for the purpose of economically empowering low-income individuals. Credit unions offer a continuum of financial services that encompass three of the four components: savings, financial education, and asset acquisition. The fourth component, match funds, serves as both an incentive and as gap financing in the developmental process for asset acquisition. Credit unions in this Initiative discussed creative methods to incorporate this incentive/gap-financing component into this ladder of services already offered through credit unions. These ideas will be discussed in the following paragraphs.

Early in the Initiative, MSUCUA hosted a roundtable-type discussion with the eight credit unions. The purpose of the discussion was to launch the Initiative through purposeful discussion around the four components of IDAs. The MSUCUA posed questions to the credit unions as they set out to structure each of these components into a working IDA program. This section of the final report compares the credit unions’ early thoughts on the incorporation of IDAs into the credit unions’ “ladder of services” to their experience over the past two years.

**Savings**

**Initial Discussion**
The initial discussion with credit unions managers explored how the practice of savings can be encouraged – or discouraged – by financial institutions, including the means and methods of offering affordable savings accounts while restricting usage.

Individuals whose incomes are low are frequent transactors, usually limiting their involvement with a financial institution to check cashing. Offering initial check cashing services, while using financial education as a method to grow product users, is an initial strategy to cultivate willingness to save. Requiring (or possibly even providing) a $5 minimum deposit to open a savings account may attract new savers. Providing services such as automatic deposits, electronic withdraws, direct deposit, and sub accounts may make saving easier. Requiring a savings account as a prerequisite for a loan may stimulate savings. Allowing children to have their own savings account helps to create the next generation of savers.

Low-income individuals may be wary of opening or maintaining a savings account for fear of jeopardizing state cash assistance or federal government programs or health care. However, IDA funds are exempt from entering into government aid calculations if the IDA host is part of a publicly funded IDA program. Unbanked individuals may believe that savings accounts have high fees, require large initial deposits, or require that the funds be "locked up" for an extended period of time. One of the challenges IDA programs face is to correct these misconceptions.

Limiting withdrawals from the IDA savings accounts without stripping the participant of a sense of ownership of the funds is important. Savings vehicles that set limits on withdrawals (such as joint accounts, CD’s, two-signature accounts) may be tailored to fit an IDA program and are already in place at the credit union. Establishing a short-term “emergency” loan program to assist participants with unexpected expenses was suggested as a mechanism for protecting the savings account.

**Current Thinking**

“The younger the person, the easier it is to establish both savings accounts and savings behavior”. (In an interview with James Borowicz, CEO Straits Area Federal Credit Union, Cheboygan, Michigan. October 28, 2002) For Straits Federal Area Credit Union, starting savings with high school IDA holders was a way, albeit initially unplanned, to reach parents who had no savings accounts.

For adults who have been living their economic lives through a cash system, a savings account may compete with the immediate availability of their money, or “cash in their pockets”. Starting savings accounts, a fundamental
building block in the development of financial security, is done for many reasons. For those who have never saved money before, an initial account may be a trade off for other “free services” through the credit union, such as paying bills or cashing checks. Consistent savings behavior comes through financial education, which is an up front cost but overall investment for credit unions serving low income members.

Financial Education

Initial Discussion

Personal financial and consumer education is arguably the most important component of an IDA. Tying changes in savings behavior with increased knowledge about the long-term value of asset growth are the intended goals of the financial education component. Credit unions interested in implementing an IDA Program do not need to “re-invent” a program to fulfill the education feature of the IDA. Some credit unions may already be partnering with organizations that can provide financial education.

Reaching the target audience is important. By partnering educational efforts with an established audience (such as parents of children in Head Start or in a day care group) both the educational effort and the recruitment of IDA participants may be more effective. New bankruptcy laws may require financial planning classes, and if so, an IDA Program might target those individuals by providing the necessary classes. Local middle schools and high schools may be an educational partner. For example, one credit union did a presentation to a local school on the benefits of saving. Now that class saves for an annual class trip. Other partnering organizations might include local housing groups, nonprofit groups, job training and educational organizations.

Current Thinking

Financial education begins with asking IDA holders to ask themselves the question, “How do I carry out my financial transactions, and what is the real cost associated with those transactions?” Effective financial education continues to provide incentives for people to take advantage of services that grow their money rather than always costing them their growth. Until people realize what they pay for the use of fringe banking services, which is how most unbanked individuals conduct their financial transactions, then they will continue to think that they are using “string-free” services until they are trapped. Unless people have an opportunity to practice what is learned through a financial education curriculum, they see themselves out of the “mainstream” as financial transactors. The credit unions in this Initiative are convinced that the demand for “applied financial education” is huge. Just noting the proliferation of check cashing institutions is proof that low wage earners and public assistance recipients use financial
services. If credit unions are restricted from reaching the underserved, and if banks cannot realize a profit margin for shareholders from the underserved, then predatory lenders will continue to flourish because the market is there. According to the credit unions, access to the unbanked through financial education can eventually increase the low wage earners disposable income.

**Asset Purchase**

**Initial Discussion**

An asset purchase is another feature of IDAs. Research indicates that asset building is the foundation of financial independence. An asset purchase, such as a home, business, or educational investment, has the potential of stimulating the economy of the local community and improving the credit rating of the person making the asset purchase.

Other high return investments that roundtable participants identified as possible asset building goals included home maintenance, retirement funds, automobiles, or manufactured housing. It was noted that some traditional "high return investments" can be very costly (such as a new home) and it was important to stress the importance of continued savings for potential repair and maintenance.

**Current Thinking**

In unison, the participating credit unions voiced the premise of credit unions: to promote thrift for the long term financial health of the member. What makes sense to the consumer of financial services is what empowers them to be self sufficient. If a worker needs a good running vehicle to make sure he or she can get to work every day, is this not an asset for them in their pathway to financial self sufficiency? Can the credit union make a loan to this person for a newer car and use the twenty-year old car as collateral for the loan? "This is ‘the battle’ community based or low income designated credit unions fight all the time: this is the world we live in; this is the loan we have to make. We have to take the 20 year old vehicle as collateral because, many times, this is the only collateral the borrower has to offer.” (Interview with James Borowicz, CEO, Straits Area Federal Credit Union, October 28, 2002). A high return asset, for some IDA holders, might be the vehicle as opposed to the house.

**Match Funds**
Early Thoughts

Match Funds posed the major challenge. Credit unions are usually approached by charitable organizations for financial support. The idea that a credit union would ask for financial support for a financial service to be offered through the credit union was initially deemed as “intrusive” within the community. Further, they were challenged by the notion of raising funds outside of how credit unions generate revenue to support high cost services. However, much discussion took place on the area of available funds for community development activity and targeted asset building among low income individuals. Accessing those funds would be moving in a direction un-explored up to this point for all the participating credit unions.

Current Thinking

Match funds are not necessarily the “carrot” that determines participation in a long-term savings program. A person’s perception of his or her cash usually determines commitment to a long term savings program. A second determinant is whether or not a person believes he or she can take on a longer term debt commitment, which is what home buying, business start up or expansion, and post-secondary education entails. The match funds are viewed as very helpful only when people come to terms with whether or not they can save over a period of time, and that the asset is reachable.

- For high school students thinking about post-secondary education, match funds were not enough to attract low income students who thought they would not be going on to school because they could never afford it.
- First time homeowners believed the match would be helpful in communities where housing was affordable already (average house price is under $75,000). Then, the question is: is the house really an asset in a community area where market values decline each year rather than increase).

Incentives, whether they are in the form of lump match funds or a continuum of incentives, have an impact in asset acquisition if they are coupled with a longer-term financial education program that reinforces long-term gratification. Says one credit union manager, “A $2,000 gift does not transform the person who does not know she could buy a home to the person who WANTS to own a home. Wanting to own a home and making it real for that person to own a home does not depend on the match funds at the end. The match funds are the icing, but the cake has so many ingredients.”

According to one credit union manager whose credit union had access to match funds through the Michigan IDA Partnership, the “currency” or value of the match funds were too structured to make a difference in whether or not a person
could delay spending the money on day-to-day expenses. According to the credit union manager, there was too long a distance between saving and finishing. Because incentives have such an important nurturing role for the saver, more frequent incentives timed along the savings period could get people over the hump or over the desire to take the money out because the light at the end of the tunnel starts to dim.

Raising match funds was frustrating to the credit unions because of both the amount of time it takes to access funds as well as the fact that they are not a “human services” focused organization, which seems to be the default type model for IDA programs. Several of the credit unions determined that creating progressive products might supplant the need for match funds. For example,
- One credit union is now accessing more affordable home mortgage products for potential low-income homebuyers. A mortgage at 5% over thirty years has many times over the impact of a $3,000 match to savings.
- Another credit union created a post-secondary education incentive program for its 26 youth-run credit unions in elementary and middle schools in their community. Students who consistently save for post-secondary education will have their savings matched when applied directly for tuition. The credit union anticipates that the program will pay for itself within five years.
- A third credit union is offering a financial literacy certificate to its members in the hope of moving low-income individuals into credit union product users. The financial education program also includes products tailored so that members have direct experience applying new skills by earning certificates of deposit, and taking out short term, small loan products.

Conclusion

It is important to note that the Michigan credit unions in involved in the learning demonstration project had not previously heard of Individual Development Accounts nor had they any experience in accessing resources outside of the credit union milieu. Equally significant is the fact that not one credit union questioned the “value added” of IDAs to the credit union’s existing services as IDAs were described to the credit union upon initial contact. The single reason each credit union cited when the decision was made to not participate in the demonstration site was staffing: the majority of low income designated credit unions are minimally staffed by paid personnel.

Are credit unions a “natural” fit for Individual Development Accounts? Based on the early findings from the MSUCUA study and early feedback from Michigan credit unions that chose to participate in this statewide initiative, the answer is a resounding “YES”. Why? For the simplest of reasons: community development credit unions and Individual Development Accounts share the same
mission of growing wealth among the target audience. And, their target audiences are one in the same. Stated James Borowicz, CEO of Straits Area Federal Credit Union, in an April 2002 interview with MSUCUA staff member Dewey Lawrence, “The IDA project fits with the credit union vision and mission of working to improve the financial position of low income folks within the credit union membership. Eighty five percent (85%) of our membership are low income folks, using 200% of poverty as the low income ceiling.”

Community development credit unions (low income designated credit unions) serve low-income people; the credit union’s financial health, then, is totally dependent on the financial health and asset building of its membership. These credit unions must keep services affordable to attract first time users. However, credit unions must stay product competitive to attract and keep members with means. This balance benefits the IDA holder; credit unions offer a ladder of services that include electronic funds transfers, direct deposit, IRAs, all of which are tailored to grow members with modest means to members with means.

The sustainability of credit unions hosting IDAs is influenced by their approach to offering services, their long term business plan for serving low income individuals, the public policy support for credit unions, and the integration of IDAs into broader community economic development initiatives. Not all credit unions want to serve low-income people. A credit union’s approach to mission actualization is directed by the philosophy and goals of the management and governing board. The credit union’s resources determine the scale of the IDA initiative within the community. This means that IDAs must be seen as an added value to programs already offered, such as small loans for microenterprise development or home ownership products. Tax policies or federal funds that restrict eligibility of credit unions from taking advantage of incentives for working with the poor do a disservice to front line financial institutions whose mission is to provide access to affordable services to the poor.
APPENDIX