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IDAs raise low-income horizons

Individual development accounts are a hand up that put low-income workers closer to the American dream.

Kara McGuire, Star Tribune

Two weeks after her daughter was born, Dyeneese Martin collected her few belongings and boarded a Greyhound bus in New York, bound for Minneapolis. Three years later, the 27-year-old has moved from a shelter to an apartment with her children, Yashae, 3, and Sévon, 2, and is on her way to owning a home.

She credits her turnaround to Phillips Saves, an education and savings program known as an individual development account, or IDA, that matches \$2 for every \$1 a person saves.

IDAs are personal savings accounts in which savings are matched by public or private money to help low-income Americans save for a home, an education, or a start-up business. Supporters praise IDAs for helping participants create wealth, reducing the need for charity.

"It's not a handout, it's a hand up," said Carlene Coleman, director of the Personal Finance Center, which runs the Phillips Saves IDA.

As many as 30,000 Americans are using IDAs through 500 community organizations nationwide, according to CFED, a nonprofit group formerly known as the Corporation for Enterprise Development. Legislation was introduced in Congress this year to provide money for 900,000 IDA accounts over a 10-year period.

Phillips Saves is funded by a \$705,000 grant from Thrivent Financial for Lutherans that's matched by \$705,000 in federal money.

The program originally was designed for people with a connection to the Phillips neighborhood in Minneapolis but it's been expanded to include anyone who lives, works, worships, goes to school or volunteers in the city. Participants must earn no more than twice the federally set poverty level -- about \$20,000 for individuals or \$40,000 for a family of four -- and have a net worth of less than \$10,000. Participants are also required to take a dozen hours of financial education classes.

The IDA and the classes are offered through the Personal Finance Center. Created by a collaboration of seven Lutheran groups called Faith in the City, the center teaches classes on topics from budgeting to car buying, provides debt management assistance, and offers free tax preparation help in addition to the IDAs. The center has operated for a year.

You'd think there would be a line around the block of people wanting to sign up for an IDA. But Coleman said only 60 people have set up accounts so far, leaving 327 of the Phillips Saves IDAs still available.

"IDAs are a wonderful opportunity, but not everyone can take advantage," she said. "Those in the [low to moderate] income range have less wiggle room. It's hard to save \$50 or even a dollar."

There's also an issue of trust. IDAs cater to people who often are targeted by predatory lenders. "They think if it sounds too good to be true, it must be," said Kate Ouverson, statewide coordinator for Family Assets for Independence in Minnesota, another IDA program.

Martin was skeptical when she first came across a flyer advertising free money available through the program. "I was like, 'What? I'm going to check it out,'" she said.

Each month, Martin, a full-time student and apartment caretaker, has \$50 automatically taken from her bank account and put into her IDA. The program contributes an additional \$100. She plans to use the \$6,500 she'll have saved at the end of the 40-month program to buy a house or pay for the classes she needs to become a school counselor.

It's not just the money that's valuable to Martin. Growing up in foster homes and shelters, she never had money or was exposed to the concept of investing, so the classes have been priceless for her.

"They just got me going. You're talking to a girl who had nothing. Now I have a CD, two bonds, and a Roth IRA," she said. "Through this program I acquired all that in a short amount of time."

Mike Reed, executive director of Augsburg Fortress Publishers, is Martin's success coach. They meet regularly to keep her savings on track. The Personal Finance Center, which has just three full-time staff members, relies on 74 volunteers to run its programs.

These days Martin hardly needs Reed's encouragement.

"I'm addicted now," she gushed. "I'm ready to go get a mutual fund."

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