Neighborhood Partnerships

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Senate Committee on Housing and Development
900 Court Street NE
Salem, OR 97301

Dear Chair Jama, Vice Chair Linthicum and Members of the Committee:

Thank you for holding public hearings on Individual Development Accounts (IDA), specifically Senate Bills 82 and 148. We appreciated your interest and the questions asked about both bills. We identified ten questions that were raised over the course of the two public hearings, and we in collaboration with OHCS have prepared the following answers to those questions.

1. Senator Golden asked about the track record of the IDA and how partners measure client success.

The way success of the IDA program is measured depends on the asset goal of the participants, but generally comes from the success of the client in securing their asset (a home, small business, higher education, etc.) and their long-term financial stability. Every two years, Neighborhood Partnerships (NP) evaluates and reports on client success metrics in our Impact Evaluation report. Our most recent 2020 Impact Evaluation Report highlighted a few metrics that may be of interest to the committee.

- IDA providers are enrolling savers from Oregon's Black, Indigenous and People of Color (BIPOC) communities, which constitute the majority (roughly 55%) of all savers in the last two years.
- More than 1 in 4 savers (27%) enrolled when they were between the ages of 12 and 24, which allow for the fostering of savings, good spending habits, and financial education early on in life.
- When surveyed one year after completing their IDA, 91% of microenterprise savers reported they were still operating their business.
- 97% of successful homeownership savers reported that they had made all their mortgage payments in the first year of ownership. 71% reported they had at least $400 of savings set aside for major maintenance needs.
- One year after completing their IDA, savers' financial capabilities exceed national rates. 87% reported regularly using a budget, 70% report being able to balance expenses with income, and 67% report having and maintaining an emergency savings budget.

As you have heard in our testimony, financial resilience and savings go hand-in-hand, and savers year after year have demonstrated financial health and capabilities that far exceed the average Oregonian. We encourage the members of the committee to follow the link above to the evaluation report to learn more about the metrics that we monitor in measuring the success of IDA savers.

2. Senator Anderson inquired why IDAs can be used for debt payments:

As you will read in the OHCS' answers to the committee's questions, IDAs are able to support debt modification so long as it is part of a saver's personal development plan for saving toward another allowable asset. For example, IDA savers working towards homeownership may have medical bills or student loans that impact their credit score thereby limiting their ability to qualify for a mortgage loan. Utilized in this manner, debt repayment is a tool that IDA savers can use to help reduce barriers to homeownership for people with low to moderate incomes. This asset category accounts for an extremely small amount of match dollars, as it is only used when the debt repayment will make an impact on achieving of another savings goal. Additionally, our financial system is built on the need for consumers to build a heathy credit profile that many times requires taking on debt in order to leverage and gain access to capital to support their financial goals. Most Americans carry debt at some point and pay it off in installments, for example a mortgage, student loans, or medical debt. The consensus in the financial coaching field is that's best to save while you make debt payments, to allow you to manage unexpected expenses and not accumulate additional debt.

3. Senator Patterson asked about the maximum amount savers can save with an IDA:

An individual saver may not receive more than $3,000 in matched funds in a 12-month period and not more than $20,000 per IDA. The average IDA saver deposited $2,500 into their IDA over the course of 32 months and earned $6,010 in match funds toward their asset purchase. One of the programmatic changes to statute requested in this session is a request to increase the annual cap to $6,000 [Section 7, 458.690 (2)] in order to accelerate the time savers take to reach financial goal.

4. Senator Patterson also asked how long savers can save in the IDA program:

The amount of time a saver participates can vary depending on a saver's needs, asset goal and schedule. For that reason, this amount of time can range from six months to five years. For assets that may require larger savings goals, such as a down payment for a home, it will typically take longer for a saver to reach their savings goal. On average, the period of savings is typically between 2 and 3 years where savers continue to work on their individual development plan with support from their trusted local IDA provider. Current statute limitations slow saver progress toward their asset goal by limiting annual match to $3,000. One of the programmatic changes to statute requested in this session is an increase the annual match cap to $6,000 [Section 7, 458.690 (2)]. We believe, especially for homeownership savers, this increase would reduce time to reaching their savings goals. This would result in being in a better position to buy in a statewide market where home prices continue to rise rapidly even in a pandemic. It would also reduce time in program across assets, which would reduce administrative costs.

5. Senator Patterson's last question was related to program growth and whether there is a waitlist:

Waitlists are very common due to the limited availability of funds and high level of demand by prospective savers. The length of waitlists depends on the provider and the level of interest within the providers' service area. As you heard Karen Saxe from DevNW, said "Demand for IDAs both currently and historically has outpaced availability of this resource. At DevNW, we face waitlists of two years for many of the communities we serve." From our experience and due to the economic fallout associated with the Covid-19 pandemic, we believe it is reasonable to predict that demand for IDAs will only rise throughout the next biennium.

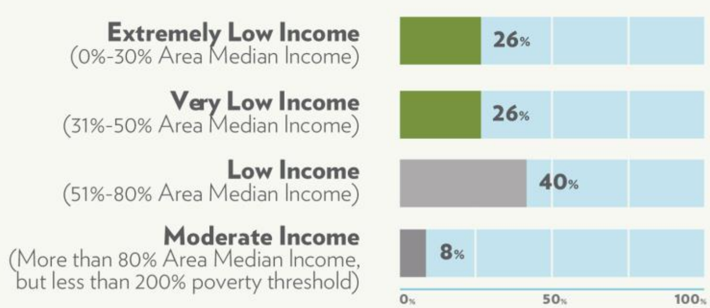
6. Chair Jama asked about the geographic reach of the program and who is served:

As the contract administrator for the IDA Initiative, Neighborhood Partnerships has been intentional about recruiting partner organizations and fiduciary organizations to provide culturally-sensitive, linguistically responsive and geographically diverse services in providing IDAs. From our 2020 Evaluation

Impact Report:

- The IDA Initiative reaches people of color (52.7%) at rates that are equal to or greater than their proportion of Oregonians with low incomes: 6.1% Asian or Pacific Islander, 12.6% Black/African American, 25.4% Hispanic/Latinx, and 9% Native American.
- 29% of IDAs were opened by households in Oregon's rural communities, and IDAs were opened by residents in 32 of Oregon's 36 counties over the last three years. Rural is defined using OHCS's definition as communities with populations 15,000 or less outside of the Portland Urban Growth Boundary in counties within Metropolitan Statistical Areas, and communities with 40,000 populations or less in the rest of the state.
- The top three IDA savings goals were 34% home purchase, 29% education, and 20% to start a small business. Other significant savings goals went toward vehicle purchase or repair, assistive technology, home repair, rental assistance, and retirement savings.
- As outlined in the figure below, most savers are living on extremely low or very low household incomes with 26% extremely low, 26% very low, 40% low, and 8% moderate. Most households earned less than 50% area median income.

Figure 2:
Most savers are living on extremely low or very low household incomes

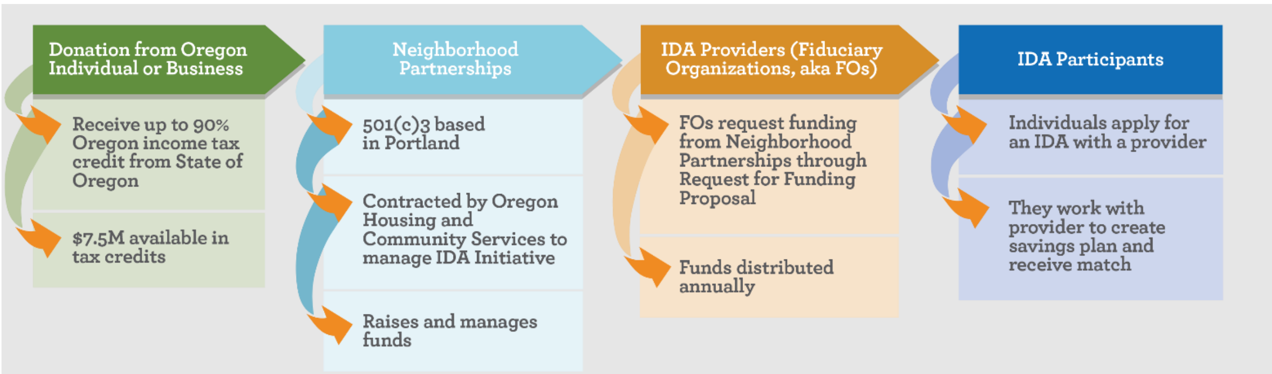


Source: IDA Administrative Dataset, account openings in 2018 and 2019 program years (n=2,847), and HUD-estimated median household income by county and household size.
Note: Income eligibility is based on the saver's household size and county of residence. It must be less than 80% of the county's Area Median Income, 80% of Oregon's Area Median Income, or 200% of the federal poverty threshold, whichever is greater. In most Oregon counties, a family of four would be eligible if their income was no more than $60,300 in 2019 (80% of the State Median Income),

7. Senator Linthicum asked how funds flow from the state to the IDA saver:

As outlined by OHCS in their response to this question, the flow of funds to savers is as follows. With a tax credit funding mechanism, the IDA Initiative is funded by contributions made by individuals and businesses which qualify for the IDA Tax Credit. Contributors receive up to 90% Oregon income tax credit from the State of Oregon. As contract administrator Neighborhood Partnerships (NP), a statewide nonprofit, serves a number of roles including raising, managing, and investing the funds, providing technical assistance, financial oversight and compliance for the program. NP grants out raised funds to 10 fiduciary organizations in an annual RFP process. Fiduciary Organizations (FOs) are nonprofit direct service providers that support IDA savers with eligibility, enrollment including opening up their bank account to save, financial coaching, financial education, and connect savers with other community resources. When their goal is achieved and all requirements are met, the Fiduciary

Organization/provider disburses match in proportion to the saver's money, most often directly to the vendor/school/title company etc. In 2020 when tax credits were augmented by a General Fund allocation, those funds were disbursed by OHCS to Neighborhood Partnerships, who distributed them to Fiduciary Organizations/providers as part of an Interim grant to support program operations.



8. Senator Linthicum asked about historical state general fund investments for IDAs: Since its inception in 1999, the Oregon IDA Initiative sole and primary funding source has been the IDA tax credit. Neighborhood Partnerships (NP) has received some supplemental federal dollars called Assets for Independence (AFI) that we were able to leverage with our State IDA match but that program was defunded back in 2017. From 09/2009-08/2014 we received $300,000 in AFI dollars and again from 09/2013-08/2018 we received $545,000 in AFI funds. Additionally, during the last special session that ended in August 2020, the IDA Initiative received a $2 million dollar General Fund appropriation to help fill our gap from the drop in funding due to a drop in tax credits sales from the previous year.

9. Senator Linthicum also inquired about administrative resources for the IDA Initiative:

Neighborhood Partnerships (NP) has been the contract administrator for the Oregon IDA Initiative since 2007. NP's staff assigned to the IDA program have significant expertise in understanding the complexities of the Initiative, including programmatic operations, marketing and selling the tax credit, and understanding the broader asset building field. NP has provided consistent quality oversight while building strong relationships with all of the Fiduciary Organizations (FOs) partners to ensure savers are served throughout Oregon. The IDA Initiative's yearly budget for oversight, operations and management is $1 million per year. This includes tax credit marketing and solicitation ($150,000) and OHCS's administrative cost ($100,000). The remaining funds support staff salaries, program costs like insurance and database expenses, Initiative wide meetings and ongoing development and training for providers, and evaluation expenses.

IDA fiduciary organizations program and administrative budgets vary by organization but on average are 25% of their awarded amount. Allowable use of program funds include program operating and delivery costs, including the costs of providing assistance to IDA account holders and their beneficiaries to develop and fulfill personal development plans. These costs include staff time to provide financial coaching, program materials, financial education, and other costs associated with successfully building, implementing, staffing, oversight, and managing all pieces of the IDA program. Additionally, funds are also spent on costs associated with administering and/or evaluating the program and work plan. These costs include both direct and indirect costs related to financial management, data maintenance and reporting, and a proportion of the organization's overhead costs as reflective of the percentage of the IDA program within the organization.

10. Senator Linthicum raised concerns about the ability for savers to access their savings as outlined in Senate Bill 82 and potential concerns about abusing access to emergency withdrawals:

The IDA Initiative was gratified to have the change made to statute in the June Special Session to allow savers to receive match for emergency use. As the statute currently reads, these funds are defined as follows:

> *["emergency expenses" includes expenses for extraordinary medical costs or other unexpected and substantial personal expenses that would significantly impact the account holder's noncash assets, health, housing or standard of living if not promptly addressed.]*

The changes in Section 6, 458.685. 2a and the deletion of 3 are not referring to state funds or these matched emergency withdrawals. This change is a technical fix in order to recognize the actual existing responsibility and rights of IDA savers. The funds referenced in these paragraphs are the saver's own savings held in their IDA savings account, **not** state match funds which are held in escrow by the fiduciary organizations. The fixes simply acknowledge that saver's funds are their own and thus the use of them certainly should be defined by the saver themselves, not Oregon statute. Further, the use of said saver funds by saver should not be grounds for exit from the program. Any savings the saver removes from their IDA account for purposes other than their asset goal will not be matched, and no state funds will be disbursed against them.

The shift that Senator Golden rightly identified as informing the changes that have been made both around allowing emergency match, and against Oregon statute having a specific rule about how savers use their personal savings is to introduce an equity model that recognizes that we provide financial coaching, financial education and financial capability in support of IDA savers and trust that they are the experts on their situation and financial circumstances. Savers contribute a tremendous amount of work to enroll and participate in the program because they are highly motivated to attain assets and build wealth and financial stability for themselves and their families. The goal of the IDA is to support that work, to foster independence, knowledge, and financial stability, and these changes reflect the shift to a program that is responsive and nimble to the needs of our savers.

Thank you again for the opportunity to discuss the powerful impacts of the IDAs and the improvements the IDA Initiative is seeking through SB 148. Please let us know if you have any additional questions and we be happy to schedule a time to discuss those with you individually. You may reach out to my coworker, Loren Naldoza, at: lnaldoza@neigbhorhoodpartnerships.org.

In partnership,

Carlos David Garcia, Executive Director
Neighborhood Partnerships