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What Works

Bank on It

Financial advisors pull people out of poverty, one deposit at a time

By Ken Yamada

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GRASSROOTS PARTNERSHIPS

Bank on It

Financial advisors pull people out of poverty, one deposit at a time *by Ken Yamada*

Four years ago, Elly Damian's future looked bleak. Damian, a single mother of three living on public assistance, had no savings and no job. "I thought my life was over," said Damian, who now lives in Fremont, Calif. "I wasn't getting anywhere fast."

Her life, it turns out, was just getting started. Things began to change when Damian enrolled in an "individual development account," or IDA, a savings plan that matched every dollar she deposited with a \$2 contribution. In return, Damian agreed to take classes on money management and home ownership, and she locked in her savings for a new home. She eventually got a job as a county office administrator, and used her savings for a down payment.

The IDA "gave me a boost to keep going," Damian says. "It's the motivation. If I can do it with three kids, then anyone can."

Individual development accounts, first proposed by Washington University professor Michael Sherraden in his 1991 book *Assets and the Poor*, are a new breed of incentive account for low-income people. In his book, Sherraden argues that asset accumulation – more than welfare payments or a minimum wage – is the key to breaking the cycle of poverty. Owning assets such as savings, homes, and businesses, he argues, inspires people to work and gives them a psychological boost.

Sherraden pointed out that government regulations discourage the poor from saving money, disqualifying them from public assistance if their assets exceed \$1,000. Meanwhile, the government subsidizes asset acquisition for the middle class in the form of home mortgages and preferential capital gains.

Since publication of the book, 26 states have passed legislation encouraging the establishment of IDAs, and more than 150 programs have been set up nationwide. Officials predict that over the next five years, as many as 50,000 low-income residents will invest money in IDAs.

IDAs require participants to make regular monthly bank deposits, generally between \$30 and \$70 a month, and to ear-

mark those funds for a specific purpose – such as paying for college tuition, purchasing a first home, or job training courses. Participants also must take classes on money management, and in some cases they enroll in goal-specific workshops – on financial aid or home mortgages, for instance.

In return, their deposits are matched two-to-one. Matching funds generally come from foundations, individual donors, or in some cases, government grants, and they can only be withdrawn to pay for the predetermined goals.

The programs can be run in many different ways. Some are operated entirely by small nonprofits, which must raise funds to support the matching payments, handle all administration oversight, and assign caseworkers to work with participants. Other programs, such as one run by the city of Denver, take referrals from nonprofits but require applicants to report to a central office, where the programs are administered.

According to a United Way-funded nationwide study of IDAs last year, there are problems with each of these approaches.

The study, conducted by Bain & Company Inc., a Boston-based management consulting firm, found that having small nonprofits run IDAs promotes strong

relationships between caseworkers and account holders, who often meet face-to-face, but it restricts the number of participants. Larger organizations, meanwhile, can accommodate more account holders, but higher staff-to-client ratios means less direct contact between participants and their caseworkers. Caseworkers often handle clients over the phone.

Bain argues for a third way – a collaborative approach, which couples local neighborhood groups with larger organizations, yielding efficiency with a personal touch.

"Setting up an IDA program in a local community remains a challenging effort because there are so many pieces," says Bill Neuenfeldt, a Bain manager. "If you can find partners, you can start a program more quickly and serve more participants effectively and with lower costs."

That is precisely the approach taken by Assets for All

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what works

Strategies, Approaches, Developments



Alliance, the program that Elly Damian used to turn her life around.

Assets for All, founded in 1999, is one of the top-rated programs in the country, with 1,037 accounts and a less than 18 percent dropout rate. More than two-dozen participants have already achieved savings goals, collected matching funds, and purchased houses. One of its keys to success is that it combines local and centralized management, allowing both individual attention and the benefits of scale.

Assets for All is a collaboration between San Jose-based Lenders for Community Development, a nonprofit certified by the U.S. Treasury Department that provides loans for low-income individuals, and the Center for Venture Philanthropy, a Menlo Park, Calif.-based organization that works with investors to fund results-oriented social projects.

Lenders for Community Development administers the program, running the classes and overseeing the deposit and distribution of matching funds. The Center for Venture Philanthropy raises the money, some \$5 million to date, from foundations, local corporations, individual donors, and government grants. Citibank maintains the accounts.

Meanwhile, eight neighborhood nonprofits, including Catholic Charities, Samaritan House, and Family Service Agency of San Mateo County, recruit participants.

“Our collaborative approach enables each party to focus on what it does best,” said Eric Weaver, executive director of Lenders for Community Development. “It doesn’t require any one nonprofit to be all things to all people.

“If you had one nonprofit trying to raise money, recruit people, manage the database and matching funds, and schedule all the trainings, it becomes very overwhelming, and you are going to have trouble growing.”

Caseworkers and social workers from the nonprofits serve as crucial “hands-on” support to account holders, helping them with paperwork, organizing budgets, and goal setting.

They also help Assets for All screen applicants, so that it can direct precious resources to candidates who are most likely to succeed. “This program doesn’t work for people who are homeless and on the street,” Weaver said. “It’s for people who have a steady income and are working their way up the ladder.”

Working with local nonprofits also allowed Assets to break down initial suspicions. “IDAs sound too good to be true,” Weaver says. “They sound like a get-rich-quick scam. We’ve found that by working with social services groups, we [can] build trust a lot faster.”

Assets for All leaders hold quarterly community partner meetings to discuss the program, troubleshoot, and make



Assets for All clients in front of their newly purchased home.

changes if necessary.

For example, when Assets for All began allowing two missed deposits annually due to “hardship,” the number of missed deposits skyrocketed. Apparently, social workers were giving participants the sense that it was acceptable to miss deposits. A Citibank loan manager suggested social workers encourage participants to make weekly payments – even at amounts below minimum targets – to instill the savings mentality. Soon after, the missed payments began dropping off.

Sometimes the group approach creates friction. At one point, Weaver’s organization wanted to prescreen applicants, and to disallow goals like homeownership if such targets were unrealistic. Lenders for Community Development wanted to ensure that resources would not be squandered. But the community partners were staunchly opposed, determined to let participants dream big.

Working together, they arrived at a compromise: Some participants would have a backup goal, taking classes in more than one area as a fallback plan.

All told, Weaver says, some 100 participants have “graduated,” hitting their goals, purchasing their asset, and moving on.

“You never break the cycle of poverty with just income support,” he said. “If you don’t have assets, you are going to fall back into poverty the first time something goes wrong.” □