



OFFICE OF COMMUNITY PLANNING
AND DEVELOPMENT

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-7000

Special Attention of:

Notice CPD-17-07

All CDBG Grantees
All CPD Field Office Directors

Issued: August 15, 2017
Supersedes: CPD-01-12

Expires: This Notice remains in effect
until amended, superseded, or
rescinded.

SUBJECT: Use of Community Development Block Grant (CDBG) Funds to Assist Individual
Development Accounts

PURPOSE

This Notice describes how grantees can use CDBG to fund Individual Development Accounts (IDA) that will be used to pay for CDBG-eligible activities.

BACKGROUND

An Individual Development Account (IDA) is a dedicated savings account an income eligible individual or household uses to purchase a home, pay for education or job training expenses, or start a small business. Contributions to an IDA are made by individual participants over a designated time period and are matched using public and private resources. An IDA can be an asset building tool designed to move low-income individuals and families toward greater self-sufficiency by helping them accumulate savings to purchase long term assets. Asset building is considered to be an effective anti-poverty strategy. Anti-poverty strategies are designed to help a low income individual acquire long term assets and build stability that may allow them to permanently escape the cycle of poverty.

Various IDA programs can differ in their initial funding source and targeted population. However, the majority are implemented with either federal or state funding and require a match of non-federal funds. The U.S. Department of Health and Human Service's (HHS) Office of Community Services (OCS) currently funds the majority of IDAs through the Assets for Independence (AFI) competitive grant program. OCS awards grants to non-profits as well as state and local governments. Grant recipients of AFI funding are required to raise an equal contribution of non-federal funds to match the grant award. States and Public Housing Agencies may also have IDA programs focusing on their own constituent base. IDA accounts are typically matched at a rate ranging from 1:1 to 3:1. Match dollars for IDAs may come from a variety of public and private sources. Participants generally make monthly contributions to an account, usually over a period of one to four years.

ELIGIBLE ACTIVITIES

Pursuant to section 105(a)(9) of the Housing and Community Development Act of 1974 (HCDA), as amended, and the Entitlement CDBG program regulations at 24 CFR 570.201(g), CDBG funds may be used to pay the non-Federal share required in connection with a Federal grant-in-aid program, such as an IDA program. In other words, CDBG funds may be used to pay a non-Federal or local matching requirement provided the activity is carried out in accordance with all CDBG program requirements, and providing that the other Federal program recognizes CDBG as non-federal funds. Accordingly, a CDBG grantee may use its grant funds to pay for the required match for an IDA on behalf of an individual when the family or household of the individual for whom the IDA is established is low- or moderate-income before assistance is provided.

Grantees should note that the use of CDBG funds to pay for contributions to IDAs is not in itself a CDBG-eligible activity. Rather, the purposes for which IDA funds are ultimately used for – to purchase a home, pay for education or job training expenses, or to start a small business – are CDBG eligible activities. Therefore, in order for CDBG funds to be eligible to assist an IDA, the IDA must ultimately be used to pay for one of these CDBG-eligible activities. Use of IDAs for general household savings or investment purposes is not an eligible activity under Section 105(a) of the HCDA. Income payments are expressly ineligible under 24 CFR 570.207(b)(4) of the Entitlement CDBG regulations.

CDBG-funded assistance to IDAs may fall under one of the following categories of eligible activities:

- **Homeownership Assistance (Section 105(a)(24) and Section 105(a)(8) of the HCDA and 24 CFR 570.201(n), 24 CFR 570.201(e):** CDBG funds may be used to provide direct homeownership assistance to low-or moderate-income households to purchase a home.
- **Job training (Section 105(a)(8) of the HCDA and 24 CFR 570.201(e)):** CDBG funds may be used to pay for job training or educational expenses. If CDBG funds are used to assist IDAs for this purpose, the CDBG funds are used to pay for an eligible public service, and are subject to the public services cap under the program. If CDBG is being used as a match to an existing IDA program, the activity must be either a new service or a quantifiable increase in the level of a service above that which has been provided by or on behalf of the unit of general local government. If the activity is carried out by a Community Based Development Organization (CBDO) within a HUD-approved Neighborhood Revitalization Strategy Area (NRSA), the activity would not be subject to the public services cap. (See CPD Notice 16-16).
- **Microenterprise Assistance (Section 105(a)(22) of the HCDA and 24 CFR 570.201(o)):** Owners of or persons developing a microenterprise may receive CDBG-funded financial support under §570.201(o) to establish, stabilize or expand a microenterprise business. This assistance is not subject to the public services cap. The regulation defines “persons developing microenterprises” to mean such persons who have expressed interest and who are, or after an initial screening process are expected to be,

actively working toward developing businesses, each of which is expected to be a microenterprise at the time it is formed.

NATIONAL OBJECTIVE COMPLIANCE

In addition to being used to pay for a CDBG-eligible activity, a CDBG-funded IDA must also meet a national objective. If CDBG funds are used to fund an IDA that is used to purchase a home, this activity must meet the low- and moderate-income housing (LMH) national objective. If CDBG funds are used to pay for education or job training, or to start a small business, these activities must meet the limited clientele (LMC) national objective.

A national objective will not be met until the eligible activity occurs. This means the LMH national objective is not met until the IDA participant purchases a home. The LMC national objective is not met until the IDA participant pursues a post-secondary education, receives job training or starts or expands a small business.

If a participant does not complete the requirements of the IDA program and does not use the funds in the account for an eligible activity, a national objective has not been met. CDBG funds must then be returned to the grantee's CDBG program.

RESERVE ACCOUNTS AND TREATMENT OF INTEREST

Normally CDBG funds may not be drawn in advance of case needs. However for an IDA program, CDBG funds may be drawn and deposited into a reserve account prior to being applied to an individual IDA if the participating Federal program has a statutory requirement that matching funds must be available for deposits to individual IDAs. Upon completion of the IDA program, any unused CDBG funds from the reserve fund must be returned to the grantee's CDBG program account.

Interest earned on CDBG funds deposited in the individual IDA may be retained as a part of the account and used for the intended purpose, such as to purchase a home. If an individual does not complete the requirements of the IDA program and use the funds in the account for the intended purposes, the CDBG funds must be returned to the reserve fund. If the CDBG funds were not originally deposited in a reserve fund, then the funds must be returned to the grantee's CDBG program. The interest earned that is attributable to the CDBG funds deposited in the participant's IDA account must be returned to Treasury when there are no results.

DEPOSITING CDBG FUNDS IN AN INDIVIDUAL IDA

CDBG funds may be deposited as required by the terms of the agency providing the funds to capitalize a participant's IDA account. However, the CDBG funds should not be drawn before an individual IDA is set up unless it is for the purpose of setting up a project-level reserve account as discussed in the prior section.

Individual contributions and matching funds should not be commingled; all matching funds must be kept in a separate account. When the IDA participant has accumulated enough savings and matching funds to purchase the asset, payment for the item should come directly from the IDA. CDBG matching funds should never be provided directly to the IDA participant. Under 24 CFR 570.207(b)(4), this would be considered an income payment which is an ineligible activity under the CDBG program.

IDIS REPORTING

An IDA program would be identified at the project level by the type of eligible activity in IDIS. Each individual IDA activity would be set up under one of the three project level categories: job training, homeownership and microenterprise assistance, as appropriate. An activity should be set up in IDIS by the time the grantee is ready to draw funds. Actual individual or household accomplishment data should not be reported in IDIS until funds in the account have been used for the intended purpose and a national objective has been achieved.

CDBG TIMELINESS CONSIDERATIONS

Section 104(e) of the Housing and Community Development Act requires HUD to review, on an annual basis, each CDBG grantee to determine whether the grantee has carried out its activities in a timely manner. Under 24 CFR 570.902(a)(1)(i), a CDBG entitlement grantee is considered to be untimely if, 60 days prior to the end of the grantee's program year, the balance of unexpended funds in its line-of-credit exceeds one and one-half (1.5) times its most recent annual grant.

Participants of an IDA program generally make monthly contributions to an account over a period of one to four years. A grantee should keep this length of time in mind and work closely with all potential subrecipients and grantee agencies in the design of the IDA program. It is recommended that a grantee avoid prematurely funding an IDA program not ready to move forward quickly. The goal would be to minimize the amount of CDBG funds that will sit idle for a long period of time and place the grantee at-risk of being untimely in its expenditure of CDBG funds.

ADDITIONAL RESOURCES

Additional information on Federally funded IDA programs discussed in this Notice may be found at U.S. Department of Health and Human Service's (HHS) Office of Community Services (OCS), Assets for Independence (AFI) program (<https://www.acf.hhs.gov/ocs/grants>).

CONTACT INFORMATION

Grantees that have questions on this Notice should contact their HUD CPD Field Office Representative. Field Offices should direct inquiries and comments to the Entitlement Communities Division at 202-708-1577 or the State and Small Cities Division at 202-708-1322.