A Quick-Reference Guide: Rules and Regulations for Assets for Independence (AFI) Programs

This quick-reference guide is a summary of the key AFI rules and regulations to help you manage an effective IDA program in compliance with AFI law, including:

- **Participant eligibility**
- **Financial procedures and account structure**
- **Eligible uses of matching funds**
- **Reporting requirements**
- **Allowable program design changes**

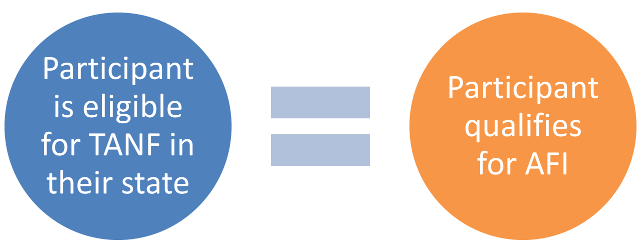
To read the complete Assets for Independence Act, please visit the Office of Community Services website.

Participant Eligibility

How do I determine whether or not a participant is eligible to open an AFI IDA?

There are two ways to determine if an individual may participate in an AFI program:

1. **TANF-eligible**: If a participant is eligible for TANF (Temporary Assistance for Needy Families) in your state, that participant *automatically* qualifies for AFI and you do not need to calculate the household income and net worth limits.

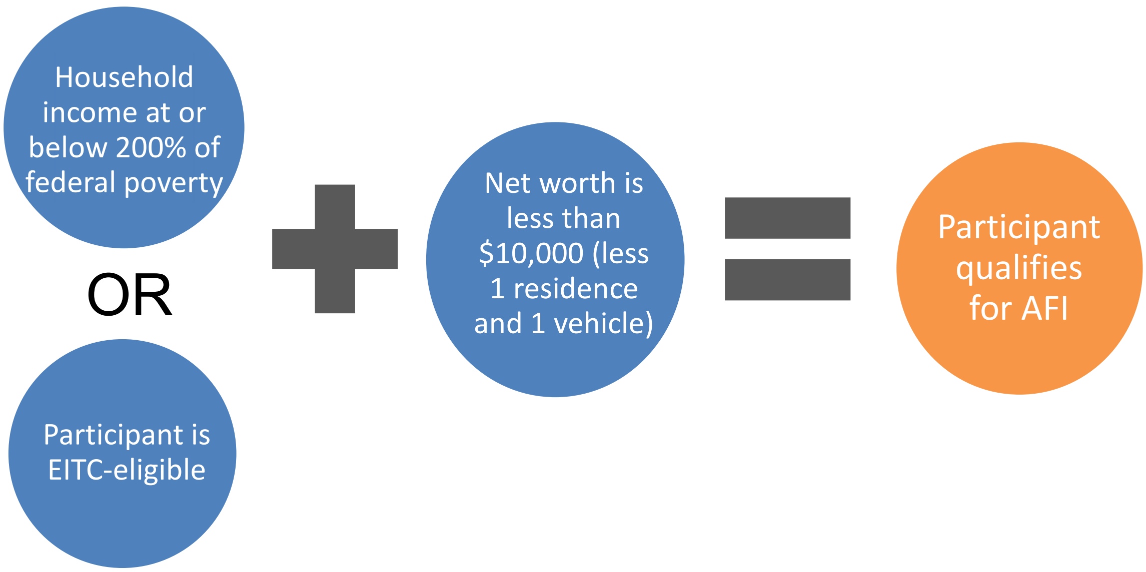


Note: AFI participants must have earned income
All AFI IDA participants must have a source of earned income during the savings period. Participants may deposit only earned income in their IDAs and cannot deposit money received from government benefits or child support. TANF funds do not count as earned income. Therefore, TANF-eligible individuals may qualify for the AFI program, but unless they have earned income, they will not be able to make qualifying deposits.

2. **An individual meets one of the following criteria:**

   Household income is at or below 200% of federal poverty: If a participant meets AFI household poverty limits (household income is 200% or less of the poverty thresholds) and net worth limits (net worth of less than $10,000, not including one residence and one vehicle), that participant qualifies for AFI.

   EITC-eligible: If a participant is EITC-eligible and has a household net worth less than $10,000, that participant qualifies for AFI.



Eligibility Calculation Tips and Tools:

- **Where do I find the poverty thresholds?** Visit the U.S. Department of Health & Human Services website for the latest Poverty Guidelines. Multiply the poverty thresholds by two to calculate 200% of poverty.
- **How do I verify earned income?**
  - Previous year's tax return
  - Most recent pay stubs for all workers in the household
- **How do I calculate net worth?**
  - Add assets (e.g. checking and savings account statements)
  - Subtract current debt (e.g. credit cards, student loans, second car loan and other debts)
  - Add business income
- **What doesn't count toward a participant's net worth calculation?**
  - The value of the first home
  - One vehicle

Financial Procedures and Account Structure

How do I structure the IDA account with my financial institution partner? How do I manage my Project Reserve Fund?

There are three major financial procedures to consider when structuring your AFI program:

1. Set up the Participant IDA account structure

AFI rules require the following features of an IDA account:

- **Custodial account:** The grantee or trust accounts should be custodial, with the grantee organization or financial institution serving as trustee. The participant is the other named party on the account.
- **Held at an insured bank or credit union:** The accounts must be held at a federally insured financial institution (or a state-insured institution if no federal institution is available).
- **Separate from matching funds:** The project's matching funds are held in a separate account (the Project Reserve Fund) from the participant savings.
- **Optional interest:** The account may or may not be interest-bearing, depending on your agreement with your financial institution partner(s). If the IDAs are interest-bearing, participants are, of course, entitled to interest on the money they deposit into the IDAs.
- **Regular bank statement reports:** Reports of account activity (monthly or quarterly, paper or electronic) from the financial institution are essential to track and manage participant progress.

Example: The participant IDA account is held at a local bank, where the AFI grantee serves as the custodian. Participants can make deposits into this account, and no matching funds are deposited into the participant account. This is a deposit-only account, and any withdrawals must be approved by the account custodian.

2. Create a Memorandum of Understanding (MOU) with the partner financial institution(s)

This should include the roles and responsibilities of each party and the structure for the participant IDA account and the Project Reserve Fund, if applicable. For a sample financial institution MOU, please visit the AFI IDA Resource Center.

3. Set up a Project Reserve Fund (PRF)

- **Separate your Project Reserve Fund from your general funds:** At the beginning of your grant, it is important to set up the Project Reserve Fund. This is a segregated bank account held at a bank or credit union, usually a money market savings account with the financial institution partner that has agreed to hold this account. Federal funds will be deposited to this account after non-federal funds are deposited. Each grant that you get should have its own Project Reserve Fund.

- **Follow the 85/15 Rule:** No more than 15% of the federal and non-federal funds in the Project Reserve Fund can be used for project administration, operation, financial education, data collection and reporting. At least 85% of your funds in the Project Reserve Fund are used to match your participants' savings.

- **Follow procedures for drawing down federal funds:** Once you set up the PRF and deposit any nonfederal match, it is considered best practice to immediately draw down the corresponding federal dollars. You may not draw down more federal funds than non-federal funds in the Project Reserve Fund.

- **Ensure funds cover enrolled participant match obligations:** Plan to have enough federal and non-federal money in the Project Reserve Fund to cover the match agreements you make with participants when they open their IDAs (in other words, do not enroll more participants than you have federal and non-federal funds to support).

Using Match Funds

How do participants make qualified withdrawals from their IDAs? What is considered a qualified expense?

1. Purchasing an Asset:

- **Qualifying withdrawals are paid directly to a third party:** IDA withdrawals for asset purchase are paid directly to a third party, such as the home mortgage lender, eligible educational institution, business vendor, or business capitalization account. Participant savings and match funds are paid directly to the third party, never to the participant.

- **Savings and match are disbursed according to your program's match rate:** Both savings and equal parts federal and non-federal match funds are disbursed in each matched withdrawal for asset purchase. Under AFI rules, no more than $4,000 in matching funds ($2,000 federal and $2,000 non-federal) in matching funds can go toward an individual participant, and no more than $8,000 ($4,000 federal and $4,000 non-federal) in matching funds can go toward a participating household (typically two account holders).

- **Multiple matched withdrawals:** A participant may have multiple matched withdrawals for asset purchases, up to the limits determined by your project. This is most common with education or business asset goals and less common with homeownership.

2. Qualified Expenses:

- **Postsecondary education:** As with any asset purchase, funds must be paid directly to the third party, in this case an eligible educational institution. Funds can be used for tuition, fees, books, supplies, and equipment. An eligible educational institution is an institution of higher education or a postsecondary vocational education school that must be accredited. Laptops and similar equipment can only be bought directly through the educational institution.

- **First-home purchase:** Funds can be used for qualified acquisition costs for the participant's first home. This includes the costs of acquiring, constructing, or reconstructing a residence and typical settlement, financing, or other closing costs. "First-time homebuyer" means that the saver has not owned a home for the past three years.

- **Business development:** Funds can be used to start or expand a business. The participant must complete a business plan and have it approved by the AFI grantee before making a purchase. Qualified expenditures include capital, plant, equipment, working capital, and inventory expenses.

- **Transfer to spouse or dependent:** Funds can be transferred to a spouse or dependent but must be used for one of the above three qualified expenses.

3. Emergency Withdrawals:

Emergency withdrawals are never matched and must be reimbursed within a year in order to maintain eligibility for match funds. It is considered best practice for participants to sign an Emergency Withdrawal form, stating the purpose for the withdrawals and agreeing to pay back the funds within a year. Emergency withdrawals are limited to the following cases:

1. **To prevent eviction or foreclosure;**
2. **To cover necessary living expenses in the event of job loss; or**
3. **To cover medical expenses for participants or their family members.**

Reporting Requirements

What are the AFI Reporting Requirements?

AFI requires grantees to submit semi-annual and annual reports (please visit the AFI IDA Resource Center for the appropriate report templates; see "Required Reporting" under "Managing Your AFI Grant"):

- **Narrative Program Progress Reports (semi-annually):** The narrative section of Program Progress Reports (PPRs) is an opportunity for AFI grantees to provide detailed project updates and assessments
- **SF 425 Financial Reports (semi-annually):** All AFI grantees are required to provide updates on their financial progress by completing reports on the status of all Federal and non-Federal dollars in their Project Reserve Fund.
- **Annual Report to Congress (due early December):** This includes project design features; participant demographic information; participant status; reserve fund status; grantee performance plans and performance targets.

Allowable Program Design Changes

How do I change the match rate or other elements of my AFI program?

If you are interested in making changes to your AFI program, you must complete the Design Change Request Template on the AFI Resource Center website (see: "Making Changes to Your AFI Project" under "Managing Your AFI Grant)

- **Typically allowable changes:** Match rate change, savings goal change, partner(s) change
- **Not typically allowable changes:** Project geography change, grant transfer

Questions?

If you have any questions or concerns about a specific scenario regarding the AFI rules and regulations, please contact your AFI Program Specialist or the AFI Resource Center:

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