



Community Services Division  
Office of Community Development  
77 South High Street, Columbus Ohio 43215 U.S.A.  
Phone: (614) 466-2285  
Fax: (614) 752-4575

Previously known as Policy Notice OHCP 03-02

**SUBJECT:** Individual Development Accounts

**ISSUED:** March 20, 2003

**DISTRIBUTED TO:** Ohio Small Cities Community Development Block Grant (CDBG) Formula Allocation Program Award Recipients and Revolving Loan Fund Administrators

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## POLICY

The following Office of Community Development (OCD) policy clarifies the rules and regulations regarding Individual Development Accounts (IDAs) as an eligible activity under the Ohio Small Cities Community Development Block Grant (CDBG) Formula Allocation Program and local Revolving Loan Funds (RLFs).

### Individual Development Accounts (IDAs) Defined

IDAs are dedicated savings accounts that may only be used for purchasing a home, paying for education or job training expenses or capitalizing a small business. These accounts, which are generally managed by community organizations, are held at local financial institutions in the name of the individual participant. Contributions are made by individual participants during a pre-established time period and are matched using both private and public sources.

### Eligibility and National Objective Compliance

The use of CDBG Program funds for IDAs is not an eligible activity in and of itself. However, the purposes for which the IDA funds can be used (e.g., to purchase a home, start a business or pay for education/job training) are CDBG-eligible activities, according to the U.S. Department of Housing and Urban Development (HUD).

However, OCD will only permit Ohio Small Cities CDBG Formula Allocation Program award recipients and Revolving Loan Fund administrators to dedicate CDBG funds to an IDA account established for a low- and moderate-income individual for the following two IDA activities:

- Home purchase using the homeownership assistance national objective (the housing unit must meet the OCD Residential Rehabilitation Standards at the time of occupancy); and
- Small business capitalization (Microenterprise – a business with five or fewer employees, one of whom owns the business) using the limited clientele national objective based on the owner's/developer's family size/income.

The establishment of an IDA for education/job training with Ohio Small Cities CDBG Formula Allocation Program or Revolving Loan Fund dollars **will not be permitted** due to the following reasons:

- IDA compliance with a national objective cannot be accomplished until the benefiting individual achieves the stated purpose of the IDA (i.e., purchases a home or capitalizes a business). Therefore, the assistance cannot be reported as achieved until funds in the account are expended for the intended purpose. Ohio Small Cities Formula Allocation Program award recipients must meet the national objective requirements by the 16th month of the grant.
- OCD does not have the capacity to track individual IDA accounts.

Also due to the national objective requirements, OCD strongly suggests that award recipients use CDBG funds to provide the public service component of an IDA project. The public service component may include:

- Homebuyer counseling;
- Credit counseling;
- Job training; and
- Education counseling.

NOTE: For Ohio Small Cities CDBG Formula Allocation Program award recipients, an IDA activity will count as one project. IDA activities cannot exceed 15 percent of the total grant amount, unless a grantee requests and receives written approval from OCD to exceed the cap.

In order to qualify for funding, IDA activities must meet the following requirements:

- The IDA must be established to purchase a home or capitalize a small business;
- The maximum amount of assistance is \$2,000 per individual and \$4,000 per household;
- The maximum match allowable is \$4 of CDBG funds to \$1 of the client's funds;
- Ohio Small Cities CDBG funds may not be used for reserve accounts or deposits for individual accounts; therefore, Ohio Small Cities CDBG funds may be drawn for IDA activities **only after** the client has met his/her savings goal (e.g., down payment on a home, purchase of fixed assets for a business, etc.); and
- For Ohio Small Cities CDBG Formula Allocation Program award recipients, if the national objective of an IDA activity is not met by the work completion date, unspent funds must be returned to OCD.

Additional information regarding IDAs is available online at <http://www.idanetwork.org>.