

**U.S. Department of Housing and Urban Development
Community Planning and Development**

Special Attention of:

All Secretary's Representatives
All State/Area Coordinators
All CPD Division Directors
All CDBG Entitlement Grantees

Notice: CPD-01-12

Issued: August 14, 2001
Expires: August 14, 2002

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

What are Individual Development Accounts (IDAs)?

IDAs are dedicated savings accounts that can 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 over a pre-established time period and are matched using both private and public sources.

Eligibility and National Objective Compliance:

The use of CDBG for IDAs is not an eligible activity in and of itself. However, the purposes for which the funds in an IDA are to be used - to buy a home, start a business, or pay for education/job training - are eligible activities under the CDBG program. Therefore, CDBG may be used as required match for IDAs as discussed below when the family or household of the individual for whom the IDA is established is determined to be low- or moderate- income prior to assistance being provided:

1. To purchase a home: homeownership assistance meeting the housing national objective.
2. To pay education or job training expenses: public service under the limited clientele national objective.
3. To capitalize a small business (i.e., 5 or fewer employees including the owner/developer): microenterprise assistance under the limited clientele national objective based on the owner/developer's family size/income.

Distribution: W-3-1

ELIGIBILITY CATEGORY	CDBG ENTITLEMENT PROGRAM		CDBG STATE PROGRAM	
	Eligibility	National Objective	Eligibility	National Objective
Homeownership Assistance	570.201(n)	570. 208 (a) (3)	Section 105 (a)(24)	570.483(b)(3)
Public Service	570.201(e)	570.208(a)(2)	Section 105 (a)(8)	570. 483 (b) (2)
Microenterprise Assistance	570.201(o)	570 . 208 (a) (2)	Section 105 (a)(22)	570-483(b)(2)

Depositing CDBG funds in an IDA:

Based on guidance provided by Treasury, CDBG funds may be deposited in an IDA as required by the terms of the agency providing the funds to capitalize the account, but, with the exception identified in the paragraph below, the CDBG funds may not be drawn prior to an IDA being set-up. However, because the intent of an IDA is to allow the account holder to accumulate adequate wealth for the intended purpose, interest earned on CDBG funds deposited in the IDA may be retained as a part of the account and used for the intended purpose. Treasury has advised this will not violate Treasury requirements.

Cancellation: If an individual does not complete the requirements of the IDA program and use the funds in the account for the intended purpose, the CDBG funds are to be returned to the grantee's CDBG program. The interest earned that is attributable to the CDBG funds deposited in the account must be returned to Treasury.

Depositing funds in a reserve account prior to deposit in individual accounts: In accordance with Section 105(a)(9) of the Act and as provided at 24 CFR 570.201(g), Payment of non-Federal share, CDBG funds may be used as payment of the non-Federal share (i.e., "match") required in connection with a Federal grant-in-aid program undertaken as part of CDBG activities, provided that such payment will be limited to activities otherwise eligible and in compliance with applicable requirements..." Under this provision of the CDBG regulations, if a Federal program has a statutory requirement that matching funds must be deposited in a reserve account to be available to be used for deposits to individual IDAs, CDBG funds may be drawn and deposited in such a reserve account prior to being applied to individual IDAs. Cancellation/Termination: If the IDA program involved the use of CDBG funds deposited in a reserve fund as discussed above, any funds from an IDA for which an individual did not complete the requirements may be returned to the reserve fund in compliance with the statutory requirements governing the reserve fund. Further, upon completion of the IDA program, any unused CDBG funds from the reserve fund are to be returned to the grantee's CDBG program.

Reporting:

For purposes of reporting in IDIS, an IDA program would be identified as the project, and then individual activities set up under the three eligibility categories - public services, homeownership, and microenterprise assistance, as appropriate. A grantee is not required to set up each individual account as a separate activity; rather, they may be grouped and aggregated under the appropriate eligibility category.

Compliance with a national objective will not be considered to be achieved until the individual for whom the account is established has actually purchased a home, received the education/training, or capitalized a business. Therefore, for reporting purposes, the assistance cannot be considered/ reported as complete until funds in the account have been used for the intended purpose.

A grantee that needs to draw CDBG funds to be placed in a reserve fund as a match under another Federally mandated program should contact the Entitlement Communities Division in HUD Headquarters at (202) 708-1577 or the States and Small Cities Division at (202) 708-1322 for guidance on setting the activity up in IDIS.

Compliance with environmental review requirement:

Unless the eventual use of CDBG funds deposited in an individual development account is limited to activities exempt from environmental review as identified in 24 CFR Part 58.34 or 58.35(b), an environmental review as called for in 24 CFR Part 58 must be performed **before** CDBG funds can be deposited to match an account.

NOTE: HOME funds may be used to assist an IDA when the purpose of the IDA is to purchase a home, but the guidance provided above **cannot** be applied to the use of HOME funds. HOME has a statutory requirement funds must be invested in affordable housing within 15 days of drawdown from Treasury. Therefore, a participating jurisdiction interested in using HOME funds for an IDA program should refer to the HOMEfires Policy Newsletter, Vol. 1, No. 8, issued June 1998 by the Office of Affordable Housing Programs. You may access HOMEfires Newsletters at the following website: www.hud.gov/cpd/home/pubindex/homefires.html.