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Subsidized Accounts Get Another Look in D.C.

By Ben Jackson

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Congress is considering legislation that would give banks tax breaks for setting up accounts to help low-income people save for home purchases, business start-ups, or further education.

Similar bills have been proposed several times in recent years and gone nowhere, but supporters say that reports of the continued decline in the nation's savings rate could improve the legislation's chances this time around.

"There's a real commitment - bipartisan and bicameral - to address the negative savings rate, and we're hopeful that this will be the session that Congress makes some progress in that area," said Carol Wayman, the senior legislative director at Corporation for Enterprise Development, a Washington nonprofit that helps the poor build assets.

The Senate version of the bill, the Savings for Working Families Act, was introduced by Sen. Joseph I. Lieberman, I-Conn., and has 13 co-sponsors from both sides of the aisle. It was referred to the Finance Committee in March.

There are two House bills - introduced by Rep. Joseph R. Pitts, R-Pa., and by Rep. Stephanie Tubbs Jones, D-Ohio. Rep. Jones' bill has 46 co-sponsors from both parties; both bills were referred to the Ways and Means Committee.

Passage is far from certain, though, because of the potential cost. Democratic leaders in Congress are determined to stick to a "pay-as-you-go" system under which the costs of any new program must be offset by spending cuts or new tax revenues, and the challenge of finding an offset could ultimately torpedo the bills.

Still, Rep. Jones said in a press release when she introduced her bill in March: "The goal of the Savings for Working Families Act is encouraging low-income families to save more, particularly for their retirement; to accumulate financial assets; or simply [to build] a rainy day fund."

Savings as a percentage of disposable personal income fell to a negative 1% in 2006, from a negative 0.4% the year before, according to the Bureau of Economic Analysis. Though there is some debate about whether these figures truly represent whether people are saving, lawmakers

and consumer advocates have used the statistics to press for both state and federal legislation to encourage savings.

In California, for example, lawmakers are considering a bill that would create savings accounts for all newborns, seeded with state money.

Under the Savings for Working Families Act, banks would get tax credits for setting up so-called individual development accounts, or IDAs, and for providing matching funds. They would get a \$50 tax credit for each account, to help defray administrative costs, and could write off each dollar they matched.

To qualify for the accounts, people would have to be citizens or legal residents 18 to 60 years old, and their gross annual income could be no higher than \$20,000 if they are single, \$30,000 if they are heads of household, or \$40,000 if they are married.

A number of banks offer IDAs in partnership with nonprofit groups. They get Community Reinvestment Act credit for setting up the accounts but no tax break, and it is up to the nonprofit to find matching funds, which typically come from corporations or federal, state, or local government grants.

Fred Stupen, the executive director of Illinois Asset Builders Community Development Corp., a Chicago nonprofit that runs IDA programs, said he would expect more banks to establish IDA programs if they got tax credits for holding and managing the accounts. He also said that nonprofits would have an easier time finding matching money for deposits if banks were to get tax breaks.

Illinois Asset Builders works with several banks on IDA programs, including the \$46 billion-asset Charter One, a unit of the Royal Bank of Scotland Group.

Allen Rodriguez, the senior vice president for community development in Charter One Bank's Chicago region, said that IDAs are a good first step in moving the unbanked into the mainstream. Many of the bank's IDA holders have moved on to other banking products and services, such as checking accounts, credit cards, and car loans, he said.

"It starts the process to the road of financial independence," Mr. Rodriguez said of IDAs. "We follow them along as they keep on going."

He agreed that tax incentives would encourage banks to offer IDA programs.

Erwin Reeves, the community development manager at the \$2.7 billion-asset Mechanics Bank in Richmond, Calif., said the bank is building IDA programs in a handful of its branches to help teenagers in youth programs save for continuing education, help people buy homes, and help

others start businesses. Mechanics has been trying to make opening an IDA as easy as any other account.

"Currently I get support from management because we are a community bank and they feel it is the right thing to do," Mr. Reeves said. Still, he said that if the Savings for Working Families legislation is enacted he might be able to persuade his bosses to offer IDA accounts in all Mechanics' branches.

"It would be an easier sell from my department to management because then it does equate to bottom-line profitability," he said.

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