

# Establishing Sound Asset Purchase Practices

## Session Overview

Interested in making sure your AFI Project's asset purchase policies reflect sound practice in the best interests of participants? Concerned about the obstacles and support needs your participants may face when preparing for their asset purchases? Learn a new asset purchase approach and tracking tool and review effective practices so that asset purchase process works well for your participants.

## Purpose

This workshop will provide participants with tools and resources to develop policies and procedures to facilitate the asset purchase process.

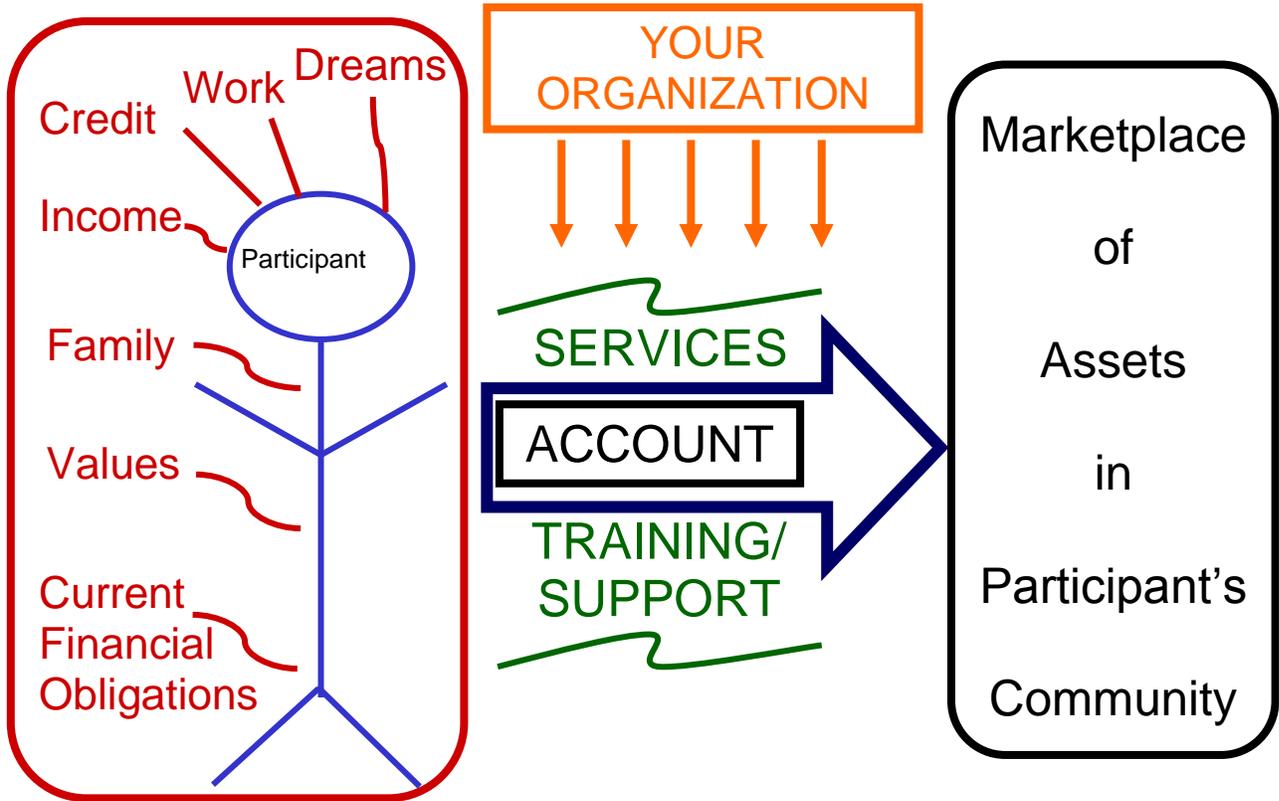
## Objectives

**By the end of this workshop, participants will be able to**

1. Define and relate roles and responsibilities of AFI Project staff, participant, and asset vendor(s) in the asset purchase process.
2. List and describe key milestones and activities in the purchase process for homeownership, small business, and postsecondary education.
3. Identify areas of support needed by project participants to completing these milestones.
4. Identify AFI guidelines affecting asset purchase withdrawals.
5. Explain categories of policies and procedures needed to facilitate the asset purchase.
6. Identify typical obstacles that affect purchase and approval process.
7. Identify tools and methods of using the asset purchase as an opportunity to evaluate, celebrate, and offer final support for asset retention.

# The Picture of Asset Ownership

The first challenge in creating sound practices in the asset purchase process for your AFI Project involves identifying key information about your target markets and the broader asset markets in the community in which your participants will be buying.



**The above graphic represents the three key elements of an AFI Project: the savers engaged in the project, your initiative, and the asset opportunities in your community that represent the purchase potential for your savers.**

## Key Factors That Affect Asset Purchase Success:

- 1) \_\_\_\_\_
- 2) \_\_\_\_\_
- 3) \_\_\_\_\_
- 4) \_\_\_\_\_
- 5) \_\_\_\_\_
- 6) \_\_\_\_\_
- 7) \_\_\_\_\_
- 8) \_\_\_\_\_

# Your participants are buying their assets...

## Congratulations!

This is a mark of achievement for both the participant and your organization. The final asset purchase is the most obvious culmination of the participant's (and project staff's) efforts and is an exciting time within the entire IDA experience.

At this crucial time in the participant's life, ensuring that the asset purchase process runs smoothly enables both the participant and project staff to focus on the most important matters.

Consider these five questions that assist in ensuring a well structured process to enhance the purchase experience:

- 1) Who is involved in the asset purchase, and what do they expect to get out of it?
- 2) What are the typical preparatory steps (milestones) to be taken by a participant in making a purchase?
- 3) At what point do participants tend to need support, and where will they find it?
- 4) At what point does project staff need to be updated or to approve elements of the purchase?
- 5) What are the critical policies and procedures needed to ensure success?

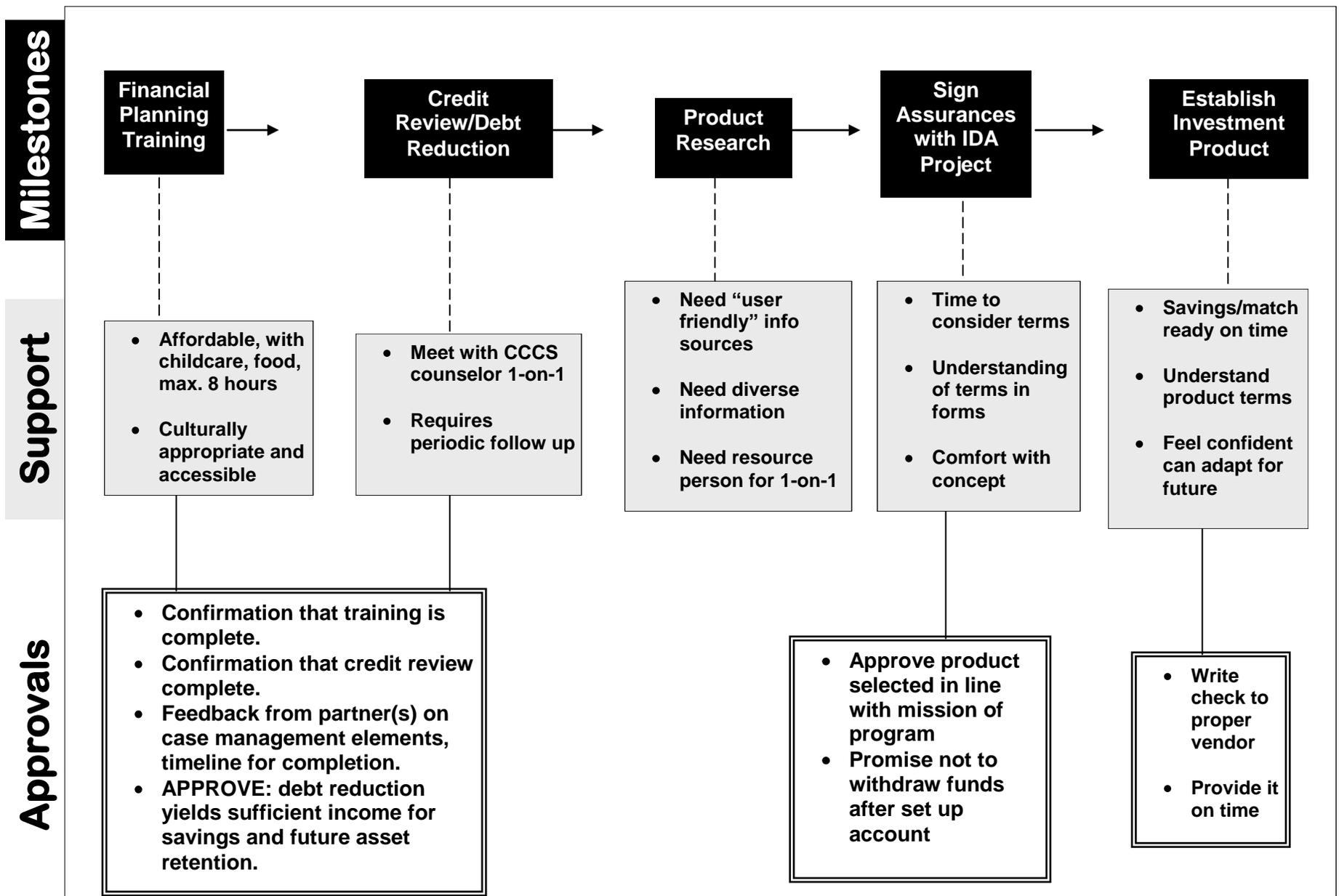
Asset purchase is both:

- 1) A series of activities, paperwork, and procedures to be executed at the end of the participant's savings period in an AFI Project; *and*
- 2) An enduring and important goal for participants, project staff, funders, partners, and other stakeholders throughout the period of participation and, with respect to impact, after the actual asset purchase.

Brainstorming answers to the above questions, sketching out scenarios, assessing what resources a project has and doesn't have, and thinking about what participants are going to experience (both challenging and immediately rewarding) will yield vital information. This information can assist in integrating the two distinct meanings for asset purchase. It provides the basis for written policies and procedures and a process an AFI Project can use to structure a smooth, efficient asset purchase experience.



# Sample Asset Purchase Process Analysis for RETIREMENT



# Sample Asset Purchase Analysis for RETIREMENT, (continued)

## Brainstorming of Obstacles and Challenges Faced by Participant

- The initial deposit required for most retirement products is greater than the cumulative savings and match in the IDA.
- Participants receive conflicting or contradictory information from resources regarding strategies and techniques for retirement savings.
- Participants have difficulty understanding the terms and conditions of retirement products.
- Participants have no mechanism for automatic deposit into their retirement product.
- Participants have difficulty determining the appropriate distribution of their contributions in the retirement product (e.g., how much in stocks, how much in bonds).
- Participants are unable to identify when to redistribute their contributions within the retirement account over time (to meet the changing conditions of their lives).

## Potential Policy Elements for Retirement Investment Match

- ✓ Participants must complete an 8-hour financial planning course before withdrawing funds for retirement.
- ✓ Project staff will ensure that training is affordable and accessible, and include childcare.
- ✓ Participants will meet with a certified credit counselor for two one-on-one sessions to develop a debt reduction plan and will reach individual debt reduction goals before making asset purchase.
- ✓ Project staff will refer participants to professional a financial planner to review products tailored to participant's needs (without charge as part of project service).
- ✓ Participants will complete and submit a retirement investment plan indicating fund distribution and contribution goals for 5 to 10 years.
- ✓ Participants will sign an assurance with project sponsor stating that they will not withdraw matching funds prior to retirement age. (Many products have their own penalties)
- ✓ Project staff will issue check to asset vendor only.

## Potential Procedural Elements for Retirement

- ✓ Submission of request for withdrawal includes documentation on product to be used and plans for continued investment over time.
- ✓ Assurance with IDA project must be signed before withdrawal request is approved.
- ✓ A fixed time period is allowed to review request and complete paperwork.

# Sketching Milestone Activity

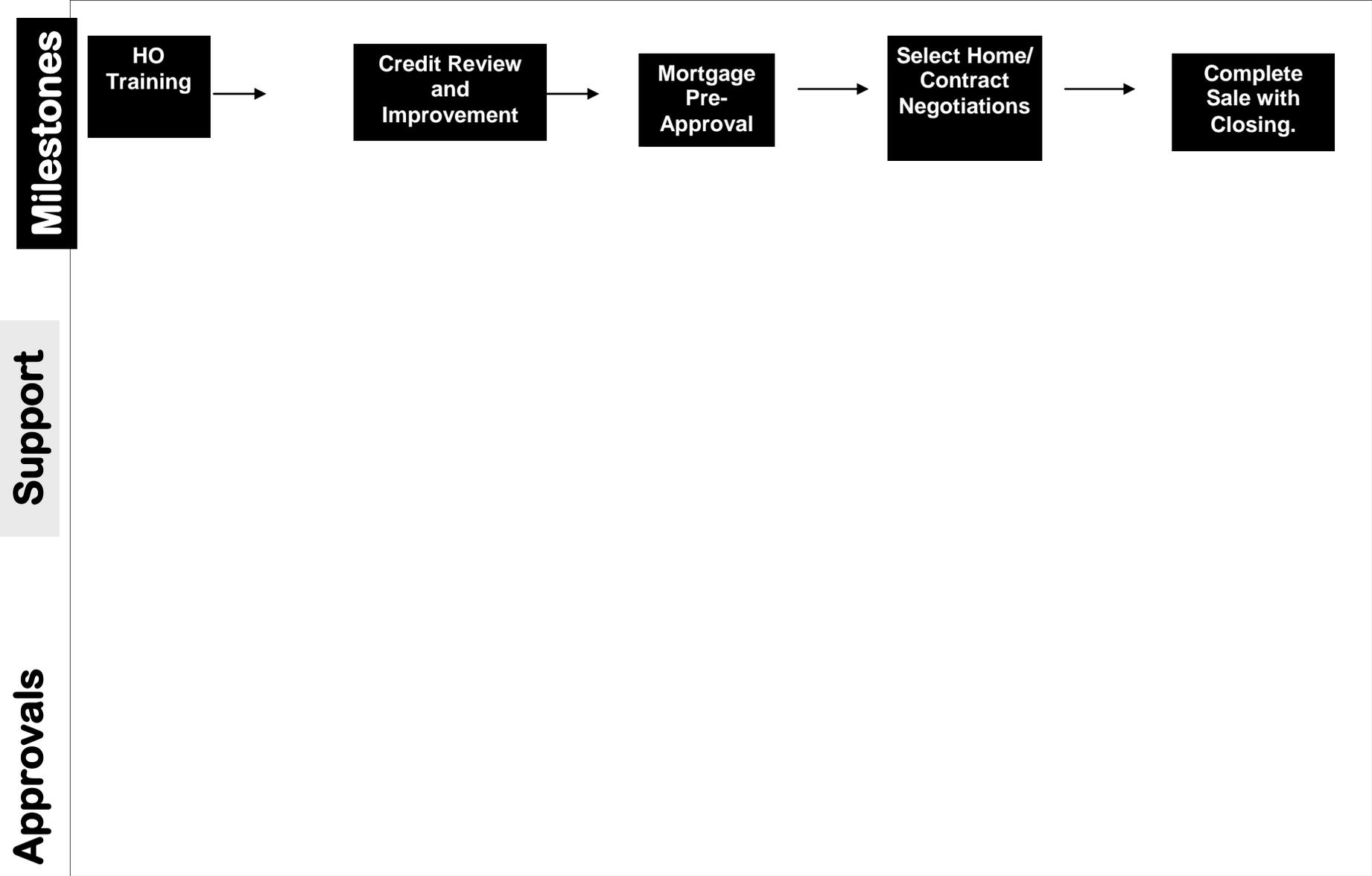
## Instructions:

- 1) Each table has a card in the center that includes an assigned asset goal for this activity.
- 2) Referring to the preparatory steps for that asset goal listed in the manual [see p. x], brainstorm the support needs your participants will need to complete each preparatory steps.
- 3) Next, brainstorm what may be needed to approve or verify the participant's completion of each step.
- 4) Sketch this information in the block format provided on the net page, like the sample previously discussed, and be prepared to present your work to the group.
- 5) Refer to the manual for questions to help inspire the brainstorming.
- 6) You will have 15 minutes to complete this work.

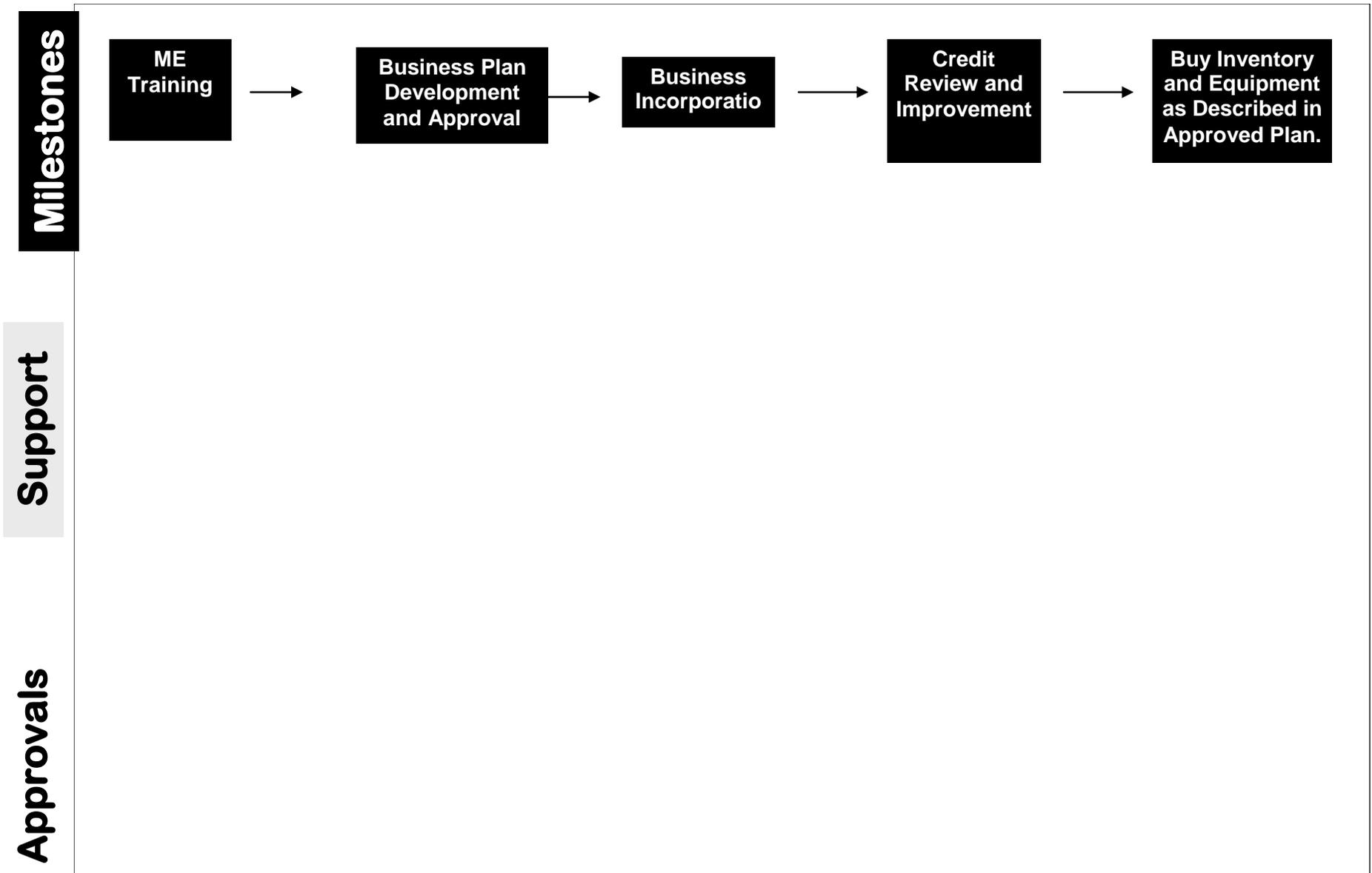
## Tips for Sketching Milestones for Your AFI Project

- ✓ The five milestones used in this activity may not be the proper number or proper milestones for your project. Develop your own, based on your knowledge of your asset marketplace and your participants. Or, if the asset goal is one that a partner is handling for you, solicit input on the milestones.
- ✓ Remember this is a brainstorming activity. To achieve greater accuracy, consider doing this with a team of staff from your agency or your partner organizations to generate as many ideas for support and approval as possible. Or consult with staff of established, successful AFI Projects.
- ✓ Check for accuracy by measuring your sketch against the actual experience of your participants as they move through the asset readiness and asset purchase process.
- ✓ Change is often good. As your project grows and develops, amending policies and procedures to reflect accurate needs or lessons learned from previous purchases is often critical to continued success. Always leave room for your project to make changes as needed.

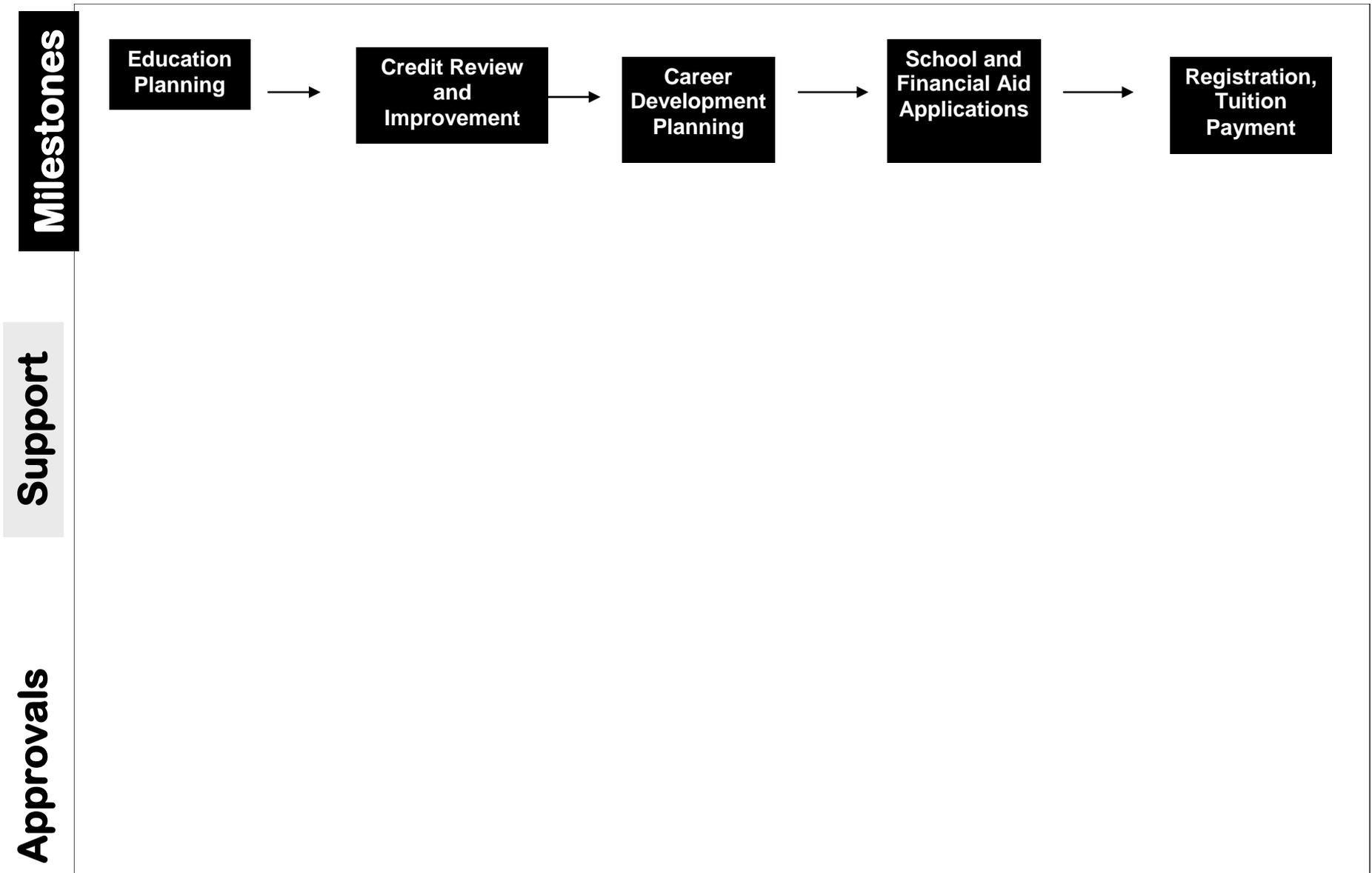
# Asset Goal: Homeownership



# Asset Goal: Microenterprise



# Asset Goal: Postsecondary Education



# In Reaching for the Milestones, Where Do Participants Need Support and Where Will They Find It?

Preparation for asset purchase often requires time and several stages of activity for AFI Project participants. For example, when they are seeking loans (as they may be for homeownership, microenterprise or education goals), they may need help in addressing credit issues several months or more before preparing applications.

There are many types of support services to assist participants in identifying these preparatory steps in an effective order and within a reasonable timeline. These services may already be included in your project design, or they may be complementary services available to participants with a referral.

When identifying these services for your organization’s project, consider:

- What do participants need at this stage in the preparation for asset purchase to **complete** the **stage** successfully?

---

---

---

- What do participants need right now to **continue** to the next stage of preparation?

---

---

---

- Where are these services represented in the project design? What should be done to ensure that activities related to asset purchase are included in the daily operation of the project and in regular contact with participants?

---

---

## Where Does Staff Need to Stay Up to Date or to Approve Elements of the Purchase?

AFI Project organizations have a responsibility to approve certain elements of the asset purchase terms. In some areas, it may be difficult for staff to assert their role, such as when a participant enters into a mortgage agreement that has unnecessary fees or unusually high interest. Project staff may also work with a partner organization that is better equipped to provide approval of elements of the asset purchase (e.g., a microenterprise development corporation approving business plans for a human service agency with no in-house expertise).

To track participant progress during the participation period, staff has a responsibility to seek regular updates in their preparations for the asset purchase. If a project is working under an external deadline (such as the five-year time limit wherein all match funds must be spent or returned to the Office of Community Services), there may be an even greater interest in tracking progress toward completing the asset purchase.

When determining the types of approval and updates that are appropriate for your project, consider the following questions:

- What milestones of asset purchase require my organization's approval?
- 
- 

- What documentation should my organization require in the approval process?
- 
- 

- What kind of information should my organization solicit from participants or others regarding preparation for asset purchase?
- 
- 

- How frequently should my organization gather the update information? What methods should we use?
- 
-

## **Activity: From Sketches to Policies...**

AFI Guidelines Affecting Asset Purchase

---

---

---

---

Policy and Procedural Brainstorm for 1<sup>st</sup> Guideline

---

---

---

---

Policy and Procedural Brainstorm for 2<sup>nd</sup> Guideline

---

---

---

---

Obstacle to Asset Purchase Brainstorm

---

---

---

---

# Tips for Effective Integration of AFI Guidelines into Asset Purchase Policies and Procedures

*Homeownership: How do I determine whether the property's value is no more than 120% of the market value?*

---

---

---

---

*Microenterprise: In my project, our microenterprise participants sometimes request five or six checks per month for different business expenses. What is the best way to manage this? Is funding a working capital business account possible?*

---

---

---

---

*Postsecondary or vocational education: How do I know if a school meets the definition of an eligible educational institution referenced in the AFI guidelines?*

---

---

---

# What Policies and Procedures Are Necessary to Ensure Success?

## Policy Points Related to Participant Preparedness

- Asset goal identification
- Attendance/participation requirements for financial education
- Attendance/participation requirements for asset-specific training
- Development of asset plan
- Use of counseling and other resources
- Submission of appropriate request forms and documentation
- Compliance with asset-specific readiness guidelines

## AFI Definitions of Asset Goals (excerpt from *AFI Project Builder*)

Asset Goal	How Is This Goal Defined?	What Costs Can Be Paid by the AFI IDA?
<b>Home Purchase</b>	<ul style="list-style-type: none"> <li>• First-time homebuyer only (defined as having had no ownership interest in a home for three years before entering a sales contract on an AFI-qualified home).</li> <li>• The home being purchased must be the participant’s main residence.</li> <li>• The sales price of the house may not exceed 120% of the average price for a home in the area.</li> </ul>	<ul style="list-style-type: none"> <li>• Down Payment</li> <li>• Settlement Fees</li> <li>• Loan Fees</li> <li>• Other Closing Costs</li> <li>• Reconstruction of the Newly Purchased Home if included in the purchase price and necessary to meet code or lending requirements</li> </ul>
<b>Micro-enterprise</b>	<ul style="list-style-type: none"> <li>• The business should be legally established and not in violation of any law or public policy.</li> <li>• The owner must have a “Qualified Business Plan” that has been reviewed and approved by a financial institution, microenterprise development organization, or nonprofit loan fund.</li> </ul>	Expenditures indicated in the Qualified Business Plan, such as: <ul style="list-style-type: none"> <li>• Capital</li> <li>• Plant</li> <li>• Equipment</li> <li>• Working Capital</li> <li>• Inventory</li> <li>• Licenses</li> </ul>
<b>Postsecondary Education or Training</b>	<ul style="list-style-type: none"> <li>• Expenses are paid to an eligible educational institution.</li> <li>• The institution is either a college, university or a vocational school as defined by the Higher Education Act of 1965 or the Carl D. Perkins Vocational and Applied Technology Education Act.</li> </ul>	<ul style="list-style-type: none"> <li>• Course fees</li> <li>• Books and supplies</li> <li>• Test fees</li> <li>• Costs of course preparations for professional licensing examinations</li> <li>• Equipment, including computer and software</li> <li>• Tuition and fees (associated with enrollment or attendance at the school)</li> </ul>

## An Answer to a Common Question:

Relevant Section from the Carl D Perkins Vocational and Applied Technology Education Act:

***“(4) The term “area vocational education school” means--***

***(C) a technical institute or vocational school used exclusively or principally for the provision of vocational education to individuals who have completed or left high school and who are available for study in preparation for entering the labor market; or***

***(D) the department or division of a junior college, community college or university operating under the policies of the State board and which provides vocational education in not less than five different occupational fields leading to immediate employment but not necessarily leading to a baccalaureate degree, if, in the case of a school, department, or division described in subparagraph (C) or this subparagraph, it admits as regular students both individuals who have completed high school and individuals who have left high school.”***

A school meeting this definition is acceptable for asset purchase with an AFI Project.

Other “eligible educational institutions” may be identified by going to \_\_\_\_\_. Keying in the name of the institution, and seeing whether it comes up as accredited. You may also ask the financial aid office to verify that they are eligible to receive Federal financial aid funds, such as Pell Grants.

Below is a list of specific items to identify as criteria for an approved asset purchase withdrawal in your AFI Project:

### Asset-Specific Readiness Details to Include...

#### HOMEOWNERSHIP

- Identification of property (basic requirements of habitability and soundness)
- Financial approval (amount sufficient to cover sales price)
- Sufficient funds for down payment and closing costs (including fees, needed initial repairs and moving expenses)
- Submission of household spending plan indicating sufficient income to cover homeownership costs over the long term

#### MICROENTERPRISE

- Written business plan with information on IDA use, projected expenditures, and plans for additional financing if needed
- Cash flow statement with six-month projection
- Evidence of market research indicating viability of idea
- For existing businesses, plan should include recent financial information as well as projections

#### EDUCATION

- Information on course of study chosen
- Evidence of admission to program or school
- Total cost of course of study and plan for paying it
- Plans to support oneself while attending school fulltime (if applicable)
- Evidence of planning for career development based on education or training

## Critical Policies and Procedures (continued)

### Potential Components of an Asset Purchase Policy

With respect to *general* withdrawal policies

- Match funds payments issued only to asset vendors
- Minimum participation period (at least six months after first IDA deposit) before withdrawal can be made with match
- Maximum time in project at which withdrawal must be made
- Clear, consistent, frequent communication of asset purchase policies and procedures, to ensure understanding among participants
- Inclusion of requirements to receive match in Savings Plan Agreements
- Partners as source of approval for specific project elements
- Flexibility in policy and procedure to meet the different needs and circumstances of participants, while within AFI guidelines
- Inclusion of an appeal process for participants in the event they disagree with a project decision (regarding approval, typically)

### Suggestions for Withdrawal Procedures

- ✓ Written procedures should include a description and samples of the forms and documentation required to request withdrawal and initiate process. (*Some of this documentation may help substantiate completion of elements in the Participant Preparedness Policy components*); may be included by reference in the Savings Plan Agreement.
- ✓ Forms should require detailed information about the purchase transaction, such as amount, purpose, name of vendor, date when needed, and location to deliver payment.
- ✓ A designated time period for project staff to review and process paperwork and to make approvals. (*This activity is also central to substantiating completion of Participant Preparedness Policy components.*)
- ✓ Description of steps in the appeal process.
- ✓ Drawdown procedures. (*This will be shaped to some degree by the savings and match account structure of the project, as well as by AFI guidelines.*)

# Thoughts on Obstacles and Challenges

Participants and project staff will undoubtedly encounter obstacles and challenges in the asset - purchase process. The key to addressing these is to use the questions and tools provided in this section to identify as many of potential obstacles as possible early on and then to amend the asset-purchase policies and procedures to tackle them.

Policies and procedures, however, are only as good as their implementation by staff (and partners) in daily operation. When assessing solutions to obstacles (or even when strategizing to ensure that the asset purchase process is successful), identify where changes to project design or operations will also assist in implementing the solution. Remember to examine the entire spectrum of activity during the participation period.

Here are some examples of typical obstacles and potential resolutions:

- 1) The purchase terms and arrangement looks like a bad deal (e.g., the price is too high, the financing terms include exorbitant fees, or the property being purchased is in bad condition).

*Resolution Idea 1:* Include policy guidelines and procedures that provide for project staff (or qualified partners) to withhold approval unless the negative terms are amended. Even better, let participants know much earlier, that only purchase agreements that conform to specified guidelines will be eligible for asset purchase with match. (e.g., interest-only mortgages are not acceptable).

*Resolution Idea 2:* Structure case management and counseling services to identify and review the asset purchase details early on, before a request for a withdrawal is made and before the participant invests too much time or money into the “bad deal.”

- 2) The participant discovers at the last minute that he or she lacks sufficient resources to complete the purchase.

*Resolution Idea:* Offer (through case management, training, or counseling sessions) early development of an asset plan that includes an assessment of the funds needed to make the purchase and that creates individualized steps for the participant to acquire those resources during the participation period. Do this with sufficient time for the participant to acquire the resources before the withdrawal is needed. Similarly, a retention plan may be developed that takes into account, for example, increases in property, or business taxes, major repairs, or other variable costs of maintaining an asset.

# Final Thoughts on the Asset Purchase

The asset purchase is also a time to...

- **Celebrate**
- **Evaluate (and plan changes if needed)**
- **And share with the broader community the success of your project!**

Ideas on How to Do This:

---

---

---

---

---

---

---

---