

## Common Assets for Independence (AFI) Myths

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### MYTH – IDAS AND/OR THE RESERVE FUND MUST EARN INTEREST

**The AFI Act does not require that any associated accounts earn interest -- neither the Individual Development Accounts (IDAs), the Reserve Fund, nor any other related accounts.** AFI grantees have the flexibility to open interest bearing or non-interest bearing accounts for their project.

For accounts that do earn interest, the [AFI Act](#) governs how interest is handle for various accounts. To learn about this, see the resource [How Interest Works in an AFI Project](#).

## MYTH - EARNED INCOME IS AN ELIGIBILITY REQUIREMENT OF AFI

**Earned income is not an AFI program eligibility requirement.** However, Section 410 of the [AFI Act](#) requires that AFI grantees only provide matching contributions for earned income that participants deposit in their Individual Development Accounts (IDAs), and references the definition of earned income in section 911(d)(2) of the Internal Revenue Code of 1986 [26 U.S.C 911 (d)(2)]. Due to this requirement, it is common for grantees to add a selection factor for their project requiring that individuals demonstrate that they have a source of earned income as part of their enrollment process. Earned income can come from work that is full-time, sporadic, seasonal, etc. Some projects may connect eligible individuals to employment in order for them to have earned income to deposit in their IDA.

Section 408 of the AFI Act lays out requirements for participant eligibility and these are the only eligibility requirements for the AFI program. To view these requirements, learn about grantee selection of participants, and access related resources, go to <https://www.acf.hhs.gov/ocs/resource/afi-eligibility-and-selection>.

## MYTH - AFI REQUIRES SPECIFIC DOCUMENTS FOR PARTICIPANT FILES

**There are no federal requirements how the verification of participant eligibility for the AFI program should be documented.** Grantees have discretion in how they document their verification of eligibility, including what documentation they require from prospective participants. If asked, grantees must be able to demonstrate the methodology used to determine AFI program eligibility.

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AFI grantees must establish their own policies and procedures for verifying eligibility, documenting the verification, and maintaining participant files. Grantees must take appropriate precautions to ensure the security of both physical and electronic materials.<sup>1</sup>

Below are some *examples* of documentation grantees could use to verify the eligibility of prospective participants. Grantees may use documentation not listed here, provided that they can demonstrate how AFI program eligibility was verified.

Household eligible for state TANF: Information from the state TANF program, a grantee worksheet showing how it was determined that the household is eligible for state TANF, etc.

Household adjusted gross income: Recent tax documents; recent pay stubs/reports; recent business income files; a grantee worksheet showing how household adjusted gross income was calculated; etc.

Household net worth: For verifying assets: bank statements, retirement or investment statements, a signed statement from the individual, etc. For verifying debts: a credit report, loan statements, a signed statement from the individual, etc.

NOTE: Federal regulations require that grantee organizations maintain grant records for three years from the date of submission of the final Federal Financial Report (SF-425), which is due no later than 90 days after the grant end date. Your organization may have additional records management requirements.

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<sup>1</sup> The Privacy Act of 1974, 5 U.S.C. 552a, and its implementing regulations (45 CFR part 5b).

## MYTH – AFI REQUIRES REGULAR SAVINGS, LIMITS LUMP SUM DEPOSITS, AND/OR REQUIRES PARTICIPANTS MEET SAVINGS GOAL

**The AFI Act does not require IDA holders make regular savings deposits.** Related to IDA deposits and withdrawals by participants, the [AFI Act](#) (in Section 410) requires:

- Only IDA deposits of earned income can be matched by AFI project funds.
- No matched withdrawals can be made from an IDA until six months has passed from the date of first deposit into that IDA.
- Grantees must approve IDA withdrawals in writing.

**The AFI Act does not require that an IDA holder reach their initially-stated savings goal before making a matched withdrawal.** Section 410 of the AFI Act limits the amount of federal funds that one individual can receive from one AFI grant (\$2,000) and the amount that one household can receive from one AFI grant (\$4,000). Depending on the match rate set by the AFI grantee, there will be specific dollar amount that an IDA holder would need to save to reach the maximum amount of federal funds. However, there is no requirement that the IDA holder reach that amount or any other savings goal before making a matched withdrawal. The only requirements are stated above.

**The AFI Act does not put a cap on how much an IDA holder can deposit at any one time.** This means there are no federal restrictions on lump sum deposits of earned income.

AFI grantees have flexibility with regard to setting their own rules for their AFI projects, such as requiring regular deposits, setting an amount for minimum deposits, or limiting the number of months an IDA holder can miss a deposit. It is up to the grantee's organization to determine how flexible they will be with their own project rules.

As grantees consider the additional requirements they have set for their projects the AFI program encourages close review of the population(s) they serve. For example, if an organization is serving a population that has high rates of seasonal employment, requiring every participant to make bi-weekly deposits for 12 months is probably not a good fit. The AFI program recommends that grantees consider the circumstances of potential participants and maximize participants' opportunity to save and complete their asset purchases. Every participant that successfully purchases an asset to support their economic self-sufficiency also supports the success of that AFI project.

## MYTH - AFI REQUIRES THAT PARTICIPANTS COMPLETE FINANCIAL OR ECONOMIC EDUCATION

**The AFI Act does not require that participants complete any training, education, or other services.** The requirement is on the AFI grantees, not the participants. Section 407 of the [AFI Act](#) requires that AFI grantees “assist participants in the demonstration project in obtaining the skills (including economic literacy, budgeting, credit, and counseling skills) and information necessary to achieve economic self-sufficiency through activities requiring qualified expenses; assist participants in obtaining the skills and information necessary to achieve economic self-sufficiency.”

Grantees are encouraged to tailor their strategies and services to the needs of their project participants and the opportunities in their community. Examples of activities in this area include:

- financial education,
- financial coaching,
- credit-building services,
- credit/debt counseling,
- assistance with tax credits and tax preparation, and
- asset-specific training and counseling.

AFI grantees have flexibility with regard to setting their own rules for their AFI projects, including requiring financial education, asset-specific training, and/or participation in other support services.

## MYTH - BUSINESS CAPITALIZATION MATCHED WITHDRAWALS ARE PAID TO VENDORS

**Business capitalization matched withdrawals are not paid to vendors.** The [AFI Act](#) clearly states that matched withdrawals for business capitalization must be paid **directly to a business capitalization account**.

Section 404 of the AFI Act states that the business capitalization account must be established in a federally insured financial institution (or a state insured financial institution if a federally insured financial institution is not available) and is restricted to use solely for qualified business capitalization expenses.

- The term “qualified business capitalization expenses” means qualified expenditures for the capitalization of a qualified business pursuant to a qualified plan.
- The term "qualified expenditures" means expenditures included in a qualified plan, including capital, plant, equipment, working capital, and inventory expenses.
- The term "qualified business" means any business that does not contravene any law or public policy.
- The term “qualified plan” means a business plan, or a plan to use a business asset purchased, which--(I) is approved by a financial institution, a microenterprise development organization, or a nonprofit loan fund having demonstrated fiduciary integrity; (II) includes a description of services or goods to be sold, a marketing plan, and projected financial statements; and (III) may require the eligible individual to obtain the assistance of an experienced entrepreneurial adviser.

The asset being capitalized is the business startup or expansion of the IDA holder or the IDA holder’s child, dependent, or spouse.<sup>2</sup>

It is a myth that AFI requires business IDA disbursements to be paid to a vendor and/or that grantees are supposed to require IDA holders to produce verification of how they spent their business IDA funds. When the IDA holder is ready to make a matched withdrawal for a business capitalization IDA, the matched withdrawal is to be paid to the business. The amount of the matched withdrawal should not be greater than the qualified expenditures detailed in the qualified business plan.

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<sup>2</sup> For more information, see the AFI IM Clarification on Qualified Expenses for An Eligible Individual, online at <https://www.acf.hhs.gov/ocs/resource/afi-im-clarification-on-qualified-expenses>.