

How Interest Works in an AFI Project

(When Grantees Use Interest-Bearing Accounts)

Interest earned on project funds (governed by Section 407 of the AFI Act):

1. AFI grantee deposits required non-federal cash and federal grant funds into the reserve fund.
2. If the reserve fund is interest-bearing, interest earned on the money in the reserve fund also goes into the reserve fund.
3. All money in the reserve fund (federal grant funds, non-federal cash, interest) must be used for the purposes specified in 407(c):
 - a. To 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;
 - b. To provide deposits in accordance with section 410 for individuals selected by the qualified entity to participate in the demonstration project;
 - c. To administer the demonstration project; and
 - d. To provide the research organization evaluating the demonstration project under section 414 with such information with respect to the demonstration project as may be required for the evaluation.

Interest earned on matching contributions (governed by Section 410 of the AFI Act):

1. A participant opens an IDA and deposits earned income. If the IDA is interest-bearing, interest earned on the funds in the IDA accumulates in the IDA.
2. No less than once every three months, the grantee must match each participant's earned income deposits with project funds (equal contributions of federal and non-federal funds) at a rate ranging from a minimum of \$1 to a maximum of \$8 for each dollar saved by a participant. These matching contributions must be deposited either into the participant's IDA or into a parallel account maintained by the grantee. A grantee may choose to establish one parallel account for all participants (a pooled parallel account) or they may choose to set up individual parallel accounts for each participant (individual parallel accounts).
 - a. If the grantee deposits matching contributions in the IDA, the interest on the matching contributions will accumulate in the IDA.
 - b. If the grantee has set up individual parallel accounts and they are interest-bearing, interest will accumulate in each individual parallel account.
 - c. If the grantee has set up a pooled parallel account and it is interest-bearing, the grantee will have to have an administrative process in place to proportionally allocate the interest earned on the pooled account to each participant for which there are matching contributions in that pooled account.
3. Regardless of where the interest accumulates, interest earned on matching contributions would be used for an approved asset purchase, just like the participant's earned income deposits and the matching contributions of project funds.

Other relevant information:

- The AFI Act specifically addresses how proceeds from investing AFI project funds must be used. General federal regulations on interest do not supersede the AFI Act.
- The AFI Act does not require that any accounts be interest-bearing, not the reserve fund, the IDAs, or the parallel accounts. Grantees have the option of choosing interest-bearing or non-interest-bearing accounts.