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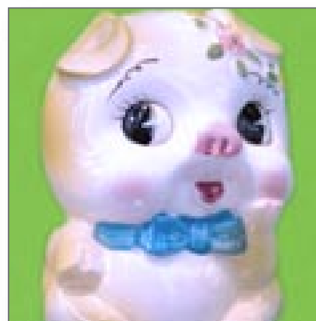

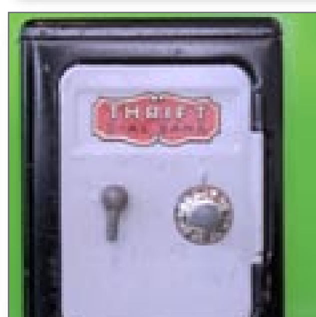

SPECIAL ISSUE ON BUILDING ASSETS

Savings In The Spotlight

Making a Case for Asset Building Policies and Programs

Individual Development Accounts

Engaging the Financial Services Industry in Asset Building

Measuring Ownership in America

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COMMUNITY INVESTMENTS

This publication is produced by the Community Affairs Department of the Federal Reserve Bank of San Francisco. The magazine serves as a forum to discuss issues relevant to community development in the Federal Reserve's 12th District, and to highlight innovative programs and ideas that have the potential to improve the communities in which we work.

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CI Notebook

by Joy Hoffmann
Community Affairs Officer

This year, the Community Affairs Offices of the Federal Reserve System have launched an exciting System-wide initiative on asset building, *Innovations in Asset Building Policy, Products and Programs.* In partnership with CFED, a national nonprofit that focuses on expanding economic opportunity, the initiative will address the challenges and opportunities facing the asset building field. By marshaling the collective strengths of CFED and the Federal Reserve System, the initiative promises to make a significant contribution to efforts to develop assets among low-income families.

Why focus on building assets among the poor?

For one thing, the numbers demand it. As the articles in this issue of *Community Investments* point out, the gap between rich and poor in our country is wider than at any time in the past 75 years. One in four families has zero or negative financial assets. One in five owes more than it owns.

For another, building assets among the poor may be the best chance we have for breaking the intergenerational cycle of poverty and for creating economically vibrant and healthy communities. Assets can open the door to getting a college degree, buying a home, or starting a small business. Building assets means building opportunity, providing families with hope for their—and their children's—future.

To help kick off the initiative, this issue of *Community Investments* focuses on asset building policies and programs across the nation. The articles provide an overview of the asset building field and examine the impact of programs such as Individual Development Accounts and the Earned Income Tax Credit. As part of the partnership with CFED, we are proud to provide highlights from their new *Assets and Opportunity Scorecard: Financial Security Across the States.* The report and its accompanying website, launched this month, provide an important benchmark for understanding the distribution of assets across the nation.

We are also excited to share with you some of the ground-breaking asset building policies and programs in the 12th District. From the Working Families Credit in San Francisco to the Nevada Individual Development Account Collaborative, the case studies throughout the magazine show how innovative ideas and new partnerships are having a big impact on building assets among the poor in our District.

With pundits and politicians debating Social Security reform and laying the foundation for a "new ownership society," there is no better time to ask the questions, "Ownership for whom? And how?" We have an incredible opportunity here to ensure that the benefits of ownership flow to all of our communities. We hope that you enjoy this issue of *Community Investments,* and we look forward to sharing with you the ongoing results of our asset building initiative.

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Savings In The Spotlight

Making a Case for Asset Building Policies and Programs

by Carolina Reid, Community Affairs Department, Federal Reserve Bank of San Francisco
with contributions from Heather McCulloch, Consultant on Asset Building Strategies

The last decade has witnessed a general improvement in the nation's wealth. Between 1992 and 2001, inflation-adjusted incomes of families rose broadly, and family net worth increased from a median of $61,300 in 1992 to $86,100 in 2001.[1] A larger proportion of families had access to savings, checking, or other transaction accounts than ever before,[2] and the median holdings in these accounts rose 21.2 percent between 1998 and 2001.[3] The median value of retirement accounts, mutual funds, and home equity also grew over the same time period.

These positive trends, however, mask a growing divide between rich and poor. By the close of the 1990s, wealth inequality in the United States was greater than at any other time since the New Deal.[4] In 2001, the wealthiest one percent of U.S. families held about a third of the nation's wealth, while the bottom half held less than three percent (Figure 1.3).[5] Wealth inequality dwarfs income inequality, with low levels of asset ownership reaching well into the middle class.[6] According to CFED's 2005 *Assets and Opportunity Scorecard*, one in four households does not own enough to support itself, even at the poverty line, for three months. Racial inequalities also loom large. The typical African-American household has less than six cents of wealth for every corresponding dollar in the typical white American household (see accompanying article, Measuring Ownership in America).

While low incomes clearly underlie the lack of assets among the poor, government policies have contributed to rather than ameliorated the wealth gap.[7] Asset building policies such as the mortgage interest tax deduction and federally-subsidized retirement plans, for example, tend to disproportionately benefit the wealthiest of households. One report estimates that over a third of the benefits of asset building tax expenditures go to the richest one percent of Americans–those who typically earn over $1 million per year–while less than five percent of the benefits go to the bottom 60 percent of taxpayers (Box 1.1: Hidden in Plain Sight).[8] Ironically, public benefit programs such as welfare and food stamps have made it harder for poor families to save and break the cycle of poverty. "Asset limits" in these programs have typically disqualified families from receiving benefits if they accumulate more than a limited amount of savings, providing a disincentive for poor families to save. Inadequate access to mainstream financial services, such as savings or interest bearing checking accounts, has further hindered the ability of the poor to build assets.[9]

In 2001, the wealthiest one percent of U.S. families held about a third of the nation's wealth, while the bottom half held less than three percent.

Since the early 1990s, a growing asset building movement has been making the case that assets are critical to enabling families to move into the economic mainstream and up the economic ladder. Advocates argue that without savings or assets, families are especially vulnerable to economic crises that could result from a fluctuating job market, an illness,

Hidden in Plain Sight: *The Federal Asset Building Budget*

Box 1.1

Today – through a diverse array of initiatives—the federal government spends billions of dollars to foster asset building. CFED, a national nonprofit that focuses on expanding economic opportunity, recently conducted a comprehensive analysis of federal spending and tax policy to determine how much American asset building initiatives cost, where the money goes, and who benefits.

The study, "Hidden in Plain Sight," reveals that in Fiscal Year 2003:

- *Federal asset policies, conservatively measured, totaled at least $335 billion.*
- *Federal asset policies include both direct spending (outlays) and preferences and incentives (tax expenditures). Tax incentives far eclipsed direct spending: for every dollar spent on asset building outlays, the government gave up $642 in revenue through tax expenditures that reward asset building behavior.*
- *Federal policies disproportionately benefit those who already have assets. Analysis of the largest spending categories shows that over a third of the benefits went to the wealthiest one percent of Americans—those who typically earn over $1 million per year. In contrast, less than five percent of the benefits went to the bottom 60 percent of taxpayers.*
- *Federal spending to stimulate asset building results from many uncoordinated policies. There is no coherent strategy, no explicit asset budget, and little public scrutiny.*

How big is this asset building budget? Even by the standards of the federal government, $335 billion is a lot of money. It is nine times more than the government spent on building roads, bridges, and mass transportation systems ($37 billion). It is almost 10 times more than what Washington spent on housing assistance programs ($35 billion). It is 15 times more than the government invested in higher education ($23 billion). And, to put it in perspective, this $335 billion compares to a national defense budget of $405 billion.

Where does the money go? More than 98 percent goes to support homeownership, reward retirement savings, and subsidize certain kinds of savings and investments (i.e. capital gains and estate transfers).

Who benefits? Many of the programs are theoretically universal, and there are some specifically aimed at the middle class and the poor. In practice, however, the data show the major beneficiaries are those who already have the most assets (see Figure 1.1).

Figure 1.1 *The Federal Asset Building Budget: Distribution of Benefits*

If a taxpayer's income is in the:	*Then their average benefit is:*
Bottom 20 percent	*$4.24*
Second 20 percent	*$34.26*
Middle 20 percent	*$173.45*
Fourth 20 percent	*$705.64*
Next 10 percent	*$1,959.68*
Next 5 percent	*$3,060.69*
Top 1 percent	*$38,107.10*

Note: Includes mortgage interest, property tax deductions, and preferential rates on capital gains and dividends.

The critical importance of assets in stabilizing American families and the vast amount spent to help them accumulate assets calls for a more rational and transparent approach to this federal investment. Robust public debate and an explicit asset development budget are needed to inform policymaking and to frame national decisions about how federal dollars are spent. "Hidden in Plain Sight" highlights the need for a coordinated strategy to facilitate asset accumulation among Americans and to ensure that the benefits of asset building expenditures are distributed more equitably. CFED intends to follow up on the study by examining policy implications and analyzing asset building policies at the state level.

A summary document, as well as the complete version of "Hidden in Plain Sight: A Look at the $335 Billion Federal Asset-Building Budget," written by Lillian Woo, William Schweke, and David Buchholz, is available for free download at www.cfed.org.

or a divorce in the family. Having savings, in contrast, can provide a buffer in tough economic times. More importantly, savings hold the promise of breaking the cycle of intergenerational poverty by providing access to higher education or homeownership. In short, while income enables families to get by, assets are the key to getting ahead. [10]

Assets for the Poor: The Experience with Individual Development Accounts

This growing awareness of the role of assets in building economic self-sufficiency has driven efforts in communities across the country to expand opportunities for low- and moderate-income families to save and invest. Great strides have been made, particularly in the introduction and development of Individual Development Accounts (IDAs), a dedicated savings account for the poor.

Although specific program features vary, IDAs help low-income people save for a specified asset building purpose, most commonly purchasing a home, starting a small business, or paying for continued education. Accountholders make monthly contributions to an account, usually over a one- to four-year period, and their savings are matched at a predetermined rate, typically at a rate of 1:1 to 3:1. Accountholders also take mandatory classes in budgeting and financial management, and receive specialized training in their asset area (e.g. homebuyer education). Matching and operating funds come from both public and private sources, and contributions are usually capped to control program costs.

Nationwide, IDAs have grown from three programs in 1995 to more than 500 programs in 2002, and anywhere between 20,000 and 50,000 low-income households have opened accounts.[11] As of March 2004, 34 states included IDAs in their state cash welfare plans, although funding levels vary widely. And nearly all states have raised welfare-related asset limits (Figure 1.2: State Asset Policy in the 12th District).

Figure 1.2 Building Assets – *Policies in the States of the Federal Reserve's 12th District*

State	IDA Legislation[1]	State funds appropriated for IDAs	State EITC[2]	Asset Limits for TANF[3]	State Housing Trust Fund
Alaska	None	N/A	N/A	$2000 or less, home and cars generally excluded	No
Arizona	Passed, Developing State Supported Program	No	No	$2000 or less, home and one car excluded	Yes
California	Passed but on hold	No	No	$2000 or less ($3000 if over 60), home and one car excluded per adult	Yes
Hawaii	Passed but on hold	State Tax Credits expired in 2004	No	$5000 or less, home and all cars excluded	Yes *(Rental Housing Trust Fund Only)*
Idaho	Passed, Developing State Supported Program	No	No	$2000 or less, home excluded, car value exceeding $4650 counted	Yes
Nevada	None	N/A	N/A	$2000 or less, home and one car excluded	Yes
Oregon	Passed, State Supported *(Children's Savings Account Program passed but never funded)*	Yes: State Tax Credits for IDA Contributors	Yes	$2500 or less for first time applicants or those not progressing in workplan, $10,000 or less if progressing in workplan; home excluded, car equity value over $10,000 counted	Yes
Utah	Passed but expired	N/A	No	$2000 or less, car equity value over $8000 counted	Yes
Washington	Passed, State Supported	Yes: State General Funds	N/A	$1000 or less, home excluded, car value over $5000 counted	Yes

Sources: Center for Social Development, "IDA Policy in the States," 2005, and Leslie Parrish (2005). "To Save or Not to Save: Reforming Asset Limits in Public Assistance Programs to Encourage Low-Income Americans to Save and Build Assets," Washington D.C.: The New America Foundation.

1 The majority of states in the 12th District have passed some type of IDA legislation, but only a few among them have appropriated state funding, either in the form of matching funds or state tax credits, for IDA program development.

2 Alaska, Nevada, and Washington do not have a state income tax.

3 Asset limits disqualify families from receiving Temporary Assistance for Needy Families (TANF) benefits if they accumulate more than a limited amount of savings, providing a disincentive for poor families to save.

The Assets for Arizona Institute

Box 1.2

The Assets for Arizona Institute ™ (the Institute), an effort sponsored by the nonprofit Mesa Community Action Network, Inc., is looking to open at least 10,000 new IDAs in Arizona in the next five years. "When we looked at the market for IDAs in Arizona and saw the task ahead, we knew that one little voice wasn't going to be heard," said Karen LaFrance, Project Director for the Institute and Executive Director of Mesa's Neighborhood Economic Development Corporation. "We needed a statewide coalition, with lots of partners all working towards the same goal."

To support this effort, the Institute staffs a statewide collaborative of representatives from established and emerging IDA programs, financial institutions, bank regulatory agencies, community organizations, local and tribal governments, and philanthropies interested in asset building strategies and programs. The Institute's aim is to leverage each of the collaborative member's strengths, avoid duplicating efforts, and explore new ways to deliver IDAs.

The collaborative structure provides many benefits, including the ability to share ideas and expertise, pool resources, and manage data for reporting and evaluation. One funding partner, the Arizona Community Foundation, has established the Assets for Arizonans Fund to solicit private sector contributions. Institute partners are advocating for changes in state policy that would make funding IDAs more appealing to the private sector, such as instituting an IDA tax credit. Efforts are also underway to encourage employers to offer workplace-based IDAs.

Arizona's IDA programs are showing promising results. The number of IDA programs in Arizona has grown from nine programs in 2003 to 25 programs as of March of 2005. The programs currently have 618 open accounts, and another 468 families have purchased assets with their savings. Account holders' savings of over $1.8 million have leveraged more than $20 million in cumulative private investment, mostly as bank mortgages for first-time, low- and moderate-income home buyers. The Institute hopes to lead the way in increasing these numbers exponentially in the coming years.

For more information about the Assets for Arizona Institute, visit www.assetsaz.org/Index.htm or contact Karen LaFrance at klaf@nedco-mesa.org.

The growth in IDAs across the country raises the question of whether or not these accounts can help the poor build assets. Quite simply, do IDAs work?

Evidence from the American Dream Demonstration (ADD) evaluation suggests that they do.[12] The evaluation showed that even very poor families–those living at or close to the federal poverty line–can save money if given the institutional structure and incentives to do so. Participants in the ADD saved an average of $1,500 over roughly two years.[13] Participants who made a matched withdrawal from their account received a payment of approximately $2,500, including the matching funds. Nearly a third of these families used the funds to buy a home, while other families used their savings to start a small business, continue their education, or undertake home repair. Perhaps the most important finding from the demonstration was that savings rates were not necessarily correlated with income levels. Elements of the program's structure–i.e., the match rate and receiving financial education–were more important predictors of how much a family saved than either their personal characteristics or how much they earned. These results support the idea that IDAs, by providing low-income households access to accounts, savings incentives, and financial education, are an effective strategy for helping low-income households build savings and accumulate assets.

Asset Building: The Road Ahead

While the introduction of IDAs represents an enormous step towards building the assets of low-income families, it is unlikely that IDAs alone will help to close the wealth gap in the United States. For all their benefits, IDA programs also have significant limitations.

First, while some families in the ADD were successful savers and were able to turn their savings into assets, a high percentage of participants (44 percent) dropped out of the program or were unable to save more than $100. For many working poor families, every penny goes toward meeting basic needs, and unanticipated expenses or income instability can derail savings plans. There's also the question of whether or not the poor can save enough to leverage wealth building assets such as a home. For the average ADD participant, monthly deposits ranged between $20 and $35, with a yearly accumulated savings of around $700 including matching funds.[14] Especially for low-income families living in high-cost housing areas such as San Francisco, Seattle, or Honolulu, this level of savings alone may not be sufficient to enter the homeownership market. In order to have impact over the long-term, IDAs need to be part of a much broader continuum of asset building strategies (see accompanying article, The Asset Policy Initiative of California).[15]

Innovations in Financing: *The Oregon IDA Tax Credit*

Box 1.3

Oregon has been at the forefront of promoting asset building legislation since the idea of savings for the poor first emerged in the early 1990s. State legislators like Beverly Stein and Jeanette Hamby realized the potential of IDAs to help build savings for children and low-income families, and worked diligently to get asset building activities on the policy agenda. But while the idea of IDAs had broad-based, bipartisan political support, the lingering question was, "Who would pay for it?"[1]

Today, Oregon is one of only a handful of states that fund IDAs through a state tax credit.[2] *The tax credit works like this: individuals who make a $100 charitable donation qualify for a $75 credit against their state income taxes, along with the potential benefit on their federal tax return of the charitable contribution. The advantage of the tax credit is that it does not require an appropriation from the state budget, since it leverages private dollars for IDA programs.*

Last year, Oregon successfully raised $660,000 for its IDA program, fully leveraging all $500,000 of the tax credits authorized by the bill. Since the program's inception, more than 250 households have opened IDAs. Oregon's Department of Housing and Community Services coordinates the statewide initiative, while day-to-day program management is out-sourced to the Neighborhood Partnership Fund (NPF), a Portland-based statewide community development nonprofit. The Celilo Group, a local consulting firm, markets the IDA tax credit to generate contributions.

Oregon's experience with the tax credit provides three useful lessons. The first is to keep the program simple. Because donations are sent directly to NPF, the program eliminates the administrative burden and costs that often accompany funds channeled through state coffers. Second, the value of the credit is an important factor in the success of the program. Oregon's original legislation requested only a 25 percent tax credit. While this would have produced a higher level of total funding for the IDA program (the possibility of raising $2 million with the same $500,000 in lost state revenue), this level of credit failed to attract contributors.[3] *Finally, state policy change does not happen overnight. It took nearly a decade of championing asset building initiatives in Oregon's state legislature to move from a "great idea" to a funded program. As Beverly Stein recognized early on, "This kind of legislation is a multi-year project. Boldness must be accompanied by persistence."*[4]

David Foster, policy strategist with Oregon's Department of Housing and Community Services and an early proponent of asset building, notes that while there is bipartisan support for asset building strategies, long term investment in IDAs will depend on research that demonstrates their ability to help low-income households become financially self-sufficient. As Foster notes, "Individual Development Accounts aren't the end game. If we can show that IDAs are the first step that helps people to change their lives, then we have real magic and a real message that we can take to policy-makers."

1 Robert Freedman (2003). "The Oregon Children's Development Account Story," *Working Paper No. 03-19,* St. Louis: Center for Social Development.
2 Gena S. Gunn, Anupama Jacob, and Melinda Lewis (2003). "Tax Credits and IDA Programs," *Policy Report,* St. Louis: Center for Social Development.
3 Hawaii has faced similar challenges with tax credit legislation–its 50 percent state tax credit expired in December 2004 as groups were unable to leverage the funds authorized in the legislation.
4 Robert Freedman, *Working Paper No. 03-19,* p. 5.

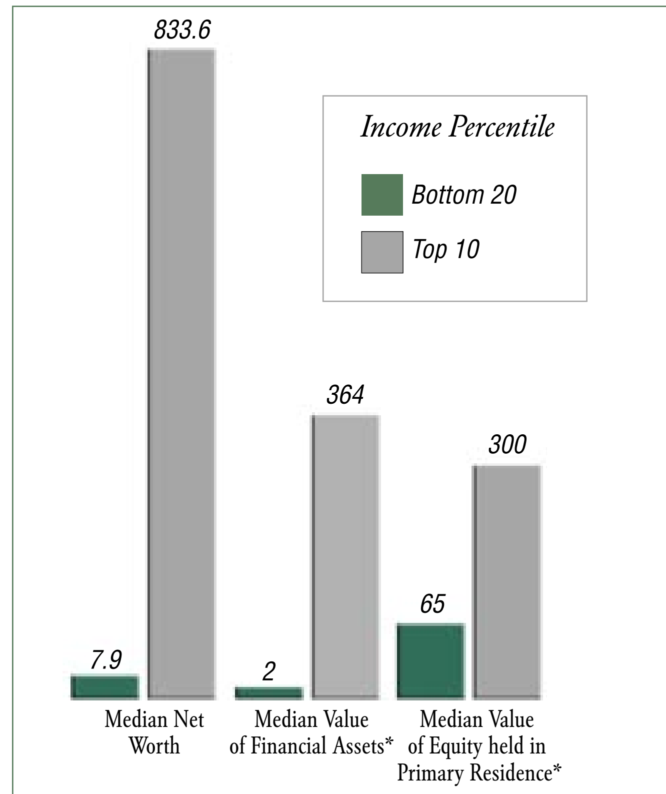
Second, experience with IDA programs across the country reveals that the costs of program delivery are currently too high to reach the millions of Americans who lack savings. Many IDA programs are run by small nonprofits, consist of 10-50 accounts, and use a supportive services model with frequent personal interaction and counseling. On the positive side, this type of case management approach means that IDAs have been able to reach people who may not otherwise be able to build assets–for example, immigrants with language barriers or clients transitioning from welfare to work. On the downside, this highly tailored, small-scale approach also means that IDAs are expensive. Program costs vary, but some estimates suggest annual program expenditures of between $850 and $2000 per active participant.[16] In the ADD, $1 saved in an IDA costs about $3 in program expenditures. While these costs are in line with or lower than the costs of other social programs such as Head Start and JOBS, they exceed the costs of more universal asset building products such as pension plans.[17]

In addition to high program costs, IDAs lack a dedicated funding stream, raising the question of whether these programs are financially sustainable. Federal spending on IDAs remains at token levels–about $185 million to date–far from the levels of funding needed to bring the programs to scale.[18] The vast majority of federal funding for IDAs is the Assets for Independence Act (AFIA), which provided $125 million for IDA programs over a five-year period. The Act is currently up for reauthorization. In addition to uncertain

levels of federal funding, community groups are finding it increasingly difficult to locate match dollars and operating funds.[19] Programs are often forced to cobble together funding from multiple sources, which in turn raises complications in reporting and tracking as different funding streams have different program requirements and income guidelines.[20] And while banks across the nation have been committed and engaged partners in IDA programs, the accounts are not yet part of a profitable business model, and are generally undertaken for CRA or community development reasons (see accompanying article, IDAs: Engaging the Financial Services Industry in Asset Building).[21]

Practitioners, advocates, bankers, and researchers are all working on developing innovative ways to move the asset building field forward.

Figure 1.3 *The Distribution of Wealth* *(Thousands of 2001 dollars)*



Source: 2001 Survey of Consumer Finances, Federal Reserve Board
* Only includes families holding assets.

Advocates of asset building policies are well aware of these challenges, and often talk about how to turn IDAs from a "program into a product," how to "go to scale," or how to develop "universal" asset building policies. Practitioners, advocates, bankers, and researchers are all working on developing innovative ways to move the asset building field forward.

One promising development in the field is the emergence of IDA collaboratives. Collaborative structures reduce costs by centralizing the "back room" functions such as data management, fundraising, and reporting requirements. One report estimated that a collaborative structure may reduce the average cost per active participant by approximately 50 percent over the costs of decentralized, individual agency models.[22] Collaboratives also serve as a way to share information and data, with more experienced collaborative members providing technical support and best practices to partners just launching IDA programs (Box 1.2: Assets for Arizona Institute).

IDA programs are also experimenting with "market segmentation" as a way to reduce costs and still serve a wide range of clients. Recognizing that low-income households are not a homogenous group, collaboratives such as the Assets for All Alliance in northern California are experimenting with IDAs that have different levels of support and education depending on an individual's needs. Assets for All Alliance, for example, has several IDA products. The "fast-track" IDA targets households who have a very time-sensitive savings goal, such as paying for tuition for a child who is a high-school senior or who has already enrolled in college. The "single-track" IDA targets households that have a common savings goal, such as homeownership. "By tailoring the financial education and case-management to meet the needs of a group of households focused on a single asset goal, we are able to provide more customized training and provide these families with the opportunity for greater peer learning and support," said Eric Weaver, executive director of Lenders for Community Development, which manages the Assets for All Alliance. Packaging the IDAs as a distinct "education savings product" or "homeownership savings product" allows the Alliance to efficiently serve households that have different levels of financial management skills but a common savings goal, thereby reducing costs.

On the funding side, IDAs may receive a boost in the form of federal tax credits. The Savings for Working Families Act (SWFA), part of the Family and Community Protection Act, would authorize the creation of 300,000 IDAs through $450 million in federal tax credits for financial institutions that offer accounts. Under this program, participants could deposit up to $1,500 a year. For each dollar the financial institution matches, they would receive a tax credit, up to $500 per IDA account per year. First raised in 1999, SWFA has been reintroduced every year since with a growing roster of bipartisan support. Oregon's state legislature has passed a state level tax credit as a way to leverage private dollars for IDAs, demonstrating the effectiveness of tax credits as a way to fund IDA programs (Box 1.3: Innovations in Financing: The Oregon IDA Tax Credit).

Ultimately, the challenge will be to take the lessons

The Next Generation of Asset Building: *Juma Ventures*

Box 1.4

Buy a Ben and Jerry's Peace Pop or a Tully's coffee at San Francisco's SBC Park, and it's likely you're buying it from a teenager participating in a workforce development program run by Juma Ventures, a nonprofit organization in the Bay Area that provides employment opportunities for low-income youth between the ages of 15 and 19.

There is more to Juma than just jobs. In 1998, Juma decided to tailor the emerging IDA model to the specific needs of youth. Mimi Frusha, Asset Services Manager at Juma, says that the motivation for starting a youth IDA initiative was the realization that "young adulthood is an important window of opportunity in which to introduce the concepts of saving and building assets."

Today, Juma's FutureFundz IDA program is the largest asset building program for youth in the nation. FutureFundz matches savings for non-education related investments—which can include a computer purchase, childcare, or first and last months' rent—at a rate of 2:1. To provide an added incentive towards saving for education-related expenses, these deposits are matched at a rate of 3:1. Participants take classes in basic budgeting and financial management, but they also receive training on their "money personality," (e.g. money avoider, money binger, money worrier) and discuss money myths (e.g. "you can't take it with you, so why save?"). Through this training, youth develop an understanding of their money psychology and learn how to make a connection between the concept of saving and their goals for the future.

The success of the program relies on a strong partnership with Citibank, which offers free savings accounts to FutureFundz participants. To reduce the costs of managing these accounts, Juma uses online technology to open the accounts, to check balances, and to transfer funds between accounts. To date, FutureFundz has opened over 400 accounts, with savings' withdrawals totaling over $380,000.

Recently, Juma Ventures was chosen to participate in CFED's national SEED (Saving for Education, Entrepreneurship, and Downpayment) Initiative.[1] SEED is a demonstration project that tests the efficacy and policy potential of a national system of savings accounts for children. Targeted at youth between the ages of 14 and 18, Juma's SEED program focuses on helping young adults save for their education.

Juma's SEED program is unique in two ways. First, it gives participants "incentive grants" for meeting certain goals. A youth who graduates from high school receives $300, and he or she can earn an additional $200 for completing a course in financial education. If the youth chooses to deposit these incentive payments into their SEED account, the money is matched one-for-one for a total of $1000. Frusha says that these incentive payments are particularly important for youth who don't work and therefore don't have a source of income.

Second, the SEED program allows anyone to make a deposit into the account on the participant's behalf: parents, siblings, grandparents. Parents can even set up a direct deposit into their child's account. "It's a way to get the whole family involved and to address the generational link to savings and wealth building," says Frusha. "It can be really powerful for a parent who has never had their own bank account to see what happens when they put aside money for their child to go to college."

Frusha and others hope that Juma's experiences with FutureFundz and SEED will help to influence the policy debate surrounding universal children's savings accounts. "We are excited that our experiences will be used to make sure that national policies are based on ideas that work. The work we're doing here and policies like the recently introduced ASPIRE Act can help kids save and build assets, which we've learned is key to expanding their opportunities and securing their financial future."

For more information on Juma Ventures, visit www.jumaventures.org or contact Mary Bussi at 415-371-0727 x 216, maryb@jumaventures.org.

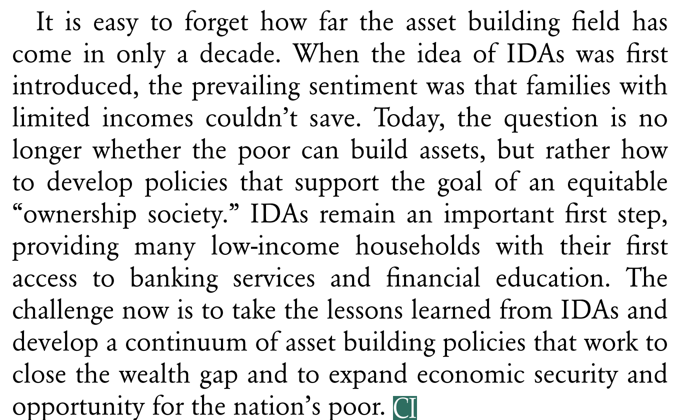
1 Saving, Entrepreneurship, Education and Downpayment (SEED) is an initiative of CFED, in partnership with the Center for Social Development, University of Kansas School of Social Welfare, the New America Foundation, the Initiative on Financial Security of the Aspen Institute, and community partners nationwide.

learned from IDAs and translate them into a universal asset building policy. Policies such as the Homestead Act and the GI Bill were successful precisely because they expanded wealth across the population and were not targeted only at the poor. According to Ray Boshara, director of the Asset Building Program at New American Foundation, "IDAs are the successful downpayment on the broader vision for helping low-income people save and accumulate assets." [23]

One idea that is garnering broad support is the introduction of universal children's savings accounts (Box 1.4: The Next Generation of Asset Building). Introduced in both the House and the Senate on April 21, 2005, the America Saving for Personal Investment, Retirement, and Education Act (The ASPIRE Act) would provide every newborn a savings account endowed with $500.[24] Children in families earning under the national median income would be eligible for a savings match of up to $500 each year until the accountholder turns 18, at which time the money could be used for education or be rolled over to save for a home or retirement. The accounts would be treated as Roth IRAs, and could serve as a life-long savings platform.[25] While every child would have an account, it would especially benefit the 26 percent of white children, 52 percent of black children, and 54 percent of Hispanic children who start life in households without any resources for investment.[26] The Act has bipartisan backing in both the House and the Senate, and supporters are hopeful that it will be adopted.[27]

Other promising ideas include encouraging retirement savings for low-income workers by creating a universal 401(k) type plan, making state-based "529" college savings plans more attractive to low-income households, and using electronic funds transfers to foster better access to mainstream financial services.[28]

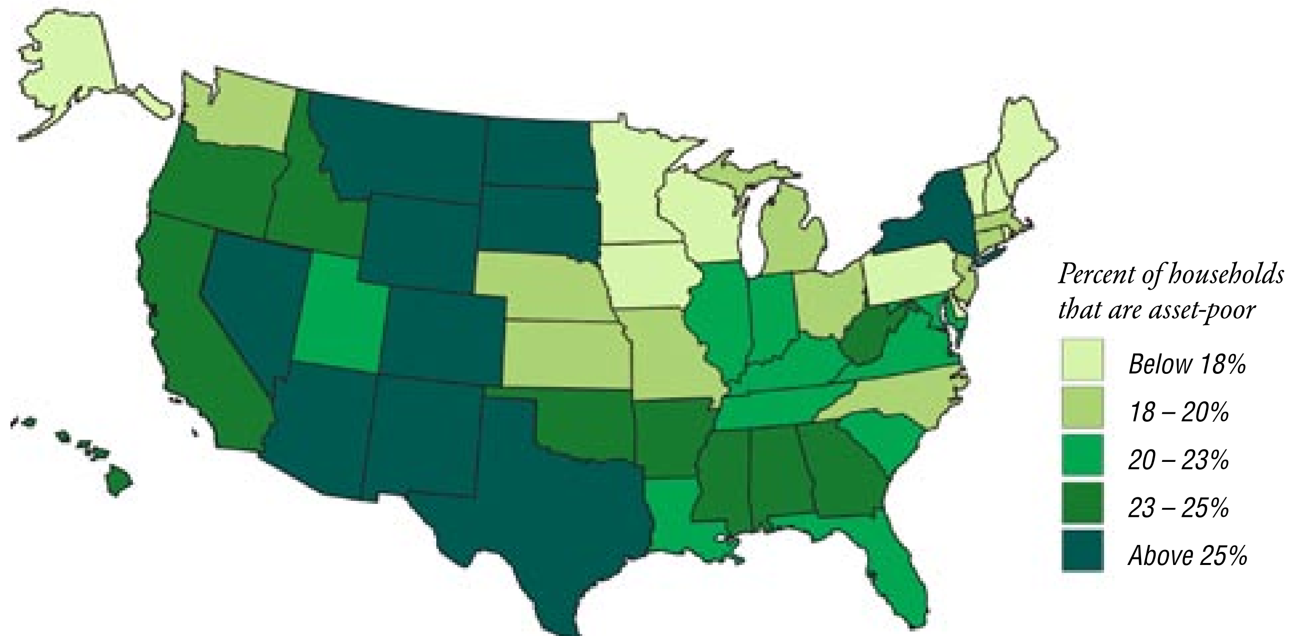
Conclusion



It is easy to forget how far the asset building field has come in only a decade. When the idea of IDAs was first introduced, the prevailing sentiment was that families with limited incomes couldn't save. Today, the question is no longer whether the poor can build assets, but rather how to develop policies that support the goal of an equitable "ownership society." IDAs remain an important first step, providing many low-income households with their first access to banking services and financial education. The challenge now is to take the lessons learned from IDAs and develop a continuum of asset building policies that work to close the wealth gap and to expand economic security and opportunity for the nation's poor. CI

Households on the brink

Asset poverty measures the proportion of households without sufficient net worth to subsist at the poverty level for three months in the event of income loss. Six of the nine states in the Federal Reserve's 12th District have some of the highest asset poverty rates in the nation.



Source: CFED 2005 *Assets and Opportunity Scorecard* calculations based on 2002 Census Bureau figures.

Individual Development Accounts

Engaging the Financial Services Industry in Asset Building

By Naomi Cytron and Carolina Reid, Community Affairs Department, Federal Reserve Bank of San Francisco

Anywhere between 10 million and 22 million U.S. families–most of them earning less than $25,000 per year–are unbanked, meaning that they lack a basic checking or savings account.[1] Instead, these families rely on alternative financial services–check-cashing outlets, pawn shops, rent-to-own firms, and payday lenders–for most of their day-to-day financial needs.

In addition to the high fees and interest rates charged to consumers (which in some cases can translate into a 300% APR), one of the most significant consequences of this two-tier financial services system is that large numbers of low-income families lack the tools they need to save, build assets, and become part of the "ownership society."[2] Check cashers and payday lenders do not offer asset building services, nor do they offer products that help people build a positive credit history. On the other hand, research shows that families with bank accounts are more likely to save and own other assets, and that access to a bank account makes it easier for low-income families to save.[3,4]

Financial institutions therefore play an important role in asset building initiatives, from offering that first saving account to providing affordable home or business loans, financial education, and more recently, IDAs. Since IDAs can serve as an important tool for "banking the unbanked," which benefits both consumers and financial institutions, it is important to analyze how IDAs fit into a financial institution's business model. Are they sustainable? How can financial institutions expand the IDA programs that they currently offer? And what will it take for more financial institutions to offer IDAs? No matter how strong the grassroots support for IDAs may be, if they don't work for financial institutions, they'll "wither on the vine."[5]

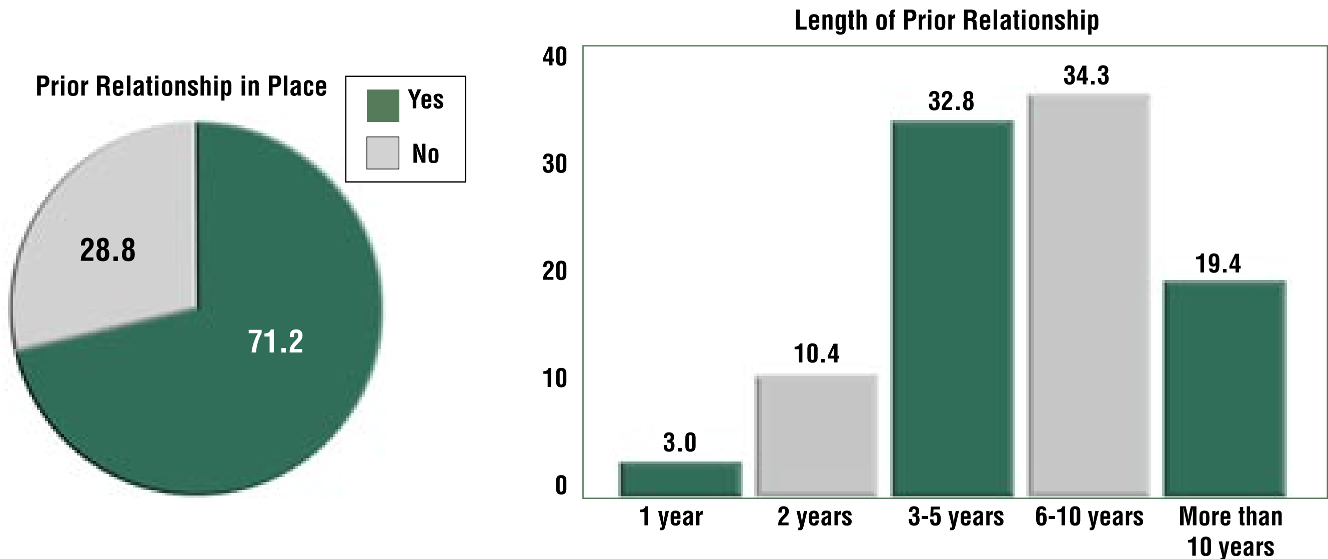
Two recent surveys of financial institutions, one conducted by the Federal Reserve Bank of Chicago[6] and the other by the Center for Community Capitalism,[7] shed light on these questions.

The major finding from these surveys is that most financial institutions participate in IDAs for community development reasons, and that the IDA partnership is the continuation of an ongoing relationship with a local community organization (Figure 2.1). As Brian Stewart of Washington Mutual in Oregon notes, "In many cases, we participate in an IDA program to develop and strengthen our overall relationship with the sponsoring organization." Financial institutions rely on nonprofit partners to provide key aspects of program delivery–including financial education, program marketing, and client prescreening–and many (71 percent) of the financial institutions offering large programs would not continue to offer IDAs without the nonprofit partner's involvement.

No matter how strong the grassroots support for IDAs may be, if they don't work for financial institutions, they'll "wither on the vine."

Financial institutions also participate in IDAs to meet their Community Reinvestment Act (CRA) obligations. Partnership in an IDA program can potentially meet portions of all three CRA tests–lending, investment, and service. For example, financial institutions could receive credit under the service test for holding the client accounts or providing financial education; under the lending test if loans are made to accountholders after they have reached savings goals; and under the investment test if the financial institution supports service provider operations or provides match funds. As a result, financial institutions are an important source

Figure 2.1 *IDA programs typically develop out of long-standing relationships between financial institutions and nonprofits*



Source: Center for Community Capitalism Financial Institution Survey of Individual Development Account Programs (2002)

of funding for IDA programs. More than half of all IDA programs and 70 percent of all large programs receive direct financial support from their financial institution partner. Research based on the Center for Community Capitalism survey suggests, however, that more could be done to raise awareness of how IDAs can meet CRA obligations and to clarify how IDA programs will be treated under CRA examinations.[8]

The surveys also reveal that most IDA programs are not profitable (Figure 2.2). Nearly all IDA programs waive monthly account fees, offer interest-bearing accounts, and do not assess transaction fees. Combined with low balances and frequent transactions, the lack of fees translates into a loss of revenue for the bank. The start-up and administrative costs of running an IDA program can also be high. In addition to holding accounts, financial institutions are often involved with submitting the paperwork for match funds and monitoring accounts for unauthorized withdrawals.

Consistent with the community development reasons cited above, the expectation of profit isn't what motivates the decision to participate in an IDA program, and a large number do not subject these programs to financial scrutiny. As one banking official said, "I think we looked at [IDAs] as something we have to do because of the merits of the program itself and the benefits to the individuals participating. We didn't look at it as a cost-benefit analysis."[9]

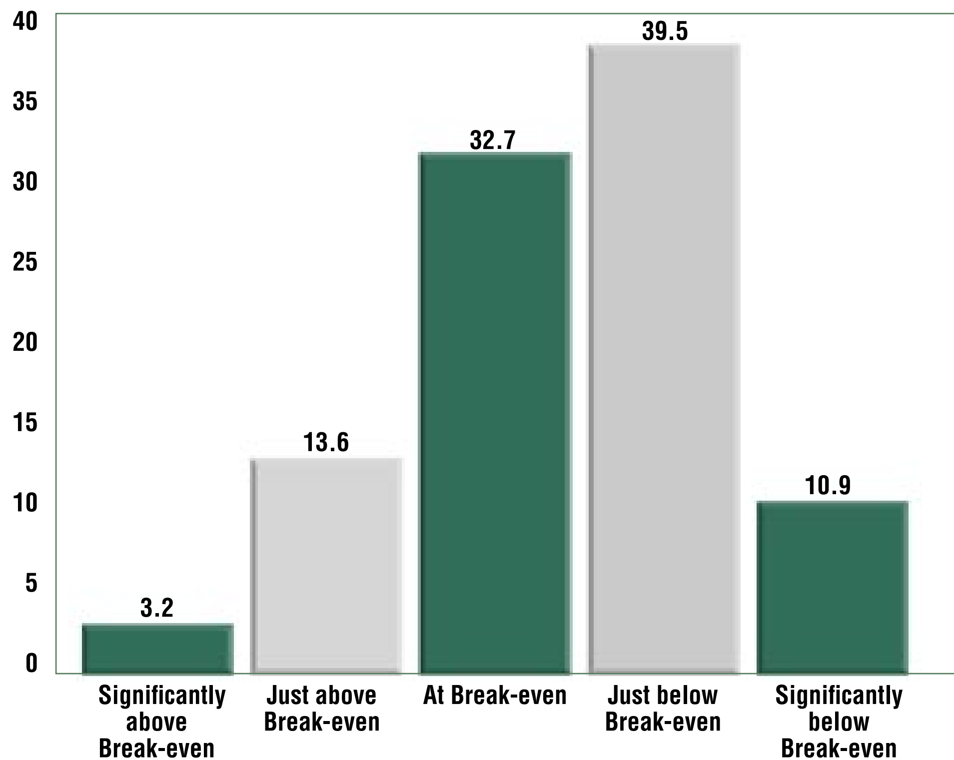
Some financial institutions, however, believe that the benefit of IDAs for the bottom line may be in the business they generate in the future. Many use IDAs as an inroad into the "unbanked" market, and view these accounts as forming the basis for a long-term relationship with accountholders. For example, the assets in IDA accounts can generate cross-selling opportunities for other bank products such as mortgages, small-business loans, student loans, and car loans.[10] U.S. Bank, an IDA partner with Lincoln Action Program (LAP) in Nebraska, reported that IDA clients typically opened four other accounts with the bank. The bank estimates that every dollar it invests in the program has the potential to generate $12 in assets.[11]

Financial institutions are an important source of funding for IDA programs. More than half of all IDA programs and 70 percent of all large programs receive direct financial support from their financial institution partner.

Whether or not IDAs live up to their promise for profit in the future remains to be seen. And although profit may not be the primary motivation for participating in IDA programs in the present, IDAs are more likely to succeed over the long term if efforts are made to decrease the costs in delivering them. One CRA officer in the Center for Community Capitalism survey suggested that IDA programs need to develop their own revenue base as a longer term objective. "Community development has to be sustainable. It needs to have some type of business profit-developing mechanism. I don't mean big–just something not in the red. You can't sustain the program without it."[12]

Figure 2.2 *Financial viability of IDA programs: Can financial institutions break even?*

Source: Center for Community Capitalism Financial Institution Survey of Individual Development Account Programs (2002)



Innovations in IDA Practice

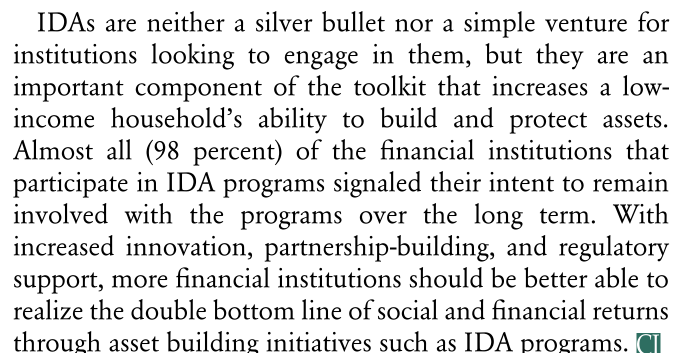
What will make this possible? Some promising ideas include:

Standardizing products and developing technological innovations. Already, large financial institutions that sponsor more than one program take steps to standardize the IDA saving products and procedures in order to reduce costs. Washington Mutual now collaborates in over 30 IDA programs and holds more than 1,500 accounts nationwide. To be able to reach this level of operations, Stewart says that they "modified an existing savings account vehicle rather than creating a new product. We also developed standardized policies and procedures for account opening and created document templates easing program implementation in multiple markets." U.S. Bank has developed the technology to produce streamlined monthly statements with two columns showing the total savings and the earned match, and to transmit balances electronically to specialized IDA software housed at nonprofits. [13]

Building the capacity of nonprofit partners. The Center for Community Capitalism survey reveals that one factor limiting the expansion of IDA programs within financial institutions is the capacity of their nonprofit partners. Given the relatively high fixed costs of embarking on an IDA program, more accounts would make it more attractive for financial institutions to participate. While the limiting factor for nonprofits is often a lack of matching funds, there is the opportunity for banks to work with their nonprofit partners to improve their capacity to recruit participants, open accounts (e.g. prescreening and paperwork assistance), and educate accountholders about the differences in loan products (e.g. adjustable versus fixed rate mortgages).

Creating collaboratives that leverage resources. In Nevada, the CRA officers from several financial institutions joined together to create a bank collaborative that would be able to pool funds from a large number of banks statewide (Box 2.1: The Nevada Individual Development Account Collaborative).

In the long run, however, the sustainability of IDAs will depend on federal and state policies that provide or leverage funds for matching grants for IDA savers. The Savings for Working Families Act, for example, would help to expand the funding for IDAs by allocating $450 million in the form of tax credits for financial institutions that contribute IDA match funds.


IDAs are neither a silver bullet nor a simple venture for institutions looking to engage in them, but they are an important component of the toolkit that increases a low-income household's ability to build and protect assets. Almost all (98 percent) of the financial institutions that participate in IDA programs signaled their intent to remain involved with the programs over the long term. With increased innovation, partnership-building, and regulatory support, more financial institutions should be better able to realize the double bottom line of social and financial returns through asset building initiatives such as IDA programs. CI

The Nevada Individual Development Account Collaborative

Box 2.1

The motivation was simple. In 2002, the Corporation for Enterprise Development (CFED) completed a study that ranked states on "asset outcomes" and "asset policies." Nevada was ranked third highest in the country in terms of the percentage of households with zero net worth, indicating a critical need to help boost savings for the low- and moderate-income community in the state. According to Joselyn Cousins, Senior Vice President and Community Development Manager at BankWest of Nevada, the CFED ranking was a "call to action. We needed to do something. The question was how could banks participate in a way that would maximize impact?"

Beginning in late 2002, the Federal Reserve Bank of San Francisco sponsored a series of forums in Nevada to help educate local banks and nonprofits about IDAs, to provide technical assistance, and to brainstorm about ways to involve more banks in IDA programs. The outcome of the third forum, held in September 2003 in Las Vegas, was the creation of the Nevada Individual Development Account (IDA) Collaborative.

Nevada's IDA Collaborative is unique in that it was initiated by a group of community development officers from several of Nevada's financial institutions. From the banks' perspective, organizing as a collaborative provided benefits that they could not achieve on their own. For example,

- *By being part of the collaborative, small banks in Nevada can contribute modest amounts of money to IDAs, yet still be involved in a program that has impact. The collaborative also provides an investment vehicle for the limited purpose banks that would not otherwise be involved in managing the accounts.*
- *The collaborative serves as an efficient mechanism to handle the multiple requests from nonprofits looking for IDA program support. Cousins notes, "Rather than having every nonprofit squeezing out nickel and dime grants from every bank, we thought it would be better to develop a centralized system to distribute IDA dollars."*
- *The collaborative achieves economies of scale in administering the funds, can coordinate fundraising efforts, and serves as a centralized source of expertise on IDAs.*

Banks participating in the Collaborative all donate funds to a central pool, which is managed by The Nevada Community Foundation (NCF). Nonprofit organizations apply for funds to operate their IDA program and for matching dollars through NCF. A selection committee comprised of representatives from the participating financial institutions evaluates and awards the grants. In January 2005, the Collaborative granted $63,000 to four nonprofit organizations to help support their IDA programs across the state.

Participating financial institutions in 2004 included: Bank of America; BankWest of Nevada; Citibank (Nevada), N.A.; Citibank (West); FSB; Charles Schwab Bank, N.A.; Colonial Bank, N.A.; Community Bank of Nevada; First National Bank of Marin; Household Bank; Imperial Capital Bank; Irwin Union Bank; Nevada State Bank; Silver State Bank; Sun West Bank; USAA Savings Bank; U.S. Bank and Wells Fargo Bank. Several of these banks also participate directly in IDA programs by holding and managing accounts in their branches.

Cousins hopes that next year the Collaborative will be able to raise at least $100,000 from participating banks, and the Collaborative has plans to work with the nonprofit partners to apply for federal funding for IDAs. "The Nevada IDA Collaborative program is an excellent example of banks setting aside competition for the betterment of the community."

The Community Affairs Department of the Federal Reserve Bank of San Francisco has worked with banks and nonprofits to help build IDA collaboratives, share best practices across the states in the 12th District, and expand IDA programs in tribal communities.

For more information on these initiatives, please contact:

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Lena Robinson *(Northern California)*
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Measuring Ownership in America

CFED's 2005 Assets and Opportunity Scorecard

by Lillian G. Woo, Jessica Thomas, David Buchholz and Jerome Uher, CFED

An in-depth understanding of the current landscape of household financial security is key to informing policy and directing resources appropriately as momentum in the field of asset building increases. Toward this end, CFED has created its most comprehensive tool yet to measure ownership and financial security, the *Assets and Opportunity Scorecard: Financial Security Across the States.*

> *Many American families are living with practically no safety net. Nearly one in five American households owes more than it owns.*

Recently released, the *Assets and Opportunity Scorecard* measures the financial security of families in the U.S. by looking beyond just incomes to the whole picture of asset ownership. CFED's reasoning is that while "getting by" may require only a paycheck, getting ahead requires a variety of assets, including a financial safety net, homeownership, an education, and health care. By analyzing primarily publicly available data, the *Scorecard* pulls together measures on a number of factors that demonstrate a family's ability to protect against financial setbacks and invest for the future.

The *Scorecard* ranks the 50 states and the District of Columbia on 31 performance measures in the areas of financial security, business development, homeownership, health care, and education. It also evaluates how states fare in developing policies that can help or hinder citizens' efforts to build assets. States are assigned a grade from "A" to "F" based on their relative performance in each of the five measurement areas, and these individual index grades are compiled and compared to arrive at a single overall grade for each state.

Asset Ownership Snapshots: Highlights from the 2005 Scorecard

The story the *Scorecard* tells is compelling: many American families are living with practically no safety net. Nearly one in five American households owes more than it owns. In the event of a job loss, one in four households does not own enough to support itself, even at the poverty line, for three months. One in three minority-headed households has zero or negative net worth. These findings indicate that there is significant need for expansion of asset policy geared toward providing security and building opportunities for low- and moderate-income households.

The rest of the data paint a mixed picture of assets and financial security among Americans, with indicators moving in both positive and negative directions. Other key findings include:

- Net worth varies widely by group. Female-headed households have significantly less net worth than male-headed households. Minority families have only one sixteenth the net worth of white families. Results vary by state as well: a typical family in Massachusetts has over three times the median net worth of a family in Arizona.
- While minority and women-headed households still own significantly less than the national average, disparities in ownership are decreasing. Asset poverty and homeownership gaps by race and gender both narrowed between 2000 and 2003.
- Homeownership – a key source of asset-building – is a true success story and is at an all-time high. Yet the growth of homeownership has slowed substantially, and there is wide variance across states and regions. Four of the nine states in the Federal Reserve's 12th District are ranked among the 10 states with lowest homeownership rates in the nation. Minority homeownership, while also growing, continues to lag substantially behind that of white families.
- Health insurance – which provides a critical financial safety net – is on the decline. Nearly four million people lost employer-provided health coverage between 2000 and 2003.
- Per capita consumer bankruptcy filings increased in 49 states between 2000 and 2003. Related research shows that nearly half of all bankruptcies in the United States result from unexpected illness or medical bills, demonstrating the important link between the different measures of asset ownership in the *Scorecard*.

- In its education measures, the *Scorecard* reveals promising trends. The percentage of poverty-level children served by a Head Start program increased in 46 states between 2001 and 2003. College attainment rates also increased in 43 states since the late 1990s. The attainment gap by income has closed slightly, yet the wealthiest 20 percent of Americans complete college at a rate over six times that of the poorest 20 percent.

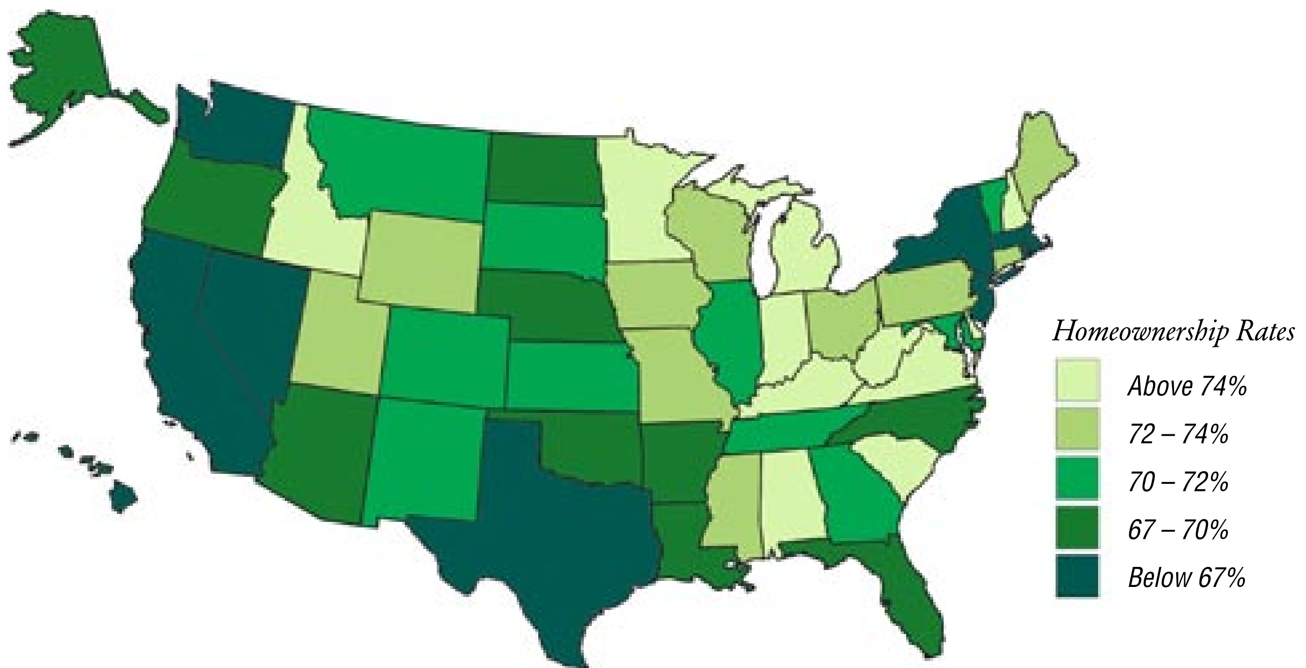
The *Scorecard's* state policy measures show that although there is still a long way to go, states are making some progress in protecting assets. Most notably, twenty-nine states have enacted legislation against predatory lending in recent years. Many states have also raised limits on the assets a person can hold and still be eligible for federal assistance, although Ohio and Virginia stand out as the only states that have eliminated asset limits entirely.

In addition to providing a detailed picture of asset ownership in the U.S., the *Scorecard* can be used as a tool to advance asset building policies. Data tools on the *Scorecard's* website make it easy for advocates and policymakers to compare results, evaluate their states' strengths and weaknessess, and identify effective policies that will make a difference for their citizens. Five state-level organizations across the U.S., each of which is working to alleviate poverty and bolster financial security, are working with CFED to increase awareness of asset building via the *Scorecard*. Each will use the *Scorecard's* data to highlight the overall picture of financial security in their respective states. For example, in California, the San Francisco-based Earned Assets Resource Network (EARN) will be releasing its own scorecard with local asset poverty data. CI

Launched on May 17, 2005, CFED's *Assets and Opportunity Scorecard: Financial Security Across the States* is available online at www.cfed.org/go/scorecard. This new publication builds on CFED's State Asset Development Report Card and provides an updated benchmark for understanding asset building across the United States. The report was written by Lillian G. Woo, Jessica Thomas, David Buchholz and Jerome Uher.

More than just a house

Homeownership offers the opportunity to build wealth in the form of home equity, and contributes to household stability and long-term commitment to a community. Seven of the Fed's nine 12th District states have some of the lowest homeownership rates in the nation.



Source: CFED 2005 *Assets and Opportunity Scorecard* calculations based on 2003 Census Bureau figures.

The Asset Policy Initiative of California

Building Momentum for Policy Change at the State Level

By Heather McCulloch

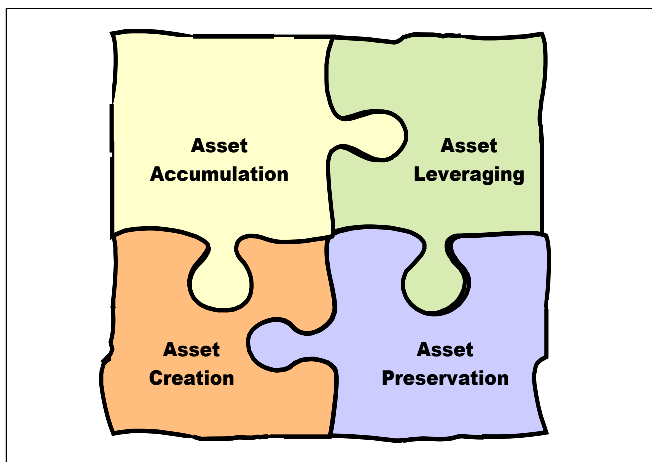
The CFED State Asset Development Report Card revealed, in 2002, that one in four California families was asset poor, meaning that they had insufficient net worth to survive at the federal poverty level for more than three months if their income were disrupted. The data also showed that almost one in five families had zero or negative net worth. When compared to other states, California ranked in the bottom ten percent on both categories.[1]

In January 2003, the Earned Assets Resources Network (EARN), a San Francisco-based non-profit, began to mobilize a response. EARN provides asset building opportunities to lower-income families throughout the San Francisco Bay Area using Individual Development Accounts (IDAs). By providing both in-house case management and outsourced services to community-based IDA providers, EARN sought to achieve an exponential increase in the number of families participating in IDAs in the region. However, EARN quickly realized that without a supportive public policy infrastructure, they would be able to serve only a fraction of the Bay Area's low-income families.

From January to June 2003, EARN staff laid the groundwork for the creation of the Asset Policy Initiative of California (APIC), a statewide effort to advance policies that enable low- and moderate-income families to save, invest, and preserve their assets. With funding from the Ford Foundation, EARN started building APIC by meeting with civic leaders from across the state to draw attention to the economic, social, and political implications of asset poverty.[2] EARN's message fell on fertile ground. Within a number of months, EARN pulled together a 35-member task force devoted to developing public policies in support of asset-building opportunities for low- and moderate-income families across the state. The task force represented a broad coalition of current and former elected officials, representatives from financial institutions, regulatory agencies and foundations, public agency staff, and statewide asset building and community development advocates.

Unwilling to accept a narrow definition of assets, the task force agreed on a framework that incorporates activities across the asset building spectrum.

Figure 4.1 *APIC Framework*



One of the first challenges for the task force was to develop a framework for thinking about asset building policy. Unwilling to accept a narrow definition of assets, the task force agreed on a framework that incorporates activities across the asset building spectrum. The four components of the framework–accumulation, leveraging, preservation, and creation–are distinct, yet integrated, areas of asset development (Figure 4.1: APIC Framework). State funding for IDA programs, for example, is a policy that directly enables low-income households to accumulate savings, which could be used for the downpayment on a house. However, to be effective over the long-term, this policy needs to be complemented by initiatives to increase the supply of affordable homeownership opportunities (asset leveraging) and to strengthen anti-predatory lending legislation (asset preservation).

State Asset Policy Initiatives: *A New Report on Lessons Learned*

Box 4.1

Recently, state legislators and asset building advocates have begun to pay attention to the myriad opportunities to support asset building through state-level policy change. In the past three years, comprehensive statewide asset policy initiatives have taken root in states across the country including California, Delaware, Hawaii, Illinois, Michigan and Pennsylvania. To support these efforts and to help groups in other states to develop their own policy agenda, Heather McCulloch, with support from the Fannie Mae Foundation, has recently analyzed these six statewide initiatives. Tentatively entitled State Asset Policy Initiatives: Building Savings and Investment Opportunities for Working Families, the report describes how these initiatives are using public policy to enable low- and moderate-income families to build financial assets. The report examines each initiative's leadership, goals, framing, challenges, and lessons learned; highlights common themes and elements of success; and describes the emerging menu of state-level asset building policies. The report will be available this summer at www.knowledgeplex.org.

Moving to Action

With a framework in place, the next challenge facing APIC was to develop a strategic policy agenda for California around asset building. Through a series of meetings, data analysis, and review of asset building policies in other states across the country, the task force identified the key issues facing California families that could be addressed through policy changes at the state level. Strategies explored by the task force included:

- ***Eliminating or reducing asset limits in public benefits programs:*** Assets are used as eligibility criteria in many public assistance programs. Many states have lifted or eliminated their asset limits as a way to encourage families to save. California has relatively strict asset limits compared to other states: $2,000 for CalWorks (TANF) recipients and $3,150 for Medi-Cal (Medicaid).
- ***Supporting Individual Development Accounts:*** Across the country, states are supporting low-income families to save in IDA accounts through a variety of mechanisms including direct appropriations, state tax credits, and allocation of federal funds over which states have control, such as CDBG or TANF funds. While California adopted legislation authorizing a state IDA program in 2002, state funds were never appropriated.
- ***Appropriating state funds for 529 accounts:*** College savings plans, or 529 plans, are state-managed plans that allow families to save, tax-free, for a child's education. Five states offer a savings match to encourage low- and moderate-income families to save in 529 accounts.[3] California has a 529 plan, but it does not provide any resources to support low-income families to save.

In 2004, APIC staff used the preliminary policy priorities to reach out to groups across the state. This outreach culminated in the first statewide asset policy symposium in California, held at the Federal Reserve Bank of San Francisco's Los Angeles Branch in February, 2005. Over 100 stakeholders from non-profits, financial institutions, and government agencies joined together for two days of interactive workshops and participatory general sessions.

APIC policy priorities, which emerged from the meeting, included creating a financial education task force and a savings trust fund for working families, as well as supporting pre-existing efforts around the establishment of a home ownership trust fund, eliminating or increasing asset limits in public benefits programs, and supporting anti-predatory lending legislation.

Since the statewide symposium, APIC has been working to educate legislators in Sacramento on asset building issues and to build broad support for asset-based policies that benefit California's low-income families. APIC is also working with national organizations to support the development of state policy to establish children's savings accounts in California and to explore the creation of legislative caucuses similar to the recently-established bipartisan savings and ownership caucuses at the federal level.

Conclusion

APIC–and similar efforts in Delaware, Hawaii, Illinois, Michigan, and Pennsylvania–represents a new frontier in the national asset building movement, one that promises to attract public attention to the economic and social costs of asset poverty; build new coalitions of stakeholders; identify innovative policy solutions; and build momentum for policy change (Box 4.1 Lessons Learned from State Policy Initiatives). By educating and mobilizing new and unlikely allies, statewide asset policy initiatives can help to ensure that opportunities to build economic security for current and future generations are available to all American families.

Heather McCulloch is a consultant on asset building strategies and policies, based in San Francisco, California. She has served as primary consultant to APIC since early 2003 and is currently a member of the APIC Steering Committee.

For more information on APIC visit www.assetpolicy-ca.org or contact Ben Mangan at EARN at ben@sfearn.org.

Building Assets from the Grassroots Up in Hawaii

Box 4.2

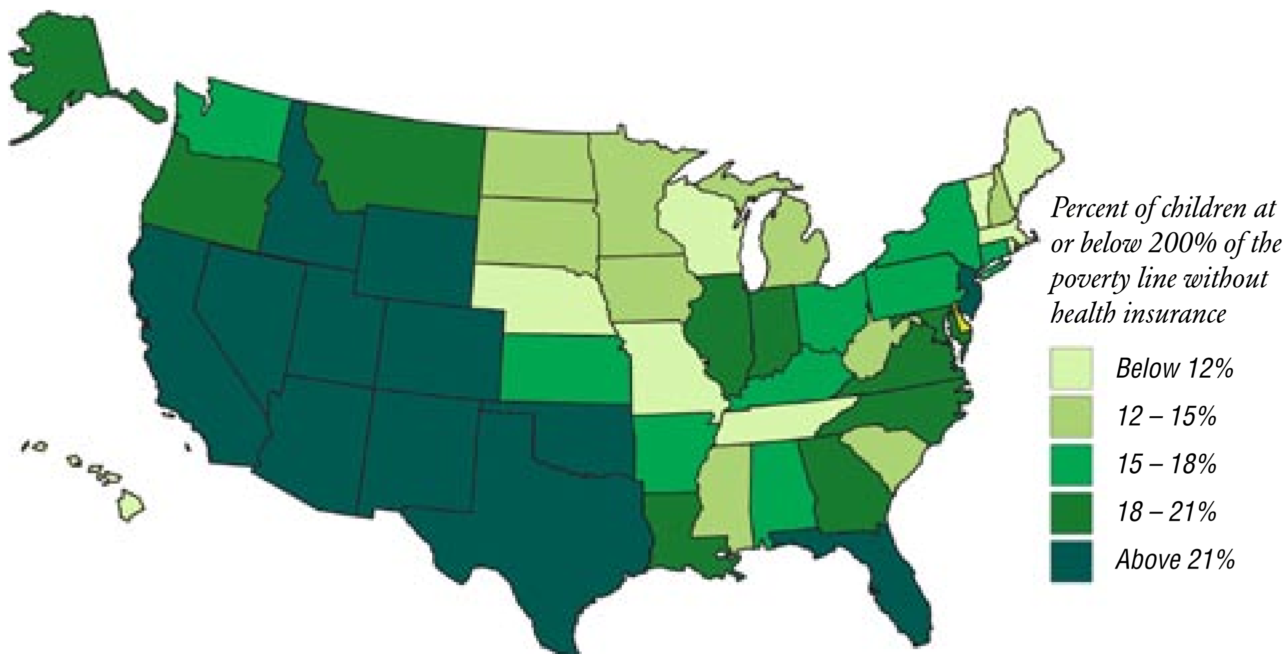
Since the early 1990s, Ke Aka Ho'one Self-help Housing, led by the Consuelo Zobel Alger Foundation on the coast of the island of Oahu in Hawaii, has been helping low-income families to build assets through homeownership. Between 1992 and 2001, Foundation staff worked with 75 low-income families from the community —95 percent of which are Native Hawaiian—to help them to construct and purchase their own homes. Prior to construction, the families participated in intensive credit counseling and pre-homeownership financial education. They then began the process of building homes, each working 10-hour days, on Saturdays and Sundays, over a nine-month period. Today, these families—including 150 adults and 235 children— are homeowners in an area where property values are rapidly escalating. "What's really nice is to see people thriving," says Joey Kahala, the project manager. "It's pretty powerful stuff."

As in California, Hawaii recently launched a new statewide initiative to advance public policy that supports this type of asset building innovation. The Ho`owaiwai Asset Policy Initiative—led by the Hawai`i Alliance for Community Based Economic Development (HACBED)—is working to draw attention to the issue of asset poverty and to open up a dialogue about a culturally-relevant definition of wealth and assets for Hawaii. HACBED leaders are currently convening community meetings across the islands to engage community leaders around asset building priorities. At the same time, they are working to develop a policy commission that will have the capacity to translate grassroots priorities into positive policy change.

For more information on asset building in Hawaii, contact Bob Agres at HACBED, info@hacbed.org.

Health and wealth

When health emergencies arise, lack of health insurance for children can drain household savings and put assets at risk. Seven of the Fed's nine 12th District states have some of the highest percentages of unisured low-income children in the nation.



Source: CFED 2005 *Assets and Opportunity Scorecard* calculations based on 2002 Census Bureau figures.

From Refunds to Assets

Leveraging the Benefits of the Earned Income Tax Credit

Trinh Nguyen, a 44-year old single mother who emigrated from Vietnam ten years ago, earns around $15,000 a year as a seamstress in one of Seattle's garment factories. She lives with her two children in one of Seattle's public housing communities, though she hopes one day to be able to buy a house.

In 2002, she received a flyer–in Vietnamese–from a local nonprofit that explained that she might qualify for the Earned Income Tax Credit (EITC). The flyer directed her to a Volunteer Income Tax Assistance (VITA) site at a nearby community center. Nguyen said she was "amazed" by what the volunteer told her–she would receive more than $3,500 in the form of a refund check from the federal government. "It was a lot of money," said Nguyen. "We were able to use it to fix our car and still save some of it for our house." For Trinh Nguyen, the EITC adds significantly to the $20-$30 dollars a month she can normally afford to set aside and has helped her to build nearly $7,000 in savings towards the down payment on a small condo in Seattle's International District.

Every year, approximately 20 million lower-income households receive tax refunds through the EITC. The average EITC refund is around $1,700; some are as high as $4,000. The EITC is now the largest federal program to help the working poor, and removes more children from poverty than any single federal program.[1] Yet estimates suggest that more than 4 million households that are eligible for the credit fail to claim it.[2] Data from the 2001 National Survey of America's Families show large disparities in who knows about the EITC, disparities that are magnified when it comes to who files for the credit (Figure 5.1).

Because of the EITC's effectiveness in reducing poverty, a number of efforts have been launched to expand awareness of the credit. The Internal Revenue Service promotes free

Figure 5.1 *Knowledge of the EITC among Low-Income Households (percent)*

	Heard of the EITC	Received the EITC
All	58.1	38.6
Race		
Hispanic	27.1	14.6
Black, Non-Hispanic	68.0	44.3
Other	73.5	51.5
Education Level		
Less than High School	39.8	20.4
High School Graduate	65.0	47.1
Some College	71.4	50.9
College +	64.8	37.3

Source: Maag, Elaine (2005). "Paying the Price? Low-Income Parents and the Use of Paid Tax Preparers," *New Federalism Working Paper* No. B-64, Washington, D.C.: The Urban Institute.

Low-income households include those earning less than 200% of the federal poverty line.

tax preparation for low-income tax filers through its VITA program. Local community organizations can sponsor VITA sites, and the IRS provides free training for the volunteers, free electronic filing software, and bulk quantities of forms and publications. Financial institutions often partner with VITA sites to offer low-cost bank accounts to EITC eligible families. Foundations and non-profits have also developed campaigns around the EITC. For example, the Annie E. Casey Foundation launched the National Tax Assistance for Working Families Campaign (NTA) in 2003 to increase EITC filings across the nation. The program doubled the number of families that received free tax preparations at NTA sites, from 97,000 in 2003 to nearly 160,000 in 2004.[3] Not only do these programs provide free tax help and information about

San Francisco's Working Families Credit

Box 5.1

In 2003, San Francisco residents failed to claim approximately $12 million in EITC refunds, money that could have been spent to boost the local economy and to defray the high costs of living in the city. In order to raise the visibility of the EITC in the city and to get more eligible residents to claim their refund, Mayor Gavin Newsom has taken the bold step of offering an added local incentive—the Working Families Credit.

The Working Families Credit works like this: San Francisco residents with dependent children who claim the EITC on their federal income taxes will be eligible to receive an additional payment from the city, probably somewhere between $200 and $300.[1] During the 2004 tax season—the first year of the pilot program—over 10,000 San Francisco families claimed the Working Families Credit.

What's unique about the Working Families Credit is that it relies on a public-private partnership to make it work. Taking the city's tight budget into account, Mayor Newsom earmarked $3 million dollars from the city's general fund for the two-year pilot program, and is turning to the business and philanthropic community to match his commitment of public dollars.

The city found its first partner in H&R Block. H&R Block has donated $1 million toward the credit, all of which will go to payments to eligible families. The Mayor's Office worked closely with H&R Block to ensure that their tax preparation services would benefit credit applicants and help them to build assets. As part of the collaboration, H&R Block is offering discounts on tax preparation ($30 for credit eligible families), is waiving account and Express IRA set-up fees,[2] and is ceasing to market Refund Anticipation Loans (RALs) in San Francisco.

The Working Families Credit builds on other efforts to raise the visibility of the EITC and to build assets among low-income San Franciscans. The United Way of the Bay Area has marketed the credit as part of its Earn It! Keep It! Save It! campaign. At Volunteer Income Tax Assistance (VITA) sites, tax preparation volunteers provide information about the credit, talk about the disadvantages of RALs, and encourage customers to open bank accounts so that they can receive their federal refund through direct deposit.

Wells Fargo contributes significantly to this initiative by providing staff "on-site" at selected VITA and H&R Block locations and by offering low-cost checking and savings accounts. It also waives ChexSystems[3] and instead considers applicants on an individual basis. To help customers build links between their bank account and their savings goals, the Earned Assets Resources Network (EARN), a San Francisco-based IDA provider, distributes information about free financial literacy classes and how to join an IDA program.

Anne Stuhldreher, a Senior Research Fellow at the New America Foundation who helped design the Working Families Credit, says that tax time offers a unique opportunity to help low-income households open bank accounts. "Tax time is the right time to help lower-income families begin to build savings and assets," said Stuhldreher. "These are 'win-win' opportunities for financial institutions to grow new customers and for community groups to help people stabilize their financial lives."

1 During the pilot phase, the amount the Working Families Credit will pay out is dependent on the success of private-sector fundraising efforts.

2 The Express IRA allows clients to open a retirement account with as little as $300. The initial contribution can be funded from the individual's tax refund. After a client has reached $1,000 in savings, the client can roll the Express IRA into a more traditional retirement product. About 23,000 account holders have moved their money to retirement vehicles offered by H&R Block Financial Advisors.

3 ChexSystems maintains records of bank customers that have either bounced checks or committed fraud in the last five years. Banks often access ChexSystems when reviewing an application of a new customer for a checking account.

the EITC, they also educate consumers about the disadvantages of Refund Anticipation Loans, which can significantly reduce the size of a family's refund check.

Governmental support can also significantly increase program participation rates. Efforts in the state of Washington, for instance, demonstrate that government outreach can greatly boost the number of EITC filers. In 1998, the IRS estimated that 40 percent of eligible Washingtonians were not applying for the EITC. The state made the decision to spend a modest sum of money–$316,000–to develop an EITC awareness campaign. The campaign included direct mail, radio, transit and television advertising, public service announcements, internet information, and distribution of posters throughout the state. A toll-free hotline distributed EITC information and forms and referred callers to free tax assistance sites. State employees also contacted nearly 8,000 welfare-to-work clients to make sure that they knew about the EITC. As a result of this effort, an additional 3,667 households in Washington applied for the credit, adding $29 million in EITC refunds to the local economy in a one-year period.[4] In an innovative program in San Francisco, Mayor Gavin Newsom is piloting a local tax credit to increase the number of city residents who claim the EITC (Box 5.1: San Francisco's Working Families Credit).

There is also a growing recognition that the EITC can dovetail with asset building policies and programs. Participants in the United Way of King County's IDA program, for example, can deposit their EITC refund into their IDA account, and receive up to $1,500 in matching funds. Utah Saves is linking the EITC with a statewide initiative to encourage savings and retire debt. The goal is to reduce the rate of personal bankruptcy filings in Utah–the highest in the nation–by providing low-cost bank accounts and financial education.

Given that federal refunds to low-income families total approximately $30 billion,[5] the potential for leveraging the credit for asset building is substantial. The EITC successfully lifts millions of families out of poverty each year; the goal now is to expand efforts to help those millions of families use the EITC to build wealth and invest in their future.

For a list of resources on the EITC, as well as information on how to volunteer or host a free tax preparation site for next year, please visit www.pointsoflight.org/programs/eitc/facts.cfm. CI

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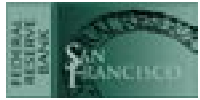

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