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Rebalancing the American Dream

Forging Pathways to Financial Security

CI Notebook

By Andrea Levere, President, CFED

Few iconic stories have taken a greater credibility hit recently than the American Dream. For the first time in polling history, the majority of Americans do not believe their children will be better off financially than they are. The prolonged foreclosure crisis has shaken the belief that homeownership is the route to economic stability and wealth creation, for both the wrong and right reasons. What is wrong is the false narrative that extending homeownership to lower-income people was the cause of the crisis; but what is right is the understanding that homeownership alone cannot ensure a life of financial security and prosperity. While homeownership still has an important role to play in building wealth in this country, in recent years it has proved to be not as stable, accessible or as affordable as it once was, and should be complemented by other approaches.

CFED publishes an annual Scorecard that includes a special measure that offers a unique view into the extent of financial insecurity in American households. Liquid Asset Poverty measures the ability of a household to support itself through savings at the poverty level for three months if their main source of income is disrupted, such as through a job loss or illness. In 2014, almost of half of the nation (43.5 percent) qualified as liquid asset poor. It turns out that 25 percent of solidly middle-class households earning incomes within the approximate range of $56,000 to $91,000 also experience liquid asset poverty. These data illustrate that almost half of the nation is in need of new solutions to improve their financial stability and mobility.

The articles that follow present a diversified portfolio of product and policy innovations that have been proven to strengthen financial security and economic opportunity. The value of these innovations lies in their range in that they address the full spectrum of financial needs, from short-term or emergency savings to retirement accounts and from new methods for building credit scores to improving access to stable mortgage options for homeownership. These strategies offer asset development solutions for a broad range of Americans—whether homeowner or renter, small business entrepreneur or employee of a larger company—and build financial strength and resilience by building the household balance sheet.

This issue of *Community Investments* offers a menu of options that can enable disadvantaged communities not just to survive, but to begin to thrive in ways that build hope for the future. These innovations may make it possible for these communities to once again believe in a more prosperous future for their children—the heart of the American Dream for all us.

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COMMUNITY INVESTMENTS

Federal Reserve Bank of San Francisco

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Understanding the Wealth Gap: How Did We Get Here?

By Gabriella Chiarenza, Federal Reserve Bank of San Francisco, and Solana Rice, CFED

In the news and among the public, recent discussions have focused on the income gap between the rich and the poor in the United States. Yet the deep and growing divide between American households in terms of wealth – the sum of assets, such as retirement savings or a house, minus debt – has received less attention, even as it is proving deeply disruptive and quite difficult to reverse. Accumulated wealth and diversified savings can be far more important than income for keeping household finances stable through volatile shifts in the economy.

The damaging impact of the foreclosure crisis and recession on homeownership – the main pathway for building wealth, especially for low-and moderate income (LMI) households – brought this point into stark relief. Many financially-constrained households concentrate their wealth solely in their homes,[1] and the broader housing market upheaval changed the prospects for prosperity for those Americans whose hold on financial stability was tenuous at best. African American and Latino households were particularly vulnerable to the crisis and experienced substantial losses during the recession, with fully half of the total wealth of African American families and 67 percent of the total wealth of Latino families lost between 2007 and 2009 thanks to foreclosure or deteriorated home equity.[2] LMI households and households of color depending on home equity to finance their children's education are coming up short. Those reliant on selling their home to retire comfortably may be finding a less competitive buyer's market.

There are a growing number of programs and policies, however, including those described in the articles that follow in this issue of Community Investments, aimed at supporting families in stabilizing and growing their overall net worth and protecting it for future generations. At the same time, it is critical to recognize that homeownership remains one of the largest and most vital assets for many families. In this article, we detail the traditional role of homeownership in building overall wealth, explain why LMI households and households of color found themselves vulnerable to loss during the recession, and discuss why it is critical to restore and support affordable and sustainable homeownership options for LMI households.

Lower-Income Households, Households of Color, and the Housing Crisis

What accounts for current wealth gaps? In part, they can be traced to the effects of a long history of housing discrimination tactics including redlining, racial covenants, and denial of financing that blocked African American and other ethnic minority households from entering into homeownership in many places with long-lasting consequences. Scholars assert that the homeownership rate differential between whites and blacks – 73.3 percent versus 43.8 percent, respectively – owes in part to these factors.[3] Additionally, recent research shows that white households have owned their houses eight years longer, on average, than households of color. The difference in total years of homeownership between whites and blacks accounts for nearly a third of the overall wealth gap between the races, according to an Institute on Assets and Social Policy (IASP) study.[4]

Differences in the mortgage loan products new homeowners purchased also became a dividing factor in the years leading up to the recession. For loans originated between 2004 and 2008, African Americans were three times more likely and Latinos twice as likely as white households to obtain a loan with a higher rate, according to the Center for Responsible Lending.[5]

Yet this pattern of increases in subprime lending to lower-income and

". . . the key to sustainable lower-income homeownership, however, is in securing the right type of mortgage loan – a stable, long-term, fixed-rate loan . . ."

minority populations became evident fully a decade before the current recession. In 1993, subprime loans accounted for three percent of mortgage loans received by low-income borrowers and eight percent of those received by African American borrowers, compared to one percent each for white and high-income borrowers. By 1998, those proportions had increased to 26 percent of loans for low-income borrowers and 51 percent of loans for African American borrowers, compared to nine percent of white borrowers' loans and seven percent of high-income borrowers' loans.[6] Recent evidence also suggests that many of these borrowers who received subprime loans in fact had credit scores high enough to qualify for conventional loans with better terms.[7] When many of those with subprime loans lost their homes to foreclosure, the cumulative result was a one trillion dollar aggregate loss in property wealth to communities of color – accounting for half of the overall amount of property wealth lost in the United States during the recession.[8] "The paradox," the IASP study notes, "is that even as homeownership has been the main avenue to building wealth for African Americans, it has also increased the wealth disparity between whites and blacks."[9]

Furthermore, because economic growth since the financial crisis has been uneven across sectors, with recovery in financial assets far outstripping real estate recovery, households that lost their homes without other assets to fall back on are now doubly disadvantaged as they try to stabilize and build their net worth. A recent Federal Reserve Bank of San Francisco research brief notes that the value of U.S. financial assets (including bank accounts, money market funds, stocks, and bonds) grew by 31 percent from a 2009 low to $54.4 trillion in 2012; real estate value, however, grew just nine percent from a 2011 low to $19.9 trillion in 2012.[10] The growth of financial assets has been of little benefit to households of color, who by and large do not own stocks and mutual fund shares. Recent data indicated that only six percent of African American and four percent of Latino households own such assets, compared with 25 percent of white households.[11] Even African American and lower-income households that did hold stocks in the form of retirement savings accounts may now be finding themselves at a disadvantage, as they were more likely to withdraw funds from such accounts during the early years of the recession when facing financial blows, thus depleting from their portfolios the very assets that are now quickly generating wealth for others.[12]

Taken together, these factors have contributed to widening wealth gaps between upper-income and LMI households and between white households and households of color in recent years. "The top 20 percent of earners now hold more than 55 times the wealth of the bottom 20 percent ($277,473 compared to $5,022, respectively)," according to a recent CFED report.[13] The IASP study also notes that between 1984 and 2009, the wealth disparity between white and African-American households grew three-fold, from an inflation-adjusted gap of $85,000 to $236,500.[14]

Why Stable Homeownership Remains Important for Lower-Income Households

In their 2012 study of the Community Advantage Program (CAP), a homeownership initiative that issued 46,000 mortgage loans with good terms to lower-income homebuyers, Allison Freeman and Janneke Ratcliffe observe many positive, wealth-building effects stemming from stable homeownership, even through the recession period. The authors compared wealth outcomes for both renters and homeowners following the housing downturn and found that homeowners emerged with much more of their net worth intact.[15] The authors also point out that overall the CAP homeowners experienced lower levels of financial stress, higher levels of financial satisfaction, and more continuous household stability through the housing crisis, despite some wealth losses.[16]

Homeownership can be a wealth-building and stabilizing strategy for many LMI households who are ready to own a home, and is often an important base from which to build additional wealth and assets. A Center for Responsible Lending report adds that in general, a stable mortgage amounts to a "forced savings" plan for lower-income homeowners, allowing them over time to lower their debt and build equity. Homeowners can also take advantage of the mortgage interest deduction, while no comparable tax deduction exists for renters.[17] Finally, both reports emphasize that stable homeownership often provides a financial cushion for lower-income households through financial downturns, as they have more wealth accrued than renters.[18]

Freeman and Ratcliffe stress that the key to sustainable lower-income homeownership, however, is in securing the right type of mortgage loan – a stable, long-term, fixed-rate loan – and entering the market at the right time. Lower-income homebuyers who used riskier mortgage products to purchase homes in the midst of a volatile

market fared worse than those with fixed-rate loans.[19]

Ongoing "sustainable homeownership" or post-purchase support programs (PPSPs) for lower-income homeowners and homeowners of color who are not delinquent or in default also appear to show promise for helping such buyers stay steady with their loan payments and build equity in their homes. PPSPs are often offered through community housing organizations and local and state government agencies, and include trainings on such topics as developing a household budget, managing home repairs, and dealing with unexpected costs.[20] Unfortunately, few studies exist on the effectiveness of these programs; more recent research attention has been focused on foreclosure prevention counseling programs for those already behind on their mortgage payments.

Still, one extensive survey of existing sustainable homeownership initiatives describes PPSP components that have proved successful in many places. Some of these programs offer participants a financial incentive for attending post-purchase workshops. Others offer loans with certain contingencies, such as requiring that new homebuyers take part in regular post-purchase counseling sessions or maintain a savings account specifically for home repairs.[21]

These observations suggest that rather than taking homeownership off the table for LMI households, attention would be better focused on helping homeowners secure loans they can afford and developing support strategies to help LMI homeowners to keep and build wealth from their homes.

Homeownership Still Out of Reach for Some Households

Yet tightened lending standards and requirements for higher credit scores mean fewer households qualify for mortgage loans. CoreLogic recently reported that the share of first-lien purchase loans made to those with credit scores below 620 fell from 29 percent in the more typical market of February 2004 to just 0.3 percent of all loan originations in October of 2013.[22] Between 2007 and 2013, average borrower credit scores increased considerably from 694 to 751 for Fannie Mae-backed loans and from 640 to 693 for FHA loans, according to the Joint Center for Housing Studies of Harvard University (JCHS).[23] While a higher threshold for mortgage qualification is not in and of itself problematic, recent studies reveal troubling evidence that higher credit scores correlated to communities with higher per capita incomes and fewer minority households.[24] (These reports observe no "causal relationship between race and credit scores," but rather emphasize the centrality to this dynamic of longstanding discrimination in housing, jobs, and education, along with issues stemming from marred credit and a lack of credit history).

". . . the state of the current rental market makes it much harder for those who are shut out of the homeownership market to build savings and wealth."

JCHS reports corresponding increases in mortgage loan denial rates for lower-income households and households of color, while denial rates have fallen for white borrowers and those with moderate and higher incomes.[25]

Home prices in many areas are once again on the rise, serving as yet another barrier for lower-income households in attaining homeownership. In every U.S. state and the District of Columbia, and in 94 of the largest 100 metro areas, home prices increased between mid-2013 and mid-2014; nationally, May 2014 was the 27th consecutive month in which home prices increased. Out of all U.S. states, prices rose most significantly in the 12th District states of Hawaii, California, and Nevada.[26] An increase in the median home price combined with rising interest rates drove up the monthly payment on a 30-year fixed rate mortgage loan by 23 percent between late 2012 and late 2013.[27] At the same time, nearly half of all home sales in the United States in the first quarter of 2014 were all-cash purchases, and over half of those were sales to absentee and second-home buyers.[28] Even with down-payment assistance, LMI buyers have difficulty winning bids against all-cash offers.

At the same time, the state of the current rental market makes it much harder for those who are shut out of the homeownership market to build savings and wealth. Between 2001 and 2012, median renter income in the U.S. dropped by 13 percent to $31,500, while median rent increased four percent to $880 over the same timeframe.[29] Rent spikes between 2008 and 2014 have been far more extreme in many metropolitan areas, including increases of nine percent in Honolulu and Miami, 18 percent in San Francisco and Austin, and 20 percent in Seattle.[30] In these more expensive rental markets, the vast majority of the lowest income renters (those with annual incomes below $35,000) face severe housing cost burdens, paying far more than 30 percent of their incomes on housing (the standard measure of affordability).[31] For these renters in particular, restoring stable and affordable homeownership options and developing other asset-building opportunities not dependent on homeownership will be essential to improve their financial wellbeing.

Conclusion

Bolstering LMI homeownership opportunities and stabilizing existing and new LMI homeowners continue to be valuable ways to help close the wealth gap. As discussed above, however, investing solely in a single asset such as a home can be detrimental to household wealth if that asset is lost. By further diversifying their assets beyond physical property alone, LMI homeowners therefore may be able to better maintain long-term financial security. It is also important to acknowledge that homeownership is not a viable or preferred asset building option for some Americans. For all of these households, a continuum of wealth building approaches beyond homeownership offers opportunities to establish, diversify, and grow their asset portfolio.

This issue of Community Investments focuses on the efforts that help households build on their earnings and invest in their future. Highlighted here are programs and policies that expand consumer access to more affordable financial products; support renters in building their credit history; and provide assistance to families investing in their futures through children's savings accounts, entrepreneurship, and retirement.

Earning, saving, investing, and protecting assets are building blocks that add up to what CFED refers to as the Household Financial Security Framework.[32] By targeting policies and programs toward each of these critical building blocks, more families and communities and even the nation as a whole can realize sustained financial stability. While it may be difficult to imagine a U.S. economy in which homeownership is not the major asset for most households, the strategies presented in this issue reflect the emergence of a new landscape of sustainable, wealth-building opportunities that promise improved access to a variety of assets for a wider range of American households. CI

The Continuing Importance of Homeownership: *Evidence from the Community Advantage Program*

by Allison Freeman, UNC Center for Community Capital

Home equity forms the bulk of low- and moderate-income (LMI) homeowners' financial portfolios, making up 62 percent of the net worth of the average American family in the lowest income quintile while composing 44 percent of the net worth of the average family in the top income quintile.[1] For LMI families, the home might be the primary - or only - opportunity to build wealth, create retirement security, and pass an inheritance onward.

Of course, these outcomes are only possible if LMI families are able to hold on to their homes. Before the mortgage finance crisis, borrowers obtained mortgages from local institutions with which they had an ongoing relationship. The loans were carefully underwritten with a focus on borrowers' ability to repay, and they were issued for long-term affordability. The development of the 30-year, self-amortizing, fixed-rate mortgage is what made homeownership a cornerstone of the American dream: the predictable payments and the gradual paying down of both interest and principal made homeownership accessible to a new pool of Americans.

In the mortgage finance crisis, this stable approach to lending got turned on its head: mortgages with interest rates that exploded beyond affordability, interest-only mortgages, and option adjustable-rate mortgages left borrowers reeling under more debt than they could afford.

The results were disastrous. Access to credit constricted as the economy went into freefall, default rates soared, and the US housing market is only just beginning to work through the resulting foreclosure crisis.

Unfortunately, these issues have affected lower-income and minority households and communities disproportionately. While the majority of seriously delinquent home loans are held by white borrowers, minority borrowers are more than twice as likely as whites to lose their homes in the foreclosure process.[2] One study estimates that some $1.95 trillion in property value "has been lost or will be lost by residents who live in close proximity to foreclosures" and that communities of color will experience more than half of this loss.[3]

The losses associated with the mortgage finance crisis have left some questioning the efficacy of lending to LMI borrowers. However, one program, Self-Help's Community Advantage Program (CAP), provides clear evidence that LMI borrowers can enter into and sustain homeownership.

CAP is an affordable-loan secondary market program that was created in 1998 in a partnership between Self-Help, Fannie Mae, and the Ford Foundation. The loans in the CAP portfolio are purchase money, 30-year, fixed-rate mortgages. These loans were originated not by brokers, but by banks earning Community Reinvestment Act credit for such investments. The vast majority of loans in the CAP portfolio were made to lower-income and minority borrowers.

The CAP portfolio includes over 46,000 home loans, collectively worth more than $4 billion. The median origination loan balance was $79,000 and the median borrower household earns just $30,792. Borrowers put down very little money on these homes: the median loan-to-value ratio for the CAP loans is 97 percent, meaning that over half of CAP's borrowers made a down payment of three percent or less for their houses.

Despite borrower credit profiles that are almost unthinkable today – 88 percent of the borrowers in the CAP portfolio did not meet at least one of three traditional underwriting criteria, including loan-to-value ratios of 90 percent or less, debt-to-income ratios of 38 percent or less, and credit scores of at least 640 – the CAP loans have performed very well. During the fourth quarter of 2009, when subprime loans were experiencing their highest rates of serious delinquency, the CAP portfolio had a delinquency rate of just 9.6 percent. By comparison, in that quarter the rate for subprime adjustable-rate loans was 47.7 percent, for subprime fixed-rate loans it was 22.1 percent, and for prime adjustable-rate loans it was 18.1 percent. At the height of the mortgage delinquency crisis, the only loans outperforming the CAP portfolio were prime fixed-rate loans, with a default rate of 5 percent.

Owners' (N=724) and Renters' (N=509)* Median Net Worth 2012, by Net Worth in 2005

	Owners	Renters
<$0	$38,145	$266
$0-$10,000	$40,861	$1,331
$10,000-$20,000	$37,532	$8,777
$20,000-$30,000	$64,344	$15,246
>$30,000	$84,426	$16,089

The owners and renters in this table are those whose tenure status has not changed since the CAP panel study began.

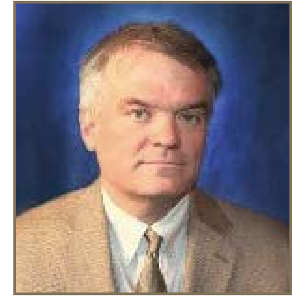
Even more compelling than the performance of these loans, however, is the equity gains these borrowers have enjoyed. From origination through the first quarter of 2014, CAP's owners have seen a median annualized return on their equity of 21 percent; which has led to a median equity gain of $21,727. This return has exceeded the annualized growth rate of the Dow Jones Index (3.2 percent) and the 10-year T-bill (5.2 percent) during the same time. Analysis of the CAP portfolio suggests that home equity is a major driver of wealth gains for LMI people: when changes to the pre-crisis portfolios of comparable owners and renters are examined, researchers find that CAP's owners gained an average of $11,000 in net worth up to 2008, while renters' net worth increased an average of $742.[4]

An examination of how CAP participants have fared through the economic crisis suggests that the home might actually act as a buffer against financial loss during difficult economic times. When CAP's original owners and renters are matched by net worth in 2005 and their wealth is compared in 2012, it is clear that renters' median wealth levels having fallen far below those held by the owners.[5] For example, the group of owners who had net worth between $20,000 and $30,000 in 2005 saw their median net worth grow to over $64,000, while the group of renters with comparable net worth in 2005 saw their median net worth decline to just over $15,000.

While some have argued that the home imposes an opportunity cost on the investment choices of LMI families, preventing them from investing in other asset types, our research on the borrowers in the CAP study suggests that this is not the case. Descriptive analysis of the 2012 CAP data shows that the owners in the study hold a greater variety of investments than the renters do. For example, 24 percent of CAP's LMI owners hold stocks, bonds, or mutual funds, while only 11 percent of renter households do so, and while only 36 percent of CAP's renters have retirement accounts, over 66 percent of the owners do. An examination of these data also reveals that the median levels of owners' investments are higher than those held by the renters. Multivariate analysis of the CAP data has shown that affordable homeownership can act as a strong forced-savings tool for the families in the study, and has revealed little evidence that either alternative investments and/or savings are reduced as a result of this equity accumulation.[6]

For homeownership to work as an asset-building tool for LMI families, it must be both affordable and sustainable. Affordability and sustainability result from mortgage design and careful underwriting. The CAP portfolio suggests that the best way to ensure the wealth-building effects of homeownership for LMI families is a return to the common-sense practices of the past: the issuance of carefully underwritten 30-year, fixed-rate, self-amortizing loans that allow borrowers to remain in their homes and enjoy the returns associated with their investment. CI

Sarah Chenven



Doug Ryan

Rent Reporting and the Importance of Credit-Building Options for Renters

Q&A with Sarah Chenven, Credit Builders Alliance and Doug Ryan, CFED

CI: Are credit scores becoming increasingly important for family financial security? What implications does that have for homeowners and renters?

A: Yes. Credit scores directly impact a family's access to safe, affordable credit products. Some insurance policies, including car and homeowner's insurance, are priced in part based on credit scores. Utility and cell phone providers also use credit scores to determine security deposit requirements and the amount that must be put down as a security deposit. About half of employers check credit reports as part of their applicant screening process.

Credit is used to price mortgages, including fees and other upfront costs. Poor credit can, of course, lead to a loan denial on the basis of credit. For example, in 2009 Fannie Mae raised its minimum FICO credit score for conventional loans from 580 to 620. Even if he or she can afford to make a 20 percent down payment, a mortgage applicant can be rejected with a score below 620. In all of 2013, only 1.4 percent of the single-family loans Fannie acquired were to borrowers with scores below 620. The trend continued in Q1 2014. The average FICO score needed to secure a mortgage loan in Q1 2014 was 741.

Credit histories also impact renters. Many landlords also use credit to accept or deny rental applicants and to determine how much of security deposit to collect. An accepted applicant who has a poor credit profile will likely be charged a higher deposit. Both homebuyers and renters face higher housing costs if they have poor credit or lack a credit history all together.

CI: We know that homeownership can come with substantial benefits like building equity and deducting mortgage interest from taxes. Are you seeing innovations in the field to support renters in establishing financial stability?

A: Yes. Organizations across the country are exploring incentivizing renting through rewarding community participation, on time rental payments and other areas. Credit Builders Alliance (CBA) has rolled out its Power of Rent Reporting pilot with funding from the Citi Foundation, which supports affordable housing providers to report rent payments to major credit bureaus to help renters build credit profiles. CFED is working with CBA and the Policy Economic Research Council (PERC) to expand this idea to other housing organizations.

CI:: What are the credit-building challenges or barriers for renters? Has the situation changed since the Recession?

A: Like many Americans during the Recession, many renters lost jobs and their credit profiles suffered. Pressure on the post-crisis rental market has tightened the market, allowing landlords to raise credit standards and rents, aggravating an already difficult affordable housing shortage in many markets. Although making late housing payments can damage the credit of homeowners just as much as it damages the credit of renters, historically only homeowners have been able to build positive credit histories when they pay on time. Today, more than one-third of Americans rent their homes, a ratio that has increased since the start of the financial crisis. Credit

reports and credit scores that do not recognize on-time rental payments as creditworthy behavior present an incomplete and negatively skewed assessment of the credit risk many renters—particularly those who are low-income or underserved—pose, impeding their ability to successfully join the financial mainstream, and increasing their dependency on high-cost, asset-stripping payday loans and other predatory financial products and services. This systemic deficiency makes it difficult, if not impossible, for many struggling households to get and stay ahead, often across generations.

CI: What is rent reporting and why is it an important tool for renters? Are there large numbers of renters for which this could be impactful?

A: Two of the big three credit bureaus, Experian (through its RentBureau Division) and TransUnion (through its ResidentCredit initiative), offer renters the opportunity to include on-time rent payments as valid trade lines on traditional consumer credit reports. This data is reported either directly by landlords or property managers or by credible rental payment processors. The emergence of this opportunity could provide millions of renters with the chance to build credit without taking on additional debt or incurring the burden of an additional monthly expense.

CI: What model pilots are we seeing to help renters build their credit history?

A: A number of for-profit property management companies are already reporting their residents' rental payments to the credit bureaus. Most nonprofit affordable and public housing authorities, however, were neither aware of the opportunity nor able to easily leverage it on behalf of their residents prior to CBA's Power of Rent Reporting pilot, initiated a couple of years ago to catalyze interest and build capacity to rent report within this particular market. As stated above, there are currently two ways renters can build credit through paying their rent:

Organizations across the country are exploring incentivizing renting through rewarding community participation, on time rental payments and other areas.

1) either their rental payments are reported directly by their landlord or property manager, primarily through their property management software (this method is primarily designed for larger, institutional landlords/property managers), or

2) a renter may self-enroll with a company credentialed by the credit bureaus to furnish the rental payment data. Currently this is possible through online rental payment processors like WilliamPaid.com, also an active partner in CBA's Pilot, and ClearNow. This is an evolving opportunity as new and different companies enter the reporting space.

CI: How can readers learn more about or get involved with rent reporting efforts?

A: To find out more about these initiatives, visit any of their websites or contact Credit Builders Alliance. CI

The Promise of Child Development Accounts: *Current Evidence and Future Directions*

By Trina Shanks, University of Michigan

Introduction

In 2010, 22.5 percent of U.S. households had zero or negative net worth[1], the largest proportion since such data started being collected in 1962. This means that almost a quarter of U.S. households face economic insecurity, with inadequate savings and no financial cushion. Broken down by race, the statistics paint a more troubling picture. Over a third of Hispanic and non-Hispanic black households had zero or negative net worth in 2010.[2] And disparities in wealth by race worsened following the Great Recession of 2007-2009—leading to white households having net worth 20 times higher than black households and 18 times that of Hispanic households.[3] The reality of such economic disparities has consequences for child outcomes in the U.S., particularly for the large and growing population of non-white children.[4] Without the potential buffer that wealth provides in times of unemployment and emergency expenses, family well-being can suffer.[5]

However, helping low-income, low-wealth households build assets could improve near-term economic security, and also help children in such households succeed academically and achieve future economic success. Children growing up in higher-wealth households experience better outcomes, particularly in areas such as math scores, high school graduation, college enrollment and college graduation.[6] These children also are thought to be more likely to stay on course and realize their college aspirations by developing a 'college-bound identity' that allows them to engage in school and persist even when tasks are difficult.[7]

What are Child Development Accounts?

Early on, asset building experts recommended that policies to help economically vulnerable households build assets should be progressive, universal, automatic, and start early.[8] Progressivity implies that more incentives and resources go to those who are low-income. Universal means that everyone in a community participates. Automatic means that people do not have to voluntarily sign-up or enroll, but are simply included as an eligible participant. Starting early not only takes advantage of compounding interest, but also instills positive financial behaviors and practices in childhood that are beneficial in adulthood but typically harder to take up late in life. These principles lead those interested in growing assets among low-income families to consider starting asset building at birth or during a child's pre-school or Kindergarten years.

At its most basic, a Child Development Account (CDA), also known as a Child Savings Account, provides a financial platform where a child can start to accrue savings and build a foundation for economic mobility. In a recent publication, the New America Foundation outlines the legislative history of this idea and the foundational policy considerations around participation, access, and program features that must be resolved before introducing a CDA program.[9] Choices about participation can include targeting, such as offering CDAs to just low-income children or public school students, rather than a universal offering to all children in a specified geography; and providing automatic enrollment to ensure universal participation. Choices about access focus on allowable uses. Most CDAs start with a sole focus on post-secondary education or training, but more flexible options might make saving in a CDA more appealing to a broader array of young people. Expanding access to include home ownership, entrepreneurship, and retirement savings can also improve long-term well-being while encouraging financial practices and capabilities that are beneficial over a lifetime. Program features, such as the type of account offered, minimum initial deposit requirements, default investment options, matching incentives, and benchmark deposits for achieving certain milestones, often vary among CDAs.

What helps families save for children?

In the absence of a national universal CDA program, current child-focused savings programs, such as 529 plans[10], do not address intergenerational disadvantage. Only three percent of all U.S. households participate in college savings plans now offered in every state and only 6 percent of U.S. households with children under 25 participate in such 529 plans.[11] Compared to households that do not open CDAs, these participating households tend to be more advantaged, with net worth 25 times that of non-participating households, total income three times that of nonparticipating households, and have twice the likelihood of at least one caregiver having a college degree than nonparticipating households.[12] Even in the Saving for Education Entrepreneurship and Downpayment (SEED) demonstration, which offered CDAs through 12 community based organizations located throughout the country to test and encourage the policy idea, families with higher levels of education were more likely to voluntarily open accounts and save.[13] One promising rationale for initiating a CDA program is to create a uniform experience of saving and preparing for future economic mobility that is not dependent on parental economic status and resources.

"Only three percent of all U.S. households participate in college savings plans now offered in every state."

Through lessons from asset building programs throughout the country, several institutional features have been identified that correlate with an increased likelihood that adults will save.[14] These include: making transactions convenient; setting expectations for savings targets; ensuring information is clear; and providing financial education. These findings may differ somewhat for long-term savings focused on children, but the policy choices made and institutional features of the program offered can strongly influence how much participants were able to actually save.

Theoretical and empirical research to date offers guidance for structuring successful Child Development Account programs.[15] CDAs may have substantial cumulative effects, perhaps starting with how parents think about the child's future and eventually influencing the child's own attitudes and outcomes. Though the accounts do not operate entirely through asset accumulation, assets do matter; positive pathways may form regardless of the amount of money in the account, but could be more robust at higher asset levels. In addition, CDAs do not operate entirely, or even primarily, through individual behavior. Even if accounts are opened automatically and assets deposited automatically, there can be positive effects if children and parents are aware of the accounts—results don't necessary depend on the motivation or ability to save. Automatic opening and automatic deposits can bring the potential benefits CDAs to all families, without requiring them to sign up, and may have particularly strong impacts on low-income families. Regular account statements might reinforce pathways to saving, which are likely to be more robust the longer the children have CDAs. In-

creases in financial capabilities are most likely if CDAs are opened and seeded automatically, and if the accounts are incorporated into financial education.[16]

Where do CDAs exist and what are the results?

Although the U.S. does not currently have a federal CDA program, there are now many program examples both internationally and at the state and local level.

Canada faced low take-up rates to its Registered Education Savings Plan (RESP), which are similar to U.S. 529 college savings plans, but households there were offered a universal 20 percent match on contributions made to a RESP for a child under 17. Participation rates have increased steadily since the start of this program in 1998, but low-income families remained persistently unlikely to start an account.[17] As a response, in 2004, the Canada Education Savings Program (CESP) began to offer an initial $500 deposit, a higher match rate, and subsequent $100 annual deposits for children of low-income families to further incentivize these families' participation.[18] The only allowable use for these savings is post-secondary education, although funds can be transferred to siblings.

The United Kingdom initiated a universal child savings account program, called the Child Trust Fund (CTF), which launched in 2005. It offered certificates to all children, with retroactive inclusion for those born between 2002 and 2005. Parents could take the certificate to a private financial institution to open a child account with a £250 initial deposit from the government. An additional £250 contribution was given to low-income households.[19] If parents or caregivers did not use the certificates to start an account for their child within one year, the non-opener children were automatically enrolled into a default account by the government. In the first year, 750,000 of the first 2.56 million certificates issued (about 30 percent) were not redeemed by families leaving the government to open accounts on the eligible child's behalf.[20] Family and friends could contribute up to £1,200 a year. The money could not be accessed until the child turned 18, but at that point could be used without restrictions. With a change of government, the CTF program was ended in 2010 and no additional £250 certificates are being issued.[21]

Singapore introduced a Child Development Account that can be used for preschool and other education- or health-related expenses from birth to age 12. Any deposits are matched dollar for dollar up to a match cap.[22] The government has also created the Post-Secondary Education Account (PSEA) to cover approved education-related expenses between the ages of 12 and 20. Unused balances from the CDA can roll over to a child's PSEA, and unused balances from PSEAs can be rolled over to the adult child's Central Provident Fund—a retirement account. Thus, Singapore has established a lifelong system of accounts to help its citizens build assets and meet personal and financial goals.[23]

SEED for Oklahoma Kids (SEED OK) began in 2007 as a rigorous policy test of many of the ideal features of a CDA program.[24] More than 2,600 participants, mostly mothers of newborns sampled statewide, were randomly assigned to the treatment group or a control group that was interviewed, but did not receive an account. The treatment group was automatically enrolled in the Oklahoma 529 College Savings Plan. SEED OK deposited $1,000 in each account—which was owned by the State of Oklahoma with the infant child as beneficiary. Treatment-group parents were also sent promotional materials and a time-limited $100 incentive to open a separate Oklahoma 529 account to save for the child's college expenses. For low- to moderate-income households SEED OK matched any individual savings in this account at either 1:1 or 0.5:1 for up to four years. Treatment families also receive a SEED OK account statement quarterly.

As a policy question, SEED OK demonstrates that it is possible to set up a program of universal accounts with automatic deposits, progressive matching, and restricted usage for post-secondary education. In addition, early results show that a CDA account positively impacts a child's social and emotional development at age four, at least among more disadvantaged households. Specifically, among families that have low-education levels, are low-income, receive welfare benefits, and rent their homes, children in the treatment group receiving SEED OK accounts score better on a test of social emotional development than similar control group families.[25] Mothers in the treatment group also report fewer depressive symptoms at follow-up.[26] The children participating in SEED OK are still young, so it will be important to continue following these families to examine medium- to long-term outcomes over time.

San Francisco launched Kindergarten to College (K2C) in 2011. The program automatically opens a special Citibank account for all kindergarteners in the city's public elementary schools. The accounts are started with a $50 deposit from the City and County of San Francisco, and children receiving free and reduced-priced lunch are eligible for an additional $50.[27] There are match incentives for the first $100 saved, and an additional $100 if a minimum of $10 is saved each month for six months. The public contribution can only be used for post-secondary education expenses, but the family can withdraw its own contributions in case of an emergency. K2C is one of the first publicly funded CDA programs in the country. The program has now reached over 13,000 children and going forward should enroll 4,500 new students each year.[28]

Maine offered the first statewide CDA program in the

U.S. From 2008 to 2013, the Harold Alfond challenge promised $500 to every newborn in the state of Maine, as long as parents signed up for a Maine 529 college savings account before the child's first birthday. Using this model, 23,000 accounts have been opened, but typically only 40 percent of eligible infants receive the account.[29] The parents that did open accounts tended to be more advantaged, with higher levels of education and other financial investments.[30] Given this evidence that the program was likely not reaching those who most needed it, the Alfond Challenge recently announced that it would be shifting to an opt-out policy. Since July 2014, the Alfond Challenge automatically opens 529 accounts with a $500 deposit for all children born in the state. The program sponsors estimate that approximately 12,500 more accounts will be opened each year going forward. Family contributions are eligible for a 50 percent match up to $100 a year. The money is restricted to use for qualified educational expenses, and any unused funds accrued by age 28 will revert back to the Fund.[31]

Nevada started a College Kick Start program, establishing a 529 college savings plan for all public school Kindergarten students with a $50 initial deposit in each account. In 2013, 35,000 students received accounts and a similar number is expected for the 2014-2015 school year. Families are encouraged to open their own 529 accounts, which could qualify for state matching funds up to $1,500. Funds are restricted to educational use.[32]

Cuyahoga County in Ohio announced its child savings account program in 2013 and plans to enroll its first students in the fall of 2014. The program is estimated to open 15,000 accounts for kindergarten students with a $100 deposit in an account with Key Bank. The money is restricted to post-secondary education expenses and must be spent before the age of 25, unless the individual is in active military service.[33]

New CDA programs are being considered all over the country. For example, Lansing, MI is planning a program that should start with a small group of kindergarteners in 2015. The Department of Human Services in Colorado and the state of Connecticut have announced their own CDA programs. Other states and municipalities are also in discussion about how they might offer a meaningful child account program.

Conclusion

When children grow up in households with no wealth and face economic insecurity, they may experience significant stress and have limited opportunities for upward mobility.[34] Child Development Accounts are a promising way to build assets and increase financial capability as well as promote pathways toward economic mobility for young people. There are many different approaches and potential program features currently being modeled. The one approach that has been proven to reach a full population and provide promising experimental evidence of results has utilized state 529 college savings plans as a platform. It will be interesting to see if this becomes the standard for new programs that emerge.

"... automatic enrollment and deposits are necessary, especially for the most vulnerable populations to participate."

Over time and with additional research, there will be more evidence on which program features seem to achieve better long-term results, but experience thus far points to several key lessons. First, if the priority is to reach all children and not have CDAs reproduce intergenerational disadvantage, it seems clear that automatic enrollment and deposits are necessary, especially for the most vulnerable populations to participate. Second, most CDA account models now in place are restricted to post-secondary education. Although this is an important first goal, it would be helpful for new programs to consider expanding possible uses to include home ownership and entrepreneurship, similar to adult Individual Development Account options. Third, it is often the case that the city or state becomes the owner of the account, which prevents the assets from being counted against financial aid or welfare benefits, but also leaves control of the accounts outside the family, particularly if the household is not making any personal deposits. As programs consider communication strategies and seek to build financial capability, it might be helpful to understand how families are engaging with CDA accounts and whether they see them as their own assets. When there are opportunities to interact with children in classrooms or with parents one-on-one, attention to this messaging could be important.

It is exciting that other countries and U.S. state and municipal governments have started to implement child development account programs. Although the field of practice is somewhat new, there are lessons to be learned from the research and examples that already exist. An examination of what we know and what is being done can help orient those newly entering this space, as well as synthesize the knowledge of those actively working in CDA programs on the ground. There is still much work to be done, but CDA programs are a promising foundation upon which to pull together policy strands to better assist low-income families and children. CI

Local Government Solutions to Household Financial Instability:

The Supervitamin Effect

By Jonathan Mintz, Cities for Financial Empowerment Fund

Introduction

As the United States emerges from the recent recession, millions of American households find themselves blocked out of the financial mainstream. Relying on alternative financial services (AFS), such as payday loans and check cashing services, is expensive, draining the precious resources of families already struggling to make ends meet. Over the course of their careers, workers using check cashing services may pay as much as $40,000 in fees just to access their income. Further, when households are unable to borrow money at reasonable rates, it is far too easy fall into destructive debt patterns. In 2012 alone, households disconnected from mainstream financial services paid $89 billion in fees and interest in principal loaned, funds transacted, deposits held, and other financial services provided by AFS companies. The resulting debt becomes a major stumbling block for households trying to build the assets required to escape poverty.

As funding for traditional public services dwindles and demand for such support rises, local governments must do more with less and focus on programs with the most significant impact to help stabilize their regions. With public mandates to serve their entire cities, mayoral administrations can design antipoverty programs with financial empowerment services at scale that address the individual financial instability that underlies the vast majority of those seeking social services, producing widespread impact.

Cities have a particular interest in stabilizing household balance sheets in this manner, both to bolster the impact of individual service investments and to create and more resilient communities.

Integrating financial empowerment programming with other government and social services can lead to an impressive array of positive impacts for cites, as well, a concept dubbed the "Supervitamin effect." The Supervitamin approach is undergirded by three principles:

- Financial stability is fundamental to poverty alleviation, allowing individuals and families to better benefit from programs and services designed to improve, for example, employment prospects, avoid eviction or homelessness, or escape domestic violence.
- Financial stability helps families and individuals withstand financial shocks and setbacks, preserving progress accomplished through social service interventions and investments.
- Financial empowerment strategies should be adapted to serve unique client needs at key public program infrastructure opportunities.

In the last decade, municipal government leaders across the country have launched and integrated innovative Supervitamin programming within existing municipal services. These large scale efforts help families with low and moderate incomes stabilize their finances by helping them manage their money, reduce debt, access tax credits and other benefits, and connect to safe banking, saving, and asset building programs. Savings, which build assets, provide "overall economic security that can sustain an individual or family for month and years, not just days and weeks. Income and income supports such as housing subsidies and public benefits are necessary but not sufficient for financial stability." Households without savings and other assets that allow them to survive for three months after an interruption income live in "asset poverty."

Cities and mayors are uniquely positioned to lead a national financial empowerment movement that builds savings and assets in low- and moderate-income communities. Cities control program structure, resource disbursement, and direct client communication. Infrastructure adjustments and strategic partnerships leveraging these strengths help to introduce asset building tools into local social service provision and enhance the effects of traditional antipoverty efforts. The municipal financial empowerment approach combines technical and adaptive work to enable cities to embrace financial empowerment strategies, consider the most appropriate large-scale services within which to embed these strategies, and boost outcomes for individuals and families in the most cost-effective manner. Three municipal programs taking root across the country make the case for this integration approach: Financial Empowerment Centers; the National Bank On 2.0 Initiative; and Summer Jobs Connect.

"Cities and mayors are uniquely positioned to lead a national financial empowerment movement that builds savings and assets in low- and moderate-income communities."

Financial Empowerment Centers

Developed during the Bloomberg Administration by the New York City Department of Consumer Affairs, Financial Empowerment Centers are considered the gold standard of financial education and counseling. Operated by nonprofit organizations contracted through a city, the Centers offer free, professional, one-on-one financial counseling, often connected through other public services, to work directly with residents to address both their current financial challenges and plan for the future. Clients receive direct assistance with money management, budgeting, reducing debt, establishing and improving credit, connecting to safe and affordable banking services, building savings, and referrals to other services and organizations. Counselors are professionally trained, and support their clients in navigating complex financial decisions about saving, budgeting, credit, and debt. Equally important, financial counseling is integrated into existing public service provision through agencies addressing housing, homelessness, foreclosure prevention, workforce development, asset building, financial services access, and domestic violence prevention.

Through a $16.2 million investment from Bloomberg Philanthropies through the CFE Fund, the model has been replicated by city governments in Denver; Lansing, MI; Nashville; Philadelphia; and San Antonio. In only one year, these five cities have already provided 19,000 counseling sessions to over 8,000 people. As a result, collective household debt has been reduced by almost $5.5 million, and accumulated household savings has reached nearly $750,000.

The success of the Financial Empowerment Centers has encouraged other cities to replicate this crucial resource as a public service. With technical assistance from the CFE Fund, Financial Empowerment Centers are also being launched by municipal governments in Cleveland, Hartford, Hawai'i County, Los Angeles, Miami, San Francisco, and Seattle.

Financial Empowerment Centers help those who are facing significant barriers, such as those returning to a community after incarceration. For instance, one client at

"17 million adults do not have a bank account which they can use to deposit their earnings and pay bills. . . . over $320 billion is spent nationally on banking services outside the financial mainstream . . ."

the Lansing Financial Empowerment Center in Michigan sought work after serving a 30 year prison sentence. He had worked sporadically in landscaping after his release, but his criminal record and lack of technology skills limited his employment options. His initial financial goals were simply to be able to support himself, and to make and manage a budget. Given a community resource book and a list of employers open to hiring those with criminal backgrounds, he found part-time employment in fast food before his second counseling session. He then worked with the Financial Empowerment Center team to learn about banking basics. By his third visit, he had obtained a second part-time job and opened a savings account. Within seven months, he also opened a checking account with direct deposit and a debit card, and he was able to use his savings to move out of parole housing and into an apartment.

National Bank On 2.0 Initiative

Millions of Americans would benefit from connecting or reconnecting to the financial mainstream as the Lansing program participant did. According to the FDIC, 17 million adults do not have a bank account which they can use to deposit their earnings and pay bills. The Center for Financial Services Innovation reports that over $320 billion is spent nationally on banking services outside the financial mainstream, often on predatory lending vehicles that trap people in expensive cycles of fees and penalties.

To address the economic impact of some communities' lack of access to mainstream financial institutions, municipal leaders around the country began local "Bank On" programs, partnering with local and national banks, credit unions, prepaid card providers, and nonprofit community organizations to provide low-income underbanked and unbanked people with safe, affordable starter or "second chance" bank accounts and access to financial education. In addition to connecting individuals to low-cost bank accounts, Bank On programs lead public awareness campaigns and targeted outreach efforts. Bank On seeks to correct the various barriers to financial access by ensuring there are products available to meet consumers' needs and by empowering consumers to safely use those products. Today there are approximately 100 local Bank On coalitions led by city, county, or state governments and nonprofits.

In the next phase of this municipal banking access approach, these programs seek to accomplish the following:

- Solidify key government, nonprofit, and banking partnerships to prepare appropriate financial services and programmatic opportunities;
- Research what kinds of products and services are both practical for large scale banking approaches (including technological opportunities), and effective for achieving financial stability and growth in target populations;
- Develop program designs that focus on government integration of safe banking opportunities, products, and services, such as subsidized job programs like summer youth employment and other financial disbursement;
- Test different approaches to partner cultivation, program design, and communications strategies to arrive at the most effective approach or set of approaches for a public Bank On 2.0 program; and
- Prepare the framework for a program that reflects the research and testing completed during the planning grant period.

Summer Jobs Connect

One large scale pilot program of Bank On 2.0 is Summer Jobs Connect which supports 1,800 young adults seeking summer employment, enhancing their job search experience with additional programming on safe and appropriate banking products, services, and financial education. Through Summer Jobs Connect, the cities of New York, Miami, Chicago, Los Angeles, and San Francisco are working with nonprofit program partners to examine how their summer youth employment programs can be enhanced by incorporating access to banking, electronic payment, and financial capability training. These activities can prepare low-income youth between the ages of 14 and 24 to enter the workforce with an eye to their future financial stability. Beyond a seasonal paycheck, Summer Jobs Connect can help to set students up for lifelong success by working with them to instill positive financial habits and improve access to safe banking products and strategies.

Cities participating in Summer Jobs Connect will demonstrate the role that connections to increased work opportunities and financial education play on setting young adults up for long-term achievement. Among the many positive effects summer employment has on young people, the ability to earn money and supplement family income is a particularly significant outcome. When young people earn their first paychecks and learn to manage tight budgets, access to safe banking, financial education and

empowerment services can have a truly profound impact on lifetime savings and money management skills.[1] Summer Jobs Connect will be the first youth employment program to integrate financial empowerment directly into the program experience, making it a promising new way to set up disadvantaged youth for long-term success.

Challenges

Though much progress has been made, the field of municipal financial empowerment is still young and often considered secondary to traditional antipoverty funding approaches. In order to redesign old systems and make them more effective and constructive, it is essential to identify leaders who will truly champion changing the status quo, work with new programmatic partners to overcome field resistance to change, and take bold measures to achieve citywide scale. Re-envisioning a summer jobs program, for example, to also become a banking access program requires program leads to manage new priorities, new partners and challenges, and broader expectations. The often-difficult transition from pilot to public policy, a process involving political strategy, multiple stakeholders, and strong leadership, requires careful navigation. New program structures must be stable enough to withstand shifts in municipal leadership and competing or even conflicting political interests.

A further challenge in establishing these programs across the country is finding genuine integration points with other social services and programs to help participants work toward more comprehensive financial empowerment that addresses various needs and barriers. Colocation of services alone cannot achieve optimal effects because of both substantial drop-off and a lack of coordinated information, so financial empowerment efforts must focus on identifying service flow opportunities that facilitate genuine integration methods.

"Combining financial empowerment work with social services is a powerful tool to help households build assets and gain control over their financial futures . . ."

Finally, it is crucial for the field to document the ways in which large scale financial empowerment initiatives transform lives on their own and also increase the effectiveness of other social service programs. Finding the right data indicators and addressing privacy issues are barriers to a full understanding of the impact of this work. Municipal programs across the country, with the support of the CFE Fund, are increasingly reorienting their financial empowerment work with this Supervitamin Effect strategy at the forefront of their funding, design, and evaluation strategies.

Conclusion

In the wake of the recent recession, individuals and families need more assistance achieving economic security than in prior decades. Combining financial empowerment work with social services is a powerful tool to help households build assets and gain control over their financial futures, and a key strategy for leveraging sustainable public investment. In offering innovative, effective, and efficient solutions to larger public challenges, these Supervitamin integrations offer both large scale solutions to individual and community financial instability, as well as cutting edge public investment strategies that offer new solutions to old problems. CI

Janie Barrera

Celina Pena

Building Wealth and Stability Through Entrepreneurship

Q&A with Janie Barrera and Celina Pena, Accion Texas

CI: The most recent recession has pushed many to pursue self-employment. Are you seeing a growth in demand for services for starting small businesses? Are you seeing trends that are different from pre-recession levels?

A: We've always been a champion and supporter of startups and self-employed; in our view, it's been the largest segment of business creation out there in recent years, especially following the recession. For instance, within our own portfolio, we have seen a persistent annual growth rate of 31-37 percent in the amount of start-up business loans issued every year since 2009.

Looking at this trend, we can see that a growing number of jobs are being created in new enterprises rather than within large established firms. In part, this reflects what all the macro economic trends have told us: the economy is still tepid and job stagnation, while not as apparent, is still there. In this economic environment, we have seen a window open for new businesses to take hold and create employment opportunities.

CI: In your experience, what are the top three barriers to low-income potential entrepreneurs starting a business?

A: First, these potential entrepreneurs often lack experience, and an understanding of their potential market and how to go after it. They may be unfamiliar with the basic financial aspects of starting a business, including key concepts such as balancing operations costs and revenue, achieving breakeven point and profit, and how to know when a business is financially "bleeding."

Second, confidence can be an issue. They need to believe in their product, their price-point, and the principle that owning a business is about making money.

Finally, they need to feel comfortable requesting support, and know when to ask for help; doing so early and proactively is so important, because having to be reactive after problems have already occurred is tougher.

CI: What is the Accion approach to overcoming these barriers and why does it work?

A: For low-income potential entrepreneurs, going into business usually is not only about the spirit of entrepreneurship – it is about the practical goal of supporting one's family. This instinct is very powerful and can be used to an entrepreneur's advantage in creating a business. Low-income entrepreneurs tend to be very resilient and fastidious; they know where every dollar and penny goes within their business. We have to reframe the idea of debt for our borrowers in some cases, as many fear taking on any debt at all and view loans as being negative debt. We help them to understand that this kind of debt can be a positive and responsible way to build wealth and stability. For us at Accion, it's not just about capital – it's about community. Many of the businesses we work with are rooted locally and give back to their communities through their businesses. They also pass along their wealth of knowledge and support to future entrepreneurs in their communities.

For example, one business we provided with a loan in 2011, Bake, Broil and Brew in San Antonio, Texas, is a local food and kitchen incubator. The entrepre-

neur started out as a cupcake baker, and her greatest challenge was finding a commercial kitchen; our loan helped her to secure an incubator facility for her business. We helped her to develop a business plan and to establish a relationship with her bank, so that she was able to get more capital when she needed it. She has gone on to help over 25 other small businesses get started in her community through her kitchen incubator.

Another example is a borrower we worked with in New Orleans. She started out as an aspiring immigrant entrepreneur with no credit score, so we provided her with a $500 Credit Builder loan. From this starting point, she was able to later secure a $1,500 loan and then another $8,000 loan with Accion. She now works with other local women to develop their capacity as entrepreneurs. Every 90 days, she meets with a business advisor at Accion to stay on a path to growth.

CI: Are there new methods, programs, or products that are borne of both the deep expertise of Accion and the particular challenges of the latest economic crisis?

A: Our latest product, the Promise loan, was developed in order to serve more of the clients whom we've had to deny in the past. As an alternative to traditional loan qualification, we built a quiz that uses criteria based on an understanding of basic financials, entrepreneur skills, honesty, and drive, to understand and determine how best to serve our potential clients who did not qualify for our existing loan products due to lack of credit, lack of collateral, or inability to document source of income. With the Promise Loan, we are able to provide individuals who qualify under these different criteria with loan capital of up to $5,000.

CI: Tell us about more about the Promise Loan program. What are the goals of this product and what impact are you seeing?

A: With the addition of the Promise loan, we've seen a 35 percent increase in our loan production, and we still have a healthy portfolio. We now are creating a repayment model for the promise loan borrowers, to perfect the scoring. We've made 775 loans totaling $4 million, with a default rate of 10.6 percent for this product. The Promise loan has allowed us to serve more people with thin credit or limited credit files, as well as others who may have been traditionally overlooked for loans. Among our Promise loan borrowers, 86 percent are minorities, with 40 percent being African American and 46 percent Hispanic. Nearly half of the borrowers are women, 65 percent are low- or moderate-income earners, 5 percent are veterans, and 10 percent were unemployed when they applied for the loan. The loans have helped our borrowers to create 275 new full-time jobs within their businesses.

For low-income potential entrepreneurs, going into business usually is not only about the spirit of entrepreneurship – it is about the practical goal of supporting one's family. This instinct is very powerful and can be used to an entrepreneur's advantage in creating a business.

CI: What services do you offer to business owners who don't qualify for a loan from you?

A: We support them online and individually with our business support services. We are currently exploring other alternatives, such as crowdfunding, for those who don't qualify for our loan products. We know that not all clients can be served by banks, due to regulations around risk levels. Accion also has a reputation for making loans and mitigating risk, which has allowed us to maintain a 96 percent repayment rate, with an average FICO score of 590 among our borrowers. In some cases, though, we work with lenders such as Kiva, which funds forgivable loans, and act as an intermediary assisting recipients of these loans with their business development needs. Having funder partners like these that offer forgivable loans allows us to take on more risk. We've also developed the Promise loan program described above to help serve a broader range of clients who may not have previously qualified for our loan products.

We ensure that all clients who apply for a loan from us and are denied understand why they have been denied. Potential borrowers may not even know their credit score when they apply – only 20 percent of Americans pull their credit score every six months – so they discover that credit and cash flow problems are often barriers to obtaining a loan. They are encouraged to meet with an Accion loan officer to walk through the reasons for their loan denial and to help think through how they might improve their likelihood for approval if they apply again. We use tools such as financial calculators and videos to explain how they can modify their cash flow, use Accion resources, and reapply.

CI: How are each of your loan products performing in terms of dollars lent, portfolio at-risk, and percentage of write-offs?

A: Here is an overview of how our loans are performing as of May 31, 2014:

	Portfolio Balance	Delinquency Rate	Portfolio At-risk Rate	New Write-off Rate
Microloan Product	$25,830,629	3.31%	6.06%	2.32%
Small Business Loan Product	$9,9298,881	0.40%	2.71%	0.01%
SBA 504 Loan Product	$113,112,808	5.72%	5.72%	3.05%

CI: Statistics show that the average age of entrepreneurs launching a business is 55. What are the particular challenges of serving "second act entrepreneurs?"

A: This is a great segment to serve. Starting a business is a way for people to add to retirement savings or build community after they complete a traditional career trajectory. One quarter of our borrowers are 55 or older, and we have a self-assessment that lets potential business owners know where they stand in the entrepreneur "lifespan."

Another significant "second act" group is veterans. They are opening up business at a fast pace, and we are setting up programs to meet their needs, such as the lower interest rate program. As a financial institution without revenue, we depend on grants, donations, and other forms of support, such as a funder buying down the interest rate on one of our loan products. In the case of veterans, USAA is buying the interest rate down on the loans we make to veterans, allowing us to offer the loan to the borrower at lower rate.

CI: Do you anticipate that mainstream banks will ever lend to small business owners at pre-recession levels? Why or why not?

A: Some banks are lending, but the question is 'How much risk can banks tolerate in relation to the regulations under which they are operating at the moment?' If they can strike a healthy balance to provide traditional business bank loans to a broader range of borrowers, they may come back full force. I also think that partnering with CDFIs to lend to low-income and first-time entrepreneurs could make banks more comfortable with the idea of supporting this market through healthy lending options tailored to the needs of the borrowers.

A bank may want to help a loyal customer who has an account with them but also has a higher risk profile, so the bank can partner with Accion to lend to that customer while still keeping their risk low. In this way, banks and other private sector lenders benefit from assisting community development financial institutions (CDFIs) that then help microbusiness owners. These entrepreneurs in turn create jobs, and they and their employees can eventually become bank customers.

Data and experience help us to identify the profile of borrower who is ready for a loan. Our loan officers have a good relationship with our clients. A great collections department is valuable, too: if clients are late, we want to know that quickly and we want to know why. We use a wraparound approach to ensure we provide pre- and post-loan training and support for our clients and help them succeed.

We see ourselves as working to level the financial playing field by extending our services and products to those who do not qualify for traditional loans. We aim to help our borrowers start their businesses to develop stability for their families and grow the wealth of their communities. CI

Responding to a Growing Retirement Savings Crisis: *A Promising Proposal in Illinois*

By Lucy Mullany, Heartland Alliance & the Illinois Asset Building Group

Introduction

All workers deserve to retire with dignity. However, in a troubling and mounting trend over recent years, more American workers are reaching retirement age and finding themselves unable to retire or are retiring into poverty because they lack sufficient savings to support themselves. Forty-five percent of all working-age households in the United Sates, or over 38 million households, have no retirement savings at all. According to a report from the National Institute on Retirement Security, the median amount of retirement savings across all working-age adults is only $3,000; for workers nearing retirement, the figure is only slightly better at $12,000.[1]

Without enough savings, workers over-rely on Social Security, which was never intended to be the sole source of someone's retirement income. The aim of Social Security was rather to provide an important supplement to other sources, like individual savings and pensions. However, 60 percent of retirees depend on Social Security for at least three-quarters of their retirement income, 40 percent of retirees rely on it for almost 90 percent of their retirement income, and 22 percent rely on it for the entirety of their income after retirement. With an average monthly Social Security payment of $1,294, over-reliance on this source means that many of our seniors aren't able to cover their basic needs.

A major reason for inadequate retirement savings is the growing lack of access to an employment-based retirement savings account. Nationally, 32.5 million Ameri-

Nationally, 32.5 million Americans work full-time for private-sector employers that do not offer employment-based retirement plans.

cans work full-time for private-sector employers that do not offer employment-based retirement plans.[2] Lower-wage workers and workers at smaller businesses are less likely to have access than higher-wage workers and those employed at businesses with more than 100 employees.

Workers need access to easy and convenient tools to build retirement savings. Without them, more people will experience a drastically reduced quality of life in retirement. Many will fall into poverty, creating an increased burden on families, communities, and support services.

The Illinois Secure Choice Savings Program

The retirement savings statistics for Illinois provide a state-level example of how acute the problem has become, but the state has also proposed a program solution that speaks to the current barriers many workers face in saving for retirement. According to a report from the Woodstock Institute, more than 2.5 million private-sector workers across the state do not have access to a retirement savings account through their employers. The report found the issue to be most prominent for the lowest-wage workers, of whom 60 percent lack access, but even for workers earning more mid-range annual incomes of $40,000 or more, 49 percent do not have access to an employment-based retirement savings plan.[3]

In response to this gap in access to a vital savings tool, the Illinois General Assembly is currently considering the Illinois Secure Choice Savings Program (Senate Bill 2758), co-sponsored by Senator Daniel Biss and Representative Barbara Flynn Currie. If enacted, the bill would give millions of private sector workers the opportunity to save their own money for retirement by expanding access to employment-based retirement savings accounts.

The Program would automatically enroll certain workers without access to an employment-based retirement plan. Participants would need to be employed at companies that have been in business for at least 2 years and employ over 25 workers, but that do not currently offer retirement savings options. While workers can opt-out of the program, those that do participate would be able to build savings in a Roth Individual Retirement Account (IRA) through a payroll deduction.

The Program is modeled on lessons learned from behavioral economics and private employer examples that demonstrate automatically enrolling workers encourages participation. Employers offering 401(k)s for example, have flocked to the opt-out model in the last decade, dramatically increasing employee participation rates. These rising rates are highest among lower-income and minority workers.

The Illinois Secure Choice Savings Program would provide a default investment fund (a target date fund which ensures that the investments become more bond based the closer you get to retirement) and a default investment amount (3% of a worker's salary) for workers who do not want to choose their fund type or amount. Workers will generally be invested in more appropriate and diversified funds through automatic enrollment than if they invest on their own. However, workers would be able to change the amount they are saving and the type of savings at any time.

Because employers are not allowed to contribute to the retirement accounts, the cost to businesses is minimal. Employers would only need to cover the cost of administering a payroll deduction to the retirement account. Most businesses, especially those with 25 or more employees, use electronic payroll systems that easily allow for payroll deductions and direct deposits. Since employers merely serve as pass-through entities – facilitating the required payroll deductions to the approved Secure Choice account – they bear no other financial burden.[4]

The Secure Choice Savings Program could help small business owners retain workers, and would allow them to compete more evenly with larger companies that already offer retirement benefits. Almost all larger companies administer retirement plans for their workers. By establishing a retirement account that Illinois businesses can successfully offer to their employees, the Program would provide small employers with a competitive benefit at little to no cost.

The Program would be administered by a board consisting of the State Treasurer, the Illinois Comptroller, the Director of the Governor's Office of Management and Budget (GOMB), two individuals with financial investment and/or retirement savings expertise, an individual representing employers, and an individual representing enrollees. These last four members would be appointed by the Governor and would be subject to the approval of both the Illinois Senate and the State Treasurer. The Board would issue a Request for Proposal to choose an investment firm to manage the funds.

What's Next?

While no state has implemented a program identical to this, more than a dozen states are working to implement similar programs or have pending legislation. Massachusetts, California, Connecticut and Oregon have all enacted legislation and are in the process of forming and implementing programs while Washington, Illinois, Indiana, Maryland, Minnesota, Nebraska, West Virginia, and Wisconsin had legislation-introduced proposals in 2013 and 2014.

Without convenient and accessible options to build retirement savings, today's employees may experience a drastically reduced quality of life after they leave their jobs. Some may even fall into poverty, imposing an increased financial burden on families, communities, and states. As an increasing number of Americans approach their retirement years, therefore, offering a diverse range of retirement savings tools can help workers maintain their financial security. CI

Meet the New Landlords: *The Rise of Single-Family Investors in the Housing Market*

By Sarah Edelman, Center for American Progress

If policymakers need more proof – beyond the nation's 9.1 million underwater homeowners – that the housing market has not yet recovered, they need only take a look at who is buying homes. In the first quarter of 2014, cash buyers, who are often likely to be investors, made about 43 percent of all home purchases.[1] Instead of reselling the homes they purchase as investors have in the past, they are largely choosing to convert them into single-family rental homes. Between 2007 and 2009 alone, 2.75 million single-family homes were converted into rental homes.[2]

While single-family homes have always accounted for a large chunk of all rental housing, the single-family rental industry emerging out of the foreclosure crisis looks different than the historical market. In addition to the smaller companies and individual mom and pop landlords who have collectively purchased millions of single-family homes, large institutional investors have also bought roughly 386,000 single-family homes since 2011, fueling a new industry of property management on a national level.[3]

All of this new investment presents opportunities and risks. Investors have certainly helped to establish a floor on falling home prices in parts of the country by buying up inventory. They are also helping to bring new rental units onto the market at a time when many more families are looking to rent.

This new crop of landlords will shape the future of the single-family rental industry and possibly many of our communities and local housing markets in the process. The large

single-family rental companies are trying to demonstrate, for the first time, that it is possible to properly manage and to build a profitable business from thousands of single-family rental homes located across several metro areas.

Yet, even aside from property management challenges, there are risks. First, this investor activity may be inflating prices in some markets. Cash buyers may also be keeping on the sidelines families who can't compete with buyers who can buy in all cash. And despite assurances from the industry that these larger single-family rental companies are here to stay, analysts continue to worry that when home prices rise, companies will put the homes back on the market, dampening home prices once again.

Who are the cash buyers?

As housing markets across the country were flooded with foreclosures, two important trends attracted investors to the single-family rental business. First, after over four million foreclosures, the number of households seeking rental units was rising: in early 2013, the country had 43 million renting households, up 15 percent from the 36.7 million households that were renting before the recession.[4]

At the same time as demand for rental housing grew, home prices were at historic lows, and in certain metro areas the foreclosure inventory was vast, making it easy for investors to buy foreclosed homes. Many households, on the other hand, had severely damaged credit from the housing crisis and recession and were either not in the financial position to buy or could not obtain credit, which became scarce after the housing crisis. By renting out the properties for a period of time, these investors could enjoy solid returns in the near-term with the prospect of a windfall later after home prices rose again. Indeed, larger institutional investors have primarily bought in metro areas like Atlanta and Phoenix where home prices were low, rental demand is strong and where analysts anticipate that home values will appreciate in the coming years.[5]

While larger institutional investors have grabbed headlines, smaller companies and individuals who buy fewer than 10 properties have out-purchased these larger firms in most markets.[6] Early in the foreclosure crisis, it was these smaller companies and individual "mom and pop" investors who flocked to foreclosure auctions and bought single-family homes. There is a great deal of variety among these smaller investors and what they do with the properties they purchase. In some cities, Atlanta and Las Vegas, for example, it was more common for smaller investors to buy and flip quickly toward the beginning of the crisis.[7] Now, while some investors continue to sell homes quickly, many are holding and renting the properties instead.

As home prices bottomed out in 2011, larger private investors began entering this new single-family rental market. Their purchasing peaked during the spring of 2013,

Key Emerging Single Family Rental Companies	Est. number of properties
Invitation Homes	44,500
American Homes 4 Rent	25,505
Colony American Homes	16,549
Progress Residential	10,000
Starwood Waypoint Residential	7,204
American Residential Properties	6,762
Silver Bay Realty Trust	5,748

Sources: Invitation Homes data comes from Moody's pre-sale report, May 2014, Colony American Homes data from Moody's pre-sale report June 3, 2014. Progress Residential data from Bloomberg News July 2014. All other information from 2014 Q1 SEC filings and company websites.

according to the market analyst firm CoreLogic.[8] Although institutional investors represent only a small portion of the overall single-family rental market, they deserve attention because their ownership is concentrated in some of the country's hardest hit metro areas like Phoenix, Atlanta, and Tampa. Their decisions could impact these markets significantly. At least four of the emerging single-family rental companies have structured themselves as publicly traded Real Estate Investment Trusts, which are public real estate companies with shares that can be bought and sold. This shift toward forming public companies signals a hope that the businesses will continue to grow and attract broader investment.

As housing prices inch up, most institutional investors are buying fewer properties than they were at their peak last year. Nonetheless, six years into the housing crisis, cash buyers are still making over 40 percent of home purchases. The foreclosure crisis is far from over in many parts of the country. Roughly 1.7 million households are still at risk of foreclosure[9] and, according to a report from the UC Berkeley Haas Institute, nearly a third of homeowners still owe more on their home than its worth in the majority of the hardest-hit cities in the nation.[10]

How are investors buying homes?

Investors are buying foreclosed homes, distressed mortgages and non-distressed homes. Research shows that institutional investors are now buying more non-distressed homes for sale – new homes and homes for resale through realtors – than distressed homes.[11] They buy foreclosed homes through foreclosure auctions directly from financial institutions and governmental agencies. They buy distressed homes from homeowners through short sales.

Some investors also buy non-performing loans individually or in bulk from financial institutions and governmental agencies before the foreclosure is over. For example,

> *"We believe we have an opportunity to acquire single-family properties through the acquisition of sub-performing and non-performing loan portfolios at attractive valuations. We expect our integrated approach of acquiring sub-performing and non-performing residential mortgage loans and converting them to rental properties will enable us to compete more effectively for attractive investment opportunities."14*
>
> *Altisource Residential Corp. emerging single family rental company*

Altisource Residential, a single-family rental company, primarily buys non-performing loans because such pre-foreclosure loans can be purchased at steeper discounts, than homes that go through the foreclosure process.[12] Single family rental companies Starwood-Waypoint, Americans Homes 4 Rent and Progress Residential are also beginning to purchase pre-foreclosure loans.[13] The seller has an incentive to sell these loans at steeper discounts because by selling before foreclosure, they can both remove non-performing assets from their books and avoid the servicing and maintenance costs associated with foreclosure.

As larger financial institutions ramped up their buying, they have relied primarily on bank lines of credit and private investments to finance their cash purchases.[15] Over the last year, larger single-family rental companies have begun to tap the broader capital markets for financing their businesses by engaging in securitization. Last fall, Blackstone's Invitation Homes sold the first bond backed solely by single-family rental properties. Since this initial Invitation Homes bond, American Homes 4 Rent and Colony American Homes have also offered bonds backed by the homes they have purchased. So far, this market is worth about $3 billion and analysts expect it to grow to $70 billion per year in the coming years.[16]

Historically, financing options for smaller investors were limited. Fannie Mae and Freddie Mac offered individual investors financing for as many as four to 20 properties.[17] However, some of the same firms who have built large single-family rental companies, including Blackstone and Colony Capital, are now offering financing to smaller mom and pop investors and mid-sized single-family rental firms.[18]

Opportunities & Risks

The emergence of a single-family rental industry offers significant social and economic opportunities as well as risks. The nation may add another 4.7 million renting households over the next decade, according to the Joint Center on Housing Studies.[19] Broader availability of rental units to help meet this increased demand, particularly in neighborhoods with good amenities and strong local schools, is an encouraging development. This investment has also helped to prevent further home price decline in hard-hit metro areas. Moreover, if larger single-family rental companies succeed in developing the capacity to manage their rental homes, they may prove to be more consistent landlords than smaller mom and pop landlords.

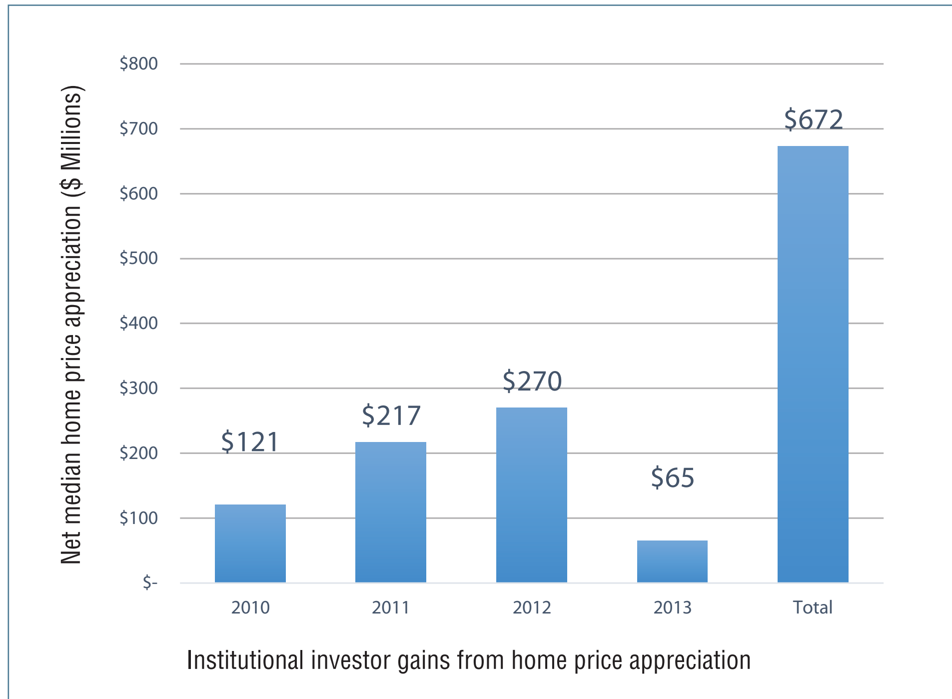
However, in order for these opportunities to be realized, the emerging industry will need to tackle a set of challenges. At a baseline, investors will need to learn how to effectively manage a broad portfolio of scattered homes, which is more difficult than managing rental units concentrated in a single apartment building. It may be hard to address smaller day-to-day maintenance issues in a timely way. It may also be costly and difficult to plan for larger capital repairs such as replacing roofs and heating and cooling systems across a portfolio of homes.

But the policy community has broader issues to wrestle with in considering implications for LMI households. The single-family homes brought to the market by larger single-family rental firms may not be affordable to low- and moderate-income families in the long run. These companies are under pressure to meet the returns they have promised investors and to create a business that posts attractive returns to attract future investors. They are incented to charge as much in rent as local markets will allow. Furthermore, the larger single-family rental firms do not appear to be very active in lower-income urban neighborhoods, instead concentrating their buying primarily in middle-income suburban neighborhoods.[20]

Moreover, at a time when credit is extremely tight and home prices are very low, investors with access to cash have the capacity to buy thousands of homes while families remain on the sidelines. In some cases, investors are beating out prospective owner occupants because they can pay in all cash, eliminating the need for an appraisal and vastly shortening the settlement time period. With cash buyers representing nearly half of home purchases, wealthier individuals and investors are well positioned to take advantage of low home prices while the majority of households cannot, which may further exacerbate economic inequality.

In Phoenix, large investors, which CoreLogic defines as entities that buy more than ten properties in one year, have played a significant role in the housing market during the foreclosure crisis. Between January 2010 and March 2014,

Investor Wealth Gains in Phoenix (March, 2014)



Source: CAP calculations based on Corelogic data on number of institutional investor purchases by month and Case-Schiller median home price data. Institutional investors are defined by Corelogic as investors making more than 10 home purchases in 12 months. Purchase types include REO, short-sale, resale and new home sales. Purchases via auction not included.

median home values increased by 46 percent. An estimate based on the number of homes purchased by large investors during these years shows that these buyers were positioned to capture about $672 million in appreciation gains, about 6 percent of overall gains in the Phoenix housing market (Figure 2). While this rough estimate assumes investors bought homes at the median value, they likely bought homes that were below median home value, and it does not include rehab or maintenance costs, it demonstrates that in many cases, investors instead of homeowners were positioned to benefit from rising home values. The story is likely similar in other metro areas where large investors have been active, like Atlanta, Tampa and Las Vegas.

Additionally, in some metro areas, including Atlanta, Phoenix, Las Vegas, Tampa, Chicago, Miami, Seattle and Minneapolis, analysts suspect that investor purchasing has pushed up the price of less expensive homes, possibly artificially inflating home values and making starter homes less affordable.[21] One rating agency has raised concerns that if large investors withdraw for some reason, their sales "could have a significant impact on market clearing prices" at the neighborhood level.[22] In other words, these sales could pop the bubble, leading to renewed price declines in the markets they helped to prop up. For example, in some neighborhoods in Phoenix, Atlanta, Chicago and other metro areas, investor ownership is highly concentrated, and a sudden departure could not only make home prices vulnerable once again but could destabilize neighborhoods with vacant homes.

Conclusion

Throughout the foreclosure crisis, investors of all kinds have been buying single-family homes. This investment has been an important component of the nation's limited housing recovery. Moving forward, as investors shift from acquiring homes to managing them, the industry should begin to set strong standards so that tenants and neighborhoods are confident that these new landlords are responsible. Local policymakers should monitor new investor landlords – small and large – to make sure they are playing a stabilizing role in neighborhoods. In addition to making sure renting households have access to quality rental units, policymakers should also continue to pursue policies that help qualified borrowers who have the desire to own a home have a better chance at sustainable homeownership. A housing market without owner occupants who are able to take advantage of lower home prices to build wealth will ultimately create a weaker housing market going forward and will likely exacerbate inequality and depressed consumer demand. CI

Native Americans and the Low Income Housing Tax Credit Program:

Lessons from the California Tribal Pilot Program

By Dewey Bandy, California Coalition for Rural Housing

For many years tribes in California have struggled with drastically underfunded federal housing programs that have left them unable to meet even basic housing needs. Much tribal housing was built under older Bureau of Indian Affairs programs and regulations, resulting in homes that are 80 years old and need of substantial rehabilitation or replacement. With tribal housing budgets often as little as $50,000 per year, tribes have had to face a devil's dilemma: either building very few new homes each year or carrying out wider band-aid rehab to keep aging homes barely functional. With little new housing being built on California's Native land, younger households face the dilemma of either leaving their tribal homeland or remaining in deteriorating homes that sometimes house three generations in crowded conditions. It is out of these desperate circumstances that tribes are now searching for new funding sources to address these nearly third-world housing conditions.

The establishment of California's first Native American Low Income Housing Tax Credit (LIHTC) set-aside, in the form of a Tribal Pilot Program, was the culmination of efforts by tribal housing agencies, Native American housing coalitions, rural affordable housing advocates and state and federal housing agencies. The most immediate outcome of these efforts was the first LIHTC award to an Indian Tribe in California since the program

was first established in the state nearly thirty years ago. This first success portends even greater advancement of California's Native communities and their housing and economic development plans – some of which are already unfolding. It also offers important lessons for affordable housing advocates across the country on how to meaningfully address the consistently deteriorating and inadequate housing conditions within tribal communities, and the formal and informal exclusion of tribes from mainstay affordable housing programs and resources which tribes so desperately need.

The California LIHTC success also provides an example of how alliances can be formed with the mainstream affordable housing community, state and federal housing programs, and Native American Communities to begin to break down longstanding barriers of isolation and inaccessibility. In this article, we discuss how the key players in this alliance came together and the critical processes that proved decisive in establishing the program through the development of tangible resources, provision of technical assistance, and advocacy. We reflect on the importance of the progressive engagement of all parties in a process of mutual education, including the partnership of a proactive funding agency committed to outreach and responsiveness to tribal housing needs. Finally, we describe the design of a pragmatic program, informed by data and an understanding of tribal housing development, governance and organizational structures, and demonstrated need.

A Bitter Legacy of Marginalization and Need

The lessons learned from developing the Tribal Pilot Program are pertinent for other American regions because California's history of tribal decimation, land dispossession, social isolation, poverty, and substandard tribal housing conditions typify the challenges facing Native American communities throughout the United States. These conditions closely reflect those of other tribes within the U.S., even though California's Native population consists of over 100 smaller tribes that individually cover more limited land areas than those of larger tribes in other states. Tribes in California, like tribes across the country, were subjected to a tortured history of small-scale massacres and theft as the United States expanded and developed. Combined with economic stresses from surrounding incompatible land uses and pressures to culturally assimilate, Native peoples' systems of social organization, customs, and traditional economies were severely damaged and, in some cases, altogether obliterated.

Unlike large tribes in other states, however, such as the Hopi, Navajo, or Sioux, with large populations, natural or recreational resources, and large tracts of land, many California tribes have far greater difficulty than larger

". . . California's Native population consists of over 100 smaller tribes that individually cover more limited land areas than those of larger tribes in other states."

tribes developing large-scale economic resources, sizable housing projects, or a full range of services and facilities. Most California tribes' relatively small size and rural locations prevent them from achieving the efficiencies and economies of scale that underlie more cost effective strategies for housing development elsewhere.

Their smaller populations also significantly disadvantage them in accessing and utilizing the primary Indian housing funding programs due to the restructuring of these programs in the late 1990s. The Native American Housing Assistance and Self Determination Act of 1996 (NAHASDA) reorganized the system of housing assistance provided to Native Americans through the Department of Housing and Urban Development (HUD), by consolidating existing programs into the formula-based Indian Housing Block Grant (IHBG) and the Title VI Loan Guarantee. The formulas used to allocate IHBG funds favor tribes with large populations, such as the Navajo or Sioux. While large tribes such as these might receive annual IHBG allocations in the millions of dollars, the much smaller tribes of California typically receive IHBG allocations between approximately $50,000 and $100,000 to operate and maintain their existing housing. This low level of funding must cover all expenses related to housing such as staff salaries, repairs, supplies, administration and new construction. By scrimping and saving small IHBG fund awards and perhaps securing a highly-competitive Indian Community Development Block Grant – which are capped at $605,000 per award – tribes can sometimes slowly build a small number of homes every few years. This piecemeal, small-scale style of development is economically inefficient and, for the vast majority of tribes, will never enable them to catch up with housing need.

Additionally, despite the urgent need for affordable tribal housing, on the state and regional levels, Indian Tribes are barely recognized and almost never engaged in housing policy and program planning. Mainstay state affordable housing programs rarely make awards to tribes; for instance, in California only one HOME program funding award has ever been made to a tribal housing organization. Even programs that should be available to assist individual tribal households, such as First Time Homebuyer Programs or Homeowner Rehabilitation

Loans, are underutilized because of lack of outreach and administrative regulations that make the programs inaccessible to tribes and/or conflict with tribal sovereignty and governance systems. Until recently, California state agencies have conducted little outreach to tribes to encourage utilization of state resources and gather information on tribal housing needs.

Given these conditions, the larger affordable housing community would seem a natural ally for Native communities in working with various funding programs to improve outreach and accessibility to tribes. Unfortunately, much of the mainstream affordable housing world is largely separated from and unaware of Indian tribes in terms of their potential as project partners or needs as recipients of program services. All too often, this unfamiliarity leads to programs and funding resources being designed largely for their primary users, such as public housing authorities, nonprofit and profit-motivated developers, and faith-based organizations, without regulatory provisions for the unique systems and practices of tribal governments. As individual sovereign nations with laws, governance, languages, customs, cultures, and traditions distinct from those of other tribes and the United States, many tribes often have only limited engagement with and knowledge of affordable housing providers, programs, and agencies outside their traditional Indian funding sources. Little outreach from or engagement with the larger affordable housing world, has led to wariness, skepticism, and distrust among many Native American communities toward mainstream housing programs. Furthermore, tribes that have attempted to access such programs have been confronted with programmatic regulations, procedures, forms, and application rating systems that are at odds with their unique political, legal, and organizational status.

Bridging the Barriers

Although California's LIHTC Tribal Pilot Program began in 2014, the foundation was laid over the last 10 years by nonprofit organizations that reached across the divide between Native American communities and mainstream affordable housing communities to provide technical assistance, training, advocacy, and outreach to Indian tribes and housing organizations. Along with the California Coalition for Rural Housing (CCRH), groups such as the Rural Community Assistance Corporation (RCAC), the Enterprise Foundation, and the Housing Assistance Council (HAC) have proactively engaged and worked with Native communities on a long-term basis to build capacity, introduce new resources and catalyze programs and projects. Decisive investments from the U.S. Department of Agriculture (USDA)'s Rural Community Development Initiative (RCDI) program funded CCRH's Tribal Capacity Housing Development Program (THCDP) over the last eight years, which enabled CCRH to carry out intensive, customized and ongoing work with Indian Tribes.

". . . technical assistance catalyzed new forms of collaboration with Indian tribes which, in turn, lead to more intensive levels of tribal participation."

This education and training steadily improved tribes' competitive status in vying for housing funds. California's first Native American community housing development organization was certified and the state also made its first Native American HOME funding award. Technical assistance Increased awards for housing and related infrastructure in Native Communities from many affordable housing funding sources including the Federal Home Loan Bank's Affordable Housing Program (AHP), USDA Rural Development programs, former California Redevelopment Agency local housing funds, and HUD Rural Housing and Economic Development funds. Housing counseling and foreclosure mitigation programs were funded and established through foundation grants new to Indian Country. Workshops, consultations and other types of training carried out during this period raised knowledge and skill levels of core competencies and introduced best practices for a full range of housing project and program functions. Subject matter ranged from grant writing, housing rehabilitation, development using manufactured housing, financial literacy, project management, site evaluation, and financial feasibility analysis.

Besides the value of the services brought into Indian Country, the continuity and extent of rural nonprofit organizations' work demonstrated the commitment needed to cross cultural barriers, establish credibility, and build strong relationships with Native American leaders and communities. Although hard to quantify, solidarity, trust, confidence, organizational relationships, collaboration and mutual support underlie the strength and effectiveness of the Native American affordable housing movement in California, whether at the state, regional, or local level. These kinds of relationships laid the foundation from which a Tribal Pilot Program could be established. Long term commitment is especially important in working with Native Americans, as their communities have long been subjected to ineffective and underfunded federal programs, unresponsive bureaucracies, and the unwanted interference of outside enterprises interested in economic advantage at the expense of tribes.

Tax Credit Allocation Committee: The Right Agency

To ensure this trust and commitment, it was crucial to the Tribal Pilot Program to have on board an agency that was receptive to tribal housing needs, willing to look at difficult historical tribal access issues, and committed to meaningful dialogue and change. California's Tax Credit Allocation Committee (TCAC) well fit this role. TCAC has a well-deserved reputation for being especially proactive and engaged with program users to fairly balance a highly competitive program with limited resources that must meet the extensive and complex affordable housing needs of a diverse state. To carry out this complex balancing act, TCAC has had to be responsive and even-handed without alienating sophisticated and passionate user constituencies across California.

Previous attempts to address the lack of tribal LIHTC awards and poor access to the program were unsuccessful largely because they were isolated, consultant-led efforts. TCAC had not been approached through a constituency-led effort, in the form of an alliance of Native American tribes and housing agencies with rural nonprofit housing organizations and advocates. Lacking data to show tribal housing needs or documentation of interest in the program also complicated these efforts. It became clear that a Native-led coalition would need to initiate and participate in an ongoing process of engagement that could put a face to the issue and demonstrate the larger extent and context of a widespread tribal problem, as opposed to the difficulties of an individual project.

Progressive Engagement

Extensive dialogue and education of all parties involved, along with the development of trust and mutual respect built over time, made this coalition possible. Over time, technical assistance catalyzed new forms of collaboration with Indian tribes which, in turn, lead to more intensive levels of tribal participation. Through workshops, state affordable housing conferences, roundtables, networking, and actual projects, staff from housing programs, nonprofit organizations, and other affordable housing advocates became increasingly engaged in formal and informal interactions with tribes. Mutual learning and understanding began to take place. Native Americans learned more about the inner workings of new programs and became acquainted with staff. At the same time, agency staff and affordable housing advocates developed a better understanding of the unique nature of Indian housing problems and the cultural, programmatic, legal, and institutional obstacles Native communities face in trying to access mainstream housing programs.

Before this process, tribes had been unable to effectively compete within California's LIHTC program. Although occasionally an individual tribe and their consultants would bring up programmatic obstacles for tribes, these interactions usually lacked any engagement and support from either the larger tribal or affordable housing communities.

However, as Native American communities learned more about resources outside of limited traditional sources such as NAHASDA, and grew more confident following increasing success in accessing nontraditional funding and programs such as HOME, the USDA 515 Rental Housing Program, and AHP. It was almost inevitable that the coalition's attention would turn toward the LIHTC program. The program is the most widely used in affordable housing development across the country; 90 percent of all subsidized housing developments in the U.S. are funded in part by LIHTC. Through workshops, CCRH board and organizational events, and statewide housing conferences such as Housing California and CCRH's Rural Housing Summit, tribal leaders learned about and became more interested in mainstay affordable housing programs that had long been underutilized by or inaccessible to Native Americans. These activities also provided the perfect venue for tribes to begin discussions with TCAC staff, who were receptive to tribal concerns and interest in the program. This dialogue led TCAC to formally consider addressing tribal LIHTC access and award issues in Native communities.

Tribal workshops with specific sessions on the LIHTC

program and additional meetings with TCAC soon followed. TCAC also began participating in statewide tribal events, and TCAC director William Pavão and Development Program Manager Gina Ferguson joined in planning meetings convened by the Nevada-California Indian Housing Association. In doing this, Nevada-California simultaneously took on the challenge of identifying elements of the LIHTC program that made it difficult for tribes to compete, and established a working committee for this purpose that also included CCRH, Northern Circle Indian Housing Authority, the Enterprise Foundation, Rural Community Assistance Corporation, representatives of individual tribes with potential tax credit projects and Northern Circle Indian Housing Association. This process was supported by two statewide tribal tax credit workshops with trainers from Northern Circle, CCRH, Burbank Housing, Self-Help Housing, Rural Communities Housing Development Corporation, Visionary Home Builders and consultants Travois and VitalSpirt.

As a result of this comprehensive process, a formal statewide tribal housing organization could now engage TCAC as a constituency with solid knowledge of the issues at hand and strong alliances and support from the larger rural nonprofit housing community.

Pragmatic Program Design

TCAC embraced the efforts of the new constituency working to advance the LIHTC tribal issue, and together the groups committed to making changes in the program to enable tribes to successfully compete for tax credits. At this point, by late summer of 2013, TCAC was up against its annual deadline to produce and circulate for public review proposed California LIHTC regulation changes before final adoption prior to the first 2014 round of credit allocations. Getting a tribal pilot program into these proposed regulations required the larger working group to take a pragmatic approach to a number of issues, in particular nailing down the specific barriers that prevented tribal access.

For example, to be awarded tax credits in California almost all LIHTC applications must secure a significant number of competitive points awarded to projects that meet set smart growth criteria, such as close proximity to transit, full service grocery stores, medical services, parks, libraries, and schools. Such scoring puts the vast majority of California tribes at disadvantage, as are situated in rural locations where it is nearly impossible to meet the amenity proximities called for in the smart growth criteria. In the general competitive LIHTC pool in California, an inability to maximize site amenity points can be easily fatal to a project application. Unfortunately, little documentation exists to show the unique difficulties around the proximity of site amenities in Indian Country, and TCAC needed to verify that tribes would continue to be consistently disadvantaged in the competition for credits due to these issues in their rural locations. CCRH therefore undertook a survey of all of California's 108 tribes on this issue that demonstrated conclusively the need for some mitigation for these communities around site amenity scoring.

"The first year of the Tribal Pilot Program successfully resulted in one tribal project award made on June 11, 2014, and a second project award is likely to be funded later in the year."

Assumptions within California's tax credit regulations also complicated applications for tribal housing entities. As noted above, the LIHTC program was designed with the conditions facing affordable housing developers in more typical city or county land sites in mind, which assumes the presence of standard processes and conditions: privately owned land in the form of parcels, lots, or subdivisions, zoning, local government planning and building agency reviews, and approvals by the local governing body.

Since tribes are sovereign nations their governance, legal, and land use systems can be very different from those of city or county governments. All tribal land is held in common much like a land trust, for instance; a household can own a structure and have allotment rights to the parcel it sits on, but the land itself cannot be sold or possessed by an individual party or entity other than the tribe. This situation, in turn, makes it extremely difficult to appraise the value of an individual parcel of land. Tribal governments typically do not include a separate planning commission that handles building permits, zoning regulations, and other development concerns. Though many tribal governments have effective processes in place to approve new development, they use different terminology, review, and approval processes, which may be drafted and carried out by various tribal departments and officers of tribal governments. To remove these regulatory obstacles, tribal leaders, rural housing advocates, and TCAC staff undertook a painstaking review of tribal land use practices. Changes to TCAC regulations resulting from this review removed, adjusted, or expanded regulatory language so that no tribal application would be hindered by regulatory or administrative requirements that were impossible to meet within their systems of government, such as land appraisals, building permits and zoning.

With the regulatory cleanup completed, the group pressed forward on the final design of the program. A flexible and pragmatic compromise emerged that effectively

opened up the LIHTC program to tribes in time for 2014 application submissions. There were many issues to address in this effort. As noted, the creation of special tribal criteria that would enable competition in all LIHTC regional apportionments, housing goals, and set asides would simply be impossible to incorporate into the proposed regulations changes that would need to be drafted by September 2013 in order to allow for adequate public review. Further, the potential backlash likely to arise from different constituencies had to be minimized around the idea of opening up an already oversubscribed program. Due to the highly competitive nature of credit allocations in California, the program is constantly subjected to the appeals of applicants vying to secure more favorable apportionments and increases in set asides for their particular interests had to be minimized. Finally, TCAC and the Tribal/Affordable Housing alliance could not be sure how many applications would be submitted to a program that had been inaccessible and unused for 30 years once it had been opened up.

The result was a compromise – the Tribal Pilot Program. Because of the CCRH study documenting the rural location of the vast majority of California tribes, TCAC agreed to use a small portion of the LIHTC rural set-aside amounting to $1 million in credits per year, to fund the Tribal Pilot Program. In the interest of getting a viable program in place for 2014, the program would be established as a tribal set-aside within the rural category, in which the site amenity/smart growth rating factors would still be in place but mitigated by limiting competition to only tribal applications. With tribes only having to compete within the Pilot Program, they would not have to necessarily hit maximum rating point ceilings – as is almost always required to receive credits in the general competition -to have a project funded. Further, TCAC and the tribal/rural housing alliance could use the 2014 experience to learn from the program's first year of operation and further refine the program. This would especially provide some time to document the impact of the site amenity/smart growth rating factors and identify viable tribal projects that could not successfully apply due to this factor. As the Tribal Pilot Program was being adopted, two Native American Tax Credit workshops were held in Central and Northern California to introduce both the new Pilot Program and also to provide training to tribes on the nuts and bolts of the program. TCAC participated in these workshops as trainers and also to receive feedback from tribes.

Now competitive tribal applications could be submitted to TCAC. The first year of the Tribal Pilot Program successfully resulted in one tribal project award made on June 11, 2014, and a second project award is likely to be funded later in the year. The program is also yielding new information and experience that will help TCAC further refine the program for 2015.

Lessons from California

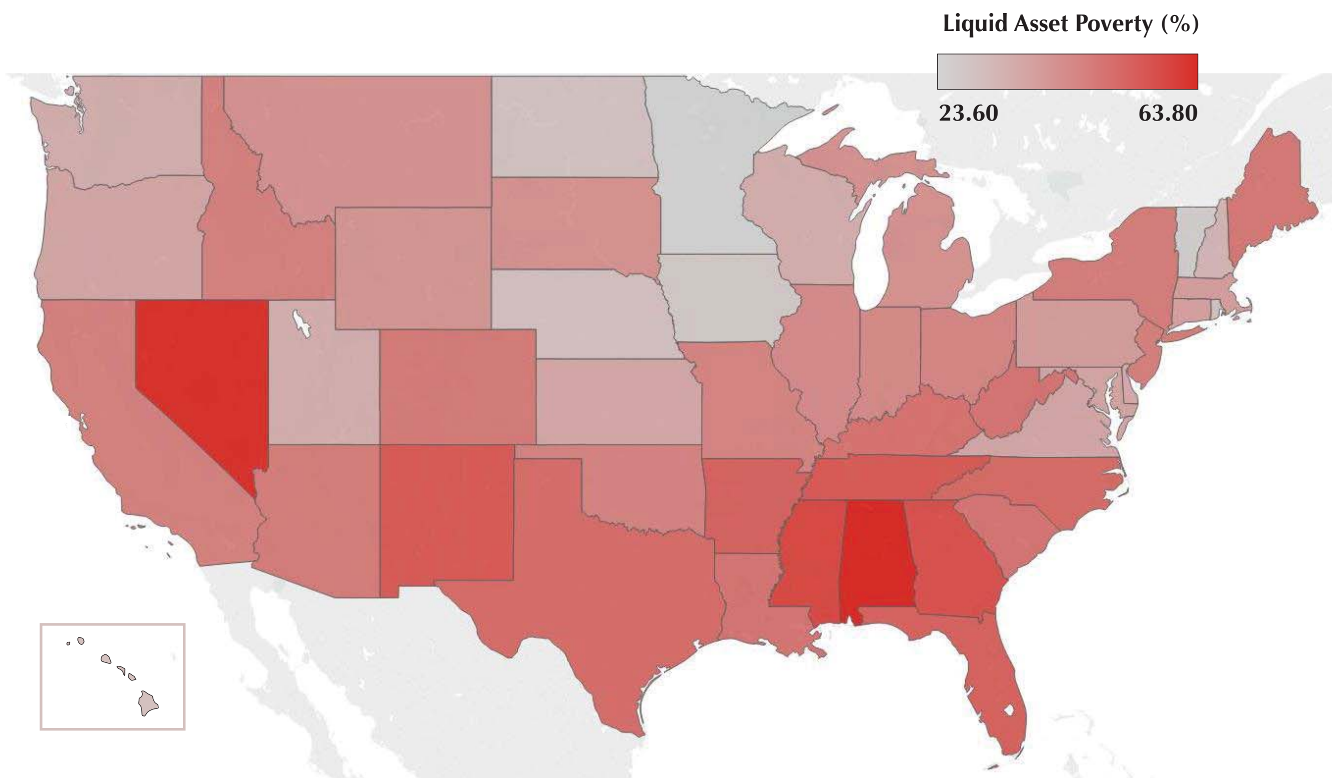
The California experience illustrates how housing practitioners and agencies together can begin to address entrenched poor housing conditions in Native communities by facilitating fair access for Indian tribes to crucial funding programs. To do this, housing agencies must be willing to invest the time and commitment to work with new Native American partners, to understand their needs, address program issues that block access, and make necessary adjustments in program regulations. The housing needs of battered women, people with AIDS, farmworkers, those with physical and mental health conditions, and veterans are all constituencies that have gone through similar struggles to illuminate their unique housing needs The same kind of partnerships and outreach models that have focused resources and attention on these formerly overlooked constituencies are central to the success of tribal efforts. In the case of the Tribal Pilot Program, alliances formed as the affordable housing community demonstrated their commitment to addressing the needs of Native communities have endured as trusted relationships that can continue to address ongoing and future Native housing needs and concerns.

Additionally, the success of the drive to open up the LIHTC program to tribes has borne fruit in other areas. Newly empowered by the success of the LIHTC Tribal Pilot Program, tribal leaders have reached out to the California Department of Housing and Community Development to ensure that the 2015 State Housing Plan, for the first time, will document tribal housing needs and identify how state housing programs will be used to help address them. Productive meetings have already taken place with the Governor's Tribal Liaison and the Director of California's Housing Programs, establishing commitments to substantive tribal participation in the development of the plan. Rural housing advocates and tribal leaders are also planning the state's first summit solely dedicated to bringing together the state's affordable housing and tribal housing communities. Now more than ever, these alliances and efforts are needed to build and strengthen bonds and expand housing resources for long overlooked Native communities in this time of austerity. CI

DATA SNAPSHOT

Liquid asset poverty measures the amount of liquid savings (including cash and financial assets that can be sold quickly) that households have on hand in order to cover three months of basic living expenses. Almost half (44%) of households nationwide are in this situation, with the strongest concentration of liquid asset poor in Nevada and Alabama. In some states, households of color have far higher rates of liquid asset poverty than white households; Maryland and Illinois show the greatest disparity in household liquid asset poverty by race and ethnicity.

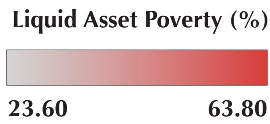
Percentage of Households Experiencing Liquid Asset Poverty, 2013



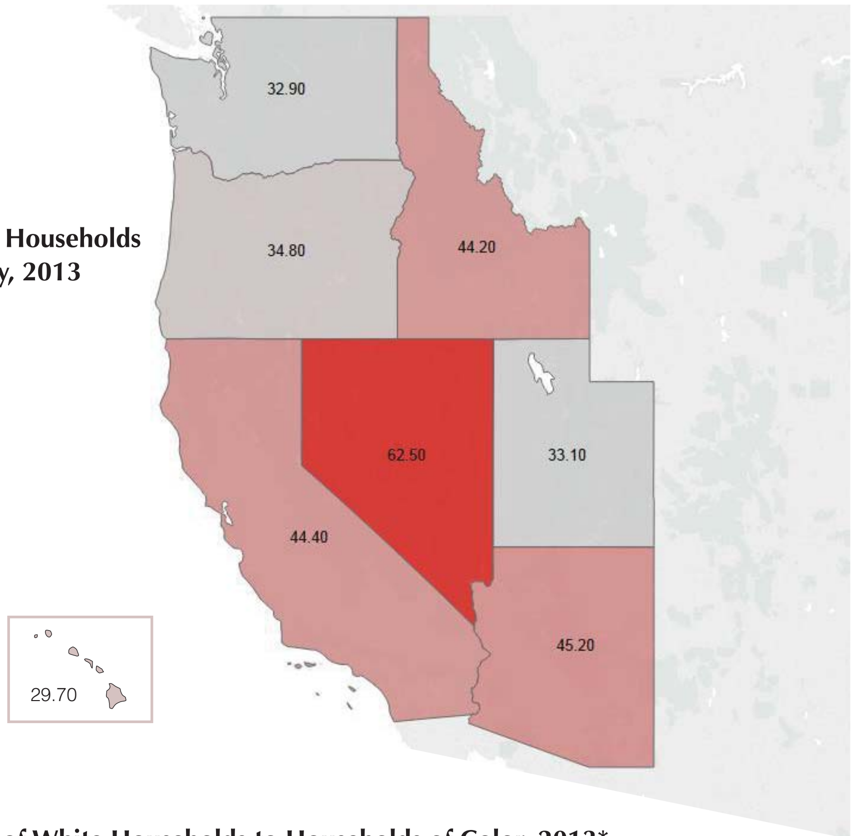
Source: CFED 2013 Scorecard; data for Alaska not available

Percentage of 12th District State Households Experiencing Liquid Asset Poverty, 2013

Liquid Asset Poverty (%)

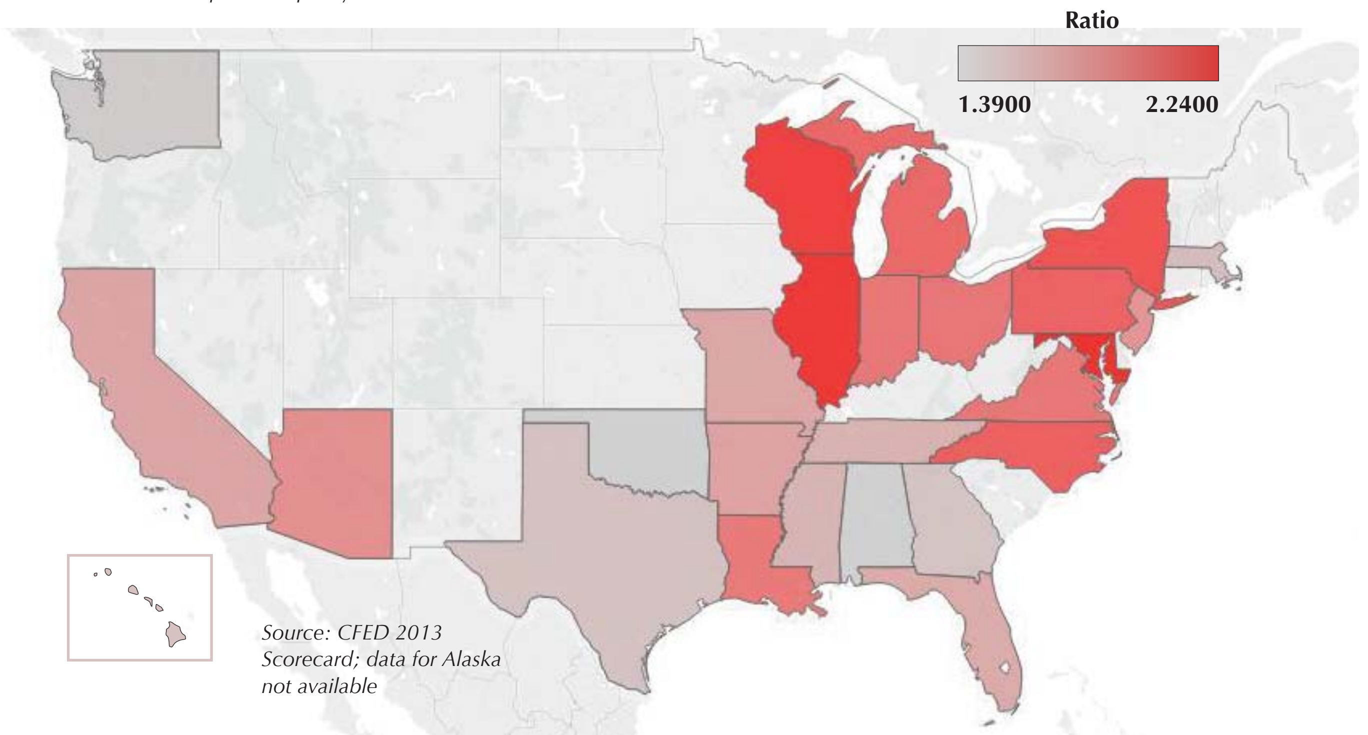


23.60 **63.80**



Ratio of the Liquid Asset Poverty Rate of White Households to Households of Color, 2013*

**A ratio of 1 indicates perfect equality.Data unavailable for states that are not shaded.*



Source: CFED 2013 Scorecard; data for Alaska not available

RESEARCH BRIEFS

Regional Disparities Across U.S. in "Good" and "Bad" Debt Accumulations

Five years after the recent recession, total American household debt levels remain well above pre-recession figures. A new Urban Institute analysis of 2013 TransUnion credit data provides new insight into how that debt is distributed, finding that different types of debt are concentrated in different regions of the country.

The authors note that overall household debt levels are highest in certain areas along the Pacific Coast and between Washington, DC and Boston on the East Coast, where the majority of debt is held in the form of mortgage loans. Nationally, mortgage debt makes up an average of 70 percent of total household debt, but this proportion is higher in states such as California, Hawaii, and Massachusetts that include higher-cost housing markets. With an average mortgage debt of over $97,000, San Jose tops the MSA list on this measure, with Seattle and Honolulu not far behind. The lowest levels were found in Texas and across the Midwest. The authors suggest that significant mortgage debts in affluent coastal areas may be indicative of households generally building credit and wealth, as the homeowners in these areas are more likely to itemize their taxes and take advantage of the mortgage interest deduction. Average non-mortgage debt levels, which include credit card, student loan, and vehicle loan debts, are much smaller amounts overall, but are highest in New England and lowest in the Southeast. By contrast, the authors note that aside from some student loan debts, higher concentrations of non-mortgage debt may signal regions where excessive spending has damaged household credit and community stability.

Looking at debt relative to income, the authors observe a notable difference between mortgage debt and non-mortgage debt. While Western states such as Hawaii, Washington and Idaho have the highest rates of mortgage debt relative to income, states across the South such as Mississippi and Texas have lower ratios. At the same time, relative non-mortgage debt-to-income levels are highest in the South, with the lowest levels found in California.

The analysis also considers delinquent debts, including payments over 30 days past due and debt in collections. Just over five percent of Americans with a credit file show debt past due on credit card accounts and other non-mortgage loans, with little geographic variation but slightly higher rates in the South. A wider range of debts can end up in collections, however, such as medical bills and parking tickets, and the rates of these debts are much higher; nationally, 35 percent of those with credit files, or 77 million Americans, have debt in collections. While the proportion of those with debt in collections is generally higher in Southern states, Nevada had the highest rate at 47 percent. New England showed the lowest regional level on this measure, with 25 percent of residents with credit files showing debt in collections.

The authors identify some limitations within the data; most notably that it does not speak to the debt holdings of 22 million Americans without credit files, who are more likely to be low-income. The data does not include information about the debts of those who borrow from friends and family or those who use alternative financial services such as payday loans. Future research, the authors note, should also examine the causes of the geographic disparities in debt amounts and types of debt observed in this paper.

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Study Shows Impact of Racial Bias in Gentrifying Chicago Neighborhoods

While there are conflicting views of how to identify and measure the extent of gentrification in urban neighborhoods, one common assumption is that the process of gentrification results in the displacement of lower-income minority residents as an increasing number of wealthier white residents move in. A recent study by Harvard University researchers Jackelyn Hwang and Robert Sampson, however, reveals a different pattern of gentrification in Chicago, where incoming higher-income white residents appear to bypass those neighborhoods with higher concentrations of minority residents in favor of those with higher concentrations of existing white residents. The authors suggest that their findings provide evidence of a racial bias at work in the gentrification process in these areas.

To identify markers of gentrification, Hwang and Sampson compared Google Street View images taken from 2007 to 2009 of 1,905 block faces (each constituting a single side of the street for a given block) with photographs that researchers took of the same block faces in previous studies. The researchers identified gentrifying blocks using a number of indicators, including evidence of new or rehabilitated buildings and street improvements, a lack of structural decay, and the presence of green roofs and Starbucks coffee shop locations. They then supplemented these visual markers with demographic data from the Census and Chicago crime and health data to assess the commonalities between the blocks that are gentrifying.

Not surprisingly, the researchers found that blocks that showed visual signs of gentrification generally were occupied by high income residents, and showed higher home values and rents. More significant is that Hwang and Sampson's study uncovered a clear racial component to gentrification, showing that the process was much more prevalent in Chicago neighborhoods that were at least 35 percent white, and much less prevalent in neighborhoods that were at least 40 percent African American. Visual markers of gentrification were also inversely correlated to a neighborhood's percentage of Hispanic residents.

The authors acknowledge that the racial differences in gentrifying neighborhoods may be starker in Chicago than they would be in other cities with a less pronounced history of racial segregation, and that neighborhood disinvestment in certain areas may reflect the effects of the recent economic downturn, given that the Google Street View images were taken between 2007 and 2009. They also admit an "undeniable level of subjectivity" inherent in the physical indicators of gentrification they chose to measure.

Despite these issues, however, the authors assert that their findings indicate that higher-income white "gentrifiers" show an "observed limit" in the desired concentration of minority residents in the neighborhoods to which they move, adding an important caveat to the broader claims of previous studies that suggest those moving into gentrifying areas prefer integrated neighborhoods. Neighborhoods with higher percentages of African American or Hispanic residents do not show the same degree of gentrification and accompanying physical improvement investments, according to the researchers' findings, as those where whites make up more than one-third of the population.

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Native Americans and the Low Income Housing Tax Credit Program: Lessons from the California Tribal Pilot Program

1 See <http://www.nahma.org/Leg%20area/National%20Consensus%20Letter%20LIHTC%20ACTION%208-26-11_FINAL.pdf>

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