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RAISE Texas has rolled out a multi-year action agenda to improve financial self-sufficiency for low-income Texans.

RAISE Texas:
Moving Texans Toward Financial Success

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Banking and Community Perspectives

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The Houston nonprofit Covenant Community Capital Corporation started an asset-building project several years ago that now involves more than 100 partner organizations. Led by director Woody Widrow, RAISE Texas' mission is to promote effective and sustainable initiatives that help individuals and families escape poverty by increasing personal finance skills and building assets. Through these actions, individuals and families can increase their effectiveness and confidence and foster intergenerational economic stability.

The asset-building movement began in the 1990s as an antipoverty strategy providing working families with access to economic opportunity and incentives to save. A 2006 issue of Banking and Community Perspectives*, "Asset Building and the Wealth Gap," explains the asset-building movement and why it is increasingly difficult for low-income families to make ends meet and prepare for financial emergencies, much less retirement.*

The RAISE Texas movement is addressing the need for economic stability and self-sufficiency through four action campaigns—matched savings, community tax centers, alternative small-dollar consumer loans and home mortgage foreclosure prevention.

This issue of Banking and Community Perspectives *describes the action plans and the progress made to date toward those goals as RAISE Texas partners across the state continue their work to move Texans toward financial success.*

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Moving Texans Toward Financial Success

What began several years ago as a network of matched savings programs to encourage low-income Texans to save has blossomed into a statewide, comprehensive asset-building movement now known as RAISE Texas. RAISE—which stands for resources, assets, investments, savings and education—recently kicked off a multiyear action agenda to improve financial self-sufficiency for low-income Texans. In April 2008, the RAISE Texas Action Summit held in Houston attracted 140 asset builders from across Texas. Representatives from financial institutions, community development organizations and local governments; workers at Volunteer Income Tax Assistance (VITA) sites; financial and homebuyer education practitioners; credit counselors and others coordinated their efforts in expanding asset-building opportunities for Texans.

The campaign includes initiatives in four areas:

- Matched savings programs, including children's savings accounts and individual development accounts (IDAs)
- Community tax centers
- Alternative small-dollar consumer loans
- Home mortgage foreclosure prevention

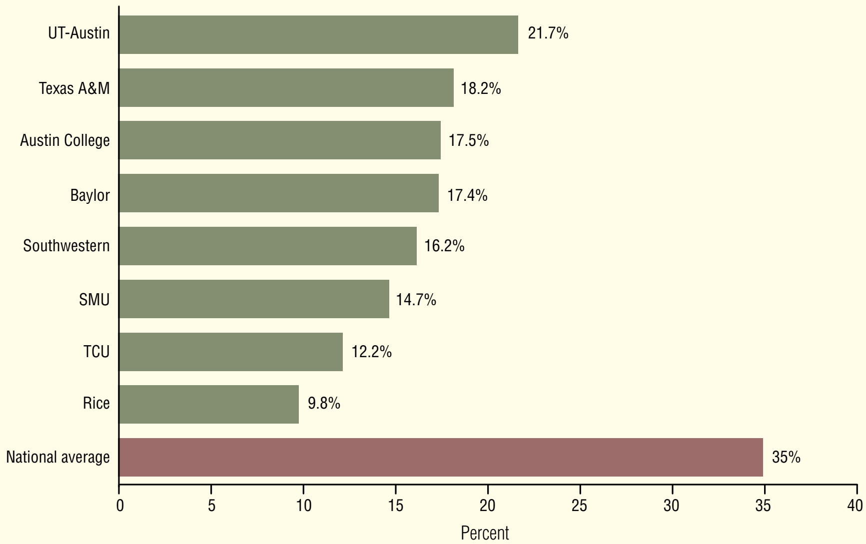
Matched Savings Work Group

The RAISE Texas action plan for matched savings includes efforts to increase accessibility of the Texas prepaid college tuition plan, develop support to provide state matching funds for the plan and create intergroup support for nonprofit-sponsored IDA plans in Texas. Many states, including Texas neighbors Louisiana, Oklahoma and New Mexico, have supported matched savings programs to promote saving and open the door to education, employment and homeownership for low-income households. It has long been a goal of the RAISE Texas coalition to obtain state funding for IDAs, which could provide the match required to obtain available federal funding.

The Texas higher education system faces many challenges in enrolling students from low- and moderate-income households. The state has a low overall graduation rate and, compared with other states, one of the smallest percentages of college-age population enrolled in college. A recent study by the Texas Public Policy Foundation's Center for Higher Education suggests that the state's public university system may be promoting a growing elitist society where only those students from families with considerable assets have access to the state's top universities.[1] In the U.S. as a whole, about 35 percent of American undergraduates receive federal Pell Grants, need-based grants to low-income students. Texas' top-ranked universities (ranked by *U.S. News & World Report*), and those that receive the most state resources, have a significantly

Figure 1

Top Texas Universities Lag Nation in Pell Grant Recipients, 2006



SOURCE: Reprinted with permission from "Texas' Higher Education System: Success or Failure?" by Richard Vedder and Matthew Denhart, Texas Public Policy Foundation, May 2008.

According to "Closing the Gaps by 2015," the state's master plan for higher education, "in comparison to California, New York, Florida and other large states, Texas falls short in higher education enrollment rates, degrees awarded, federal research funding and nationally recognized programs."

smaller percentage of students receiving Pell Grants (*Figure 1*).

According to "Closing the Gaps by 2015," the state's master plan for higher education, "in comparison to California, New York, Florida and other large states, Texas falls short in higher education enrollment rates, degrees awarded, federal research funding and nationally recognized programs." The master plan was adopted by the Texas Higher Education Coordinating Board in 2000 to focus the state's efforts on closing the gaps between Texas and other large states in four areas: participation, success, excellence and research.[2]

The goals to be achieved by 2015 are as follows:

- Participation goal: Add 630,000 more college students.
- Success goal: Award 210,000 degrees from high quality programs.
- Excellence goal: Substantially increase the number of nationally recognized programs.
- Research goal: Increase the level of federal science and engineering research and development obligations to Texas institutions to 6.5 percent of the national obligations.

Following the summit, the Matched Savings Work Group presented recommendations to the state comptroller's office and the Texas Higher Education Coordinating Board regarding design of the Texas Tuition Promise Fund, the latest version of the state's prepaid tuition plan. The work group's recommendations were approved, including (1) a matched savings provision to help low- and moderate-income families save for college, (2) reduction of the minimum opening amount to $25, (3) extension of the annual enrollment period through February to encourage deposit of tax refunds, and (4) a requirement for disclosure of race, ethnicity and income to ensure that the program meets "Closing the Gaps" guidelines. On Sept. 10, 2008, the state announced program changes to the fund.[3]

The next steps for the work group are (1) developing a strategy for support of legislation for state funding that can be used to match the savings of low-income families and (2) outreach to foundation and corporate resources.

The Matched Savings Work Group's presentation to the comptroller's office also served as an introduction to the work of RAISE Texas' Community Tax Centers Work Group. The comptroller's office is now planning to partner with community tax coalitions across the state to promote participation in the Texas Tuition Promise Fund to taxpayers. With the option available to deposit a tax refund among three different accounts, the hope is that families will use tax time to set up or make an annual deposit to a children's savings account.

Several states have approved funding for similar children's savings account programs.

In Arkansas, the legislature has appropriated funds for a pilot project that will match the savings deposits of low-income families in the state's college savings plan. The state is currently enrolling families in the program, and state leaders hope to expand it.

In Maine, the recently launched Harold Alfond College Challenge will provide every newborn in Maine with a $500 grant to be invested in the state's college savings plan. The College Challenge, a partnership between the Harold Alfond Foundation and the Finance

Authority of Maine, began as a pilot in two Maine cities in January 2008, with statewide expansion planned for 2009.

In Oklahoma, the SEED for Oklahoma Kids (SEED OK) initiative was recently announced. SEED OK will provide a $1,000 match to the state's Section 529 college savings plans for more than 1,000 Oklahoma babies and launch a seven-year study to determine the economic and educational impact of a children's savings account program. Families can make additional deposits to their children's accounts, and deposits will be matched with up to $250 per year for four years, depending on income eligibility.

SEED OK is a collaboration between the Oklahoma State Treasurer and the Center for Social Development (CSD) at Washington University in St. Louis. Michael Sherraden, founder and director of CSD, is the creator of individual development accounts. Sherraden said of the SEED OK study, "If results are positive, the policy goal will be to have an account for every newborn in the nation."

Community Tax Centers Work Group

The RAISE Texas action plan for community tax centers includes steps to (1) form a better dialogue between community tax centers and the IRS, (2) host statewide training for tax center staff and (3) develop bipartisan support for legislative efforts.

Karen O'Neill, territory manager for the IRS Stakeholder Partnerships, Education and Communication (SPEC) in Oklahoma and western Kansas, presented information at the April summit about the IRS role in supporting community tax coalitions. The IRS started the SPEC program in 2000 to train and certify volunteers to administer VITA programs using free IRS software. By 2008, over 2.8 million tax returns, in electronically filed returns alone, were filed through tax coalition efforts in communities across the U.S. O'Neill explained that although the number of individual VITA sites is decreasing, there is an increase in the number of volunteers and number of coalitions being formed to add larger, more productive sites.

Another perspective on community tax coalitions was offered at the summit by Michael Goeken, special projects manager for San Antonio's Department of Community Initiatives. Goeken announced another record-breaking year for the city's earned income tax credit and VITA coalition. The Coalition for Family Economic Progress in San Antonio is second only to New York City's VITA program in the number of personal income tax returns filed, with over 43,000 filings in the 2007 tax season.

Goeken explained that while the city is honored to have its asset-building initiative replicated by many other communities and is committed to its continued growth, the program also represents a significant financial commitment from the city. Not including in-kind contributions, the program cost over $700,000 this past tax season. It is a massive effort by numerous partners, including local chapters of United Way and Catholic Charities. One key to the coalition's high volume is city funding that provides paid staff to oversee each VITA site.

In response to work group recommendations made at the summit, representatives from the IRS and TaxWise (the software program used by VITA sites) are hosting train-the-trainer programs this fall in four Texas cities. These training events are for individuals responsible for the administration and maintenance of the TaxWise program, as well as for VITA program staff and volunteers. RAISE Texas has received a grant from the Texas Credit Union Foundation for scholarship funds for the training to be used by individuals representing nonprofit organizations.

The 2008 TaxWise training was held in Dallas in September and in El Paso in October. Future training sessions will be held

One of the Houston Asset Building Coalition's VITA sites in 2008. To increase participation in free tax preparation, the Houston Asset Building Coalition has joined forces with Neighborhood Centers Inc. under a new name, Neighborhood Tax Centers.

Table 1

The Impact of Payday Lending on Texas' Largest Cities, 2006

City	Number of payday lenders	Payday loan value (millions)	Payday loan fees (millions)	Share of alternative financial service providers in lower-income neighborhoods* (percent)
Austin	52	$90.8	$14.8	66.5
Dallas	98	$171.2	$27.8	71.1
El Paso	59	$103.1	$16.8	79.2
Fort Worth	68	$118.8	$19.3	83.1
Houston	237	$414.1	$67.3	76.2
San Antonio	136	$237.6	$38.6	83.3

*Alternative financial service providers include check cashers, pawn shops and payday lenders. The Brookings study divides neighborhoods into four income groups: low income, lower middle income, higher middle income and high income. This figure includes the first two groups.

SOURCE: Brookings Institution. Reprinted with permission from "The Hidden Costs of Payday Lending," by Don Baylor, *Texas Business Review*, Bureau of Business Research, University of Texas at Austin, April 2008.

in San Antonio on Dec. 2–4 and Houston on Dec. 9–11.

Alternative Small-Dollar Consumer Loans Work Group

The RAISE Texas focus on alternative small-dollar consumer loans began as a concern that growing use of payday advance loans by low- and moderate-income borrowers was stripping them of their limited assets, rather than helping them build assets.

According to the Community Financial Services Association of America, growth in the payday advance industry since the 1990s is due to the exit of traditional financial institutions from the small consumer loan market along with increasing bounced check and overdraft fees charged by banks.[4]

Critics of the industry claim that payday lending is predatory, that the two-week loans trap financially vulnerable and uninformed consumers in a cycle of debt in which they repeatedly need new loans to repay old ones.

The Texas payday lending industry is estimated at nearing $3 billion annually, between principal loan amounts of $2.5 billion and an additional $500 million to $600 million in annual interest and fees.[5]

A recent Brookings Institution study mapped alternative financial services such as check cashers and payday lenders in 29 U.S. cities, including the six largest cities in Texas. The study found the majority of alternative financial service provider locations are concentrated in low-income census tracts in each of these cities (*Table 1*).

However, the Brookings study also showed that traditional bank and credit union branches have an even larger coverage of lower-income areas of cities, with traditional financial institutions' branches located in 56 percent of lower-income neighborhoods, compared with nonbanks covering 31 percent of such neighborhoods.

By using traditional banking services and avoiding check-cashing fees alone, the average full-time worker would save more than $40,000 during his lifetime. Asset builders teach unbanked workers how they can build wealth by instead investing that $40,000 throughout their career, then retire with a nest egg of $360,000.[6]

The RAISE Texas work group set out the following task list to evaluate the payday lending industry in Texas and create policy recommendations and strategies:

- Develop a fact sheet about payday lending in Texas.
- Compile market analysis of products and alternatives and help develop products

that serve customers' needs.

- Sponsor a policy forum. (As a result, the Federal Reserve Bank of Dallas teamed with the University of Texas IC² Institute to sponsor "Payday Lending: Realities and Challenges" in November.)
- Collect information on local ordinances that restrict payday lending in municipalities throughout the U.S.; recommend and support ordinances in 20 Texas cities within one year. (Three Texas cities have passed such ordinances to date: Mesquite, Richardson and San Antonio. And the group is currently working with two additional cities.)

Home Mortgage Foreclosure Prevention Work Group

Foreclosure has cost many thousands of Texans their most valuable asset, their home. Asset preservation is an important goal of the RAISE Texas coalition, so it was natural to form a work group to reduce the increasing number of home mortgage foreclosures in Texas. At the RAISE Texas Action Summit in April, JoAnn DePenning, statewide director of the Texas Foreclosure Prevention Task Force (TFPTF), led the work group to form the following goals:

- Increase outreach to homeowners in areas of high foreclosure rates, including publicizing the HOPE hotline (888-995-HOPE), a national foreclosure prevention hotline.
- Support the newly created statewide task force and related press events.
- Support homeowner workshops hosted around the state by local coalitions and the national HOPE NOW coalition.
- Commit to national housing counseling standards being supported by NeighborWorks America.

Many members of the Foreclosure Prevention Work Group assisted with TFPTF press events held in six Texas cities this year. Additional assistance with these events was provided by the Texas Department of Housing and Community Affairs.

The goal of the press events was to bring public attention to the national toll-free hotline and other local resources available to help homeowners avoid foreclosure. Media outreach reports show that the events reached more than 4 million Texans. And call volume to the HOPE hotline increased significantly as a result of each of the Texas outreach efforts.

The RAISE Texas work group also partnered with the national HOPE NOW alliance to host consumer workshops in Texas (in Arlington and San Antonio in June). Over 800 families received foreclosure prevention assistance from local nonprofit housing counselors and national lenders and loan servicers. A third HOPE NOW workshop is planned for Texas, to be held in Houston in November. Organizers say that the event itself is not the only focus of the effort.

"We want to convey the message that there's help available every day, not just the day of the workshop," DePenning explained.

A continuing goal of each of the RAISE Texas work groups is recruiting new partners and members. Anyone interested in participating in these efforts to move Texans toward financial success may contact Woody Widrow via e-mail at woody@covenantcapital.org or Lauren Gates at Lauren@covenantcapital.org.

Notes

1 "Texas' Higher Education System: Success or Failure?" by Richard Vedder and Matthew Denhart, Center for Higher Education, Texas Public Policy Foundation, May 2008, www.texaspolicy.com.

2 "Texas Higher Education Quick Facts 2008," Texas Higher Education Coordinating Board, 2008, www.thecb.state.tx.us/Reports/PDF/1096.PDF.

3 See www.everychanceeverytexan.org.

4 The Community Financial Services Association of America represents more than 150 member companies representing over half the 22,000 payday advance locations nationwide. For more information, go to www.cfsa.net.

5 "The Hidden Costs of Payday Lending" by Don Baylor, *Texas Business Review*, Bureau of Business Research, IC² Institute, University of Texas at Austin, April 2008, www.ic2.utexas.edu/bbr/texas-business-review.html.

6 "Banking on Wealth: America's New Retail Banking Infrastructure and Its Wealth-Building Potential," by Matt Fellowes and Mia Mabanta, Brookings Institution, January 2008, www.brookings.edu/reports/2008/01_banking_fellowes.aspx.

A National Perspective on Asset Building


Leigh Tivol

Leigh Tivol, senior program manager with the Corporation for Enterprise Development (CFED) in Washington, D.C., presented the national perspective on the asset-building movement at the RAISE Texas Action Summit in April. CFED is a national nonprofit organization—as Tivol says, a "think and do tank"—with a mission to provide access to economic opportunity for people and families across the income spectrum. Ten years ago, CFED's American Dream Demonstration was the first large-scale national test of Individual Development Accounts (IDAs). Today, there are about 80,000 IDA accounts nationally.

IDA programs are no longer the newest fad, Tivol said. "Now it's a given that matched savings programs are key to giving low-income people a way out of poverty."

Tivol cited a few of the central findings from the American Dream Demonstration and other research, including:

- Low-income families can and do save.
- Savings and investment income—above earned income—reduces intergenerational poverty transmission.
- Savings have psychosocial benefits for adults, and these also likely enhance the well-being of children.

To the audience of IDA program administrators and representatives of the financial institutions that support these programs in Texas, Tivol emphasized that simplicity is the key to policy acceptability, scalability and program accessibility. Ease of use includes reducing barriers and promoting automation. For example, direct or automatic deposits to savings make the logistics of saving comparatively effortless. Tivol asked, "Would any of us do a good job of saving to our retirement accounts if we had to walk to the bank every two weeks to make our deposits?"

Tivol described the roles for community-based organizations, financial institutions and government in efficient and successful IDA programs:

- Community-based organizations (CBOs) often represent the trusted advisers for families and the frontline face of matched savings accounts. CBOs can play a critical role in outreach, enrollment and support of accountholders, as well as delivery of financial education.
- Financial institutions are needed to house accounts, create and refine appropriate savings products, and in some cases, deliver financial education themselves. In addition, financial institutions play an essential role in providing the back-office systems to manage accounts. While CBOs often try to tackle account management themselves, this is not usually the primary area of expertise for local nonprofits. Tivol recommends that this account management be handled to the extent possible by financial institutions that have the infrastructure and expertise to do so.

Financial institutions are needed to house accounts, create and refine appropriate savings products, and in some cases, deliver financial education themselves. In addition, financial institutions play an essential role in providing the back-office systems to manage accounts.

- IDAs, children's savings accounts and other matched savings accounts require funding, not just for matching savings and other savings incentives, but also for financial education and operations. All sectors have a role in funding matched savings programs: public—including local, state and federal support—as well as corporate and philanthropic.
- Government funding is the only way to bring matched savings to scale, whether that funding comes from a direct appropriation or from a restructuring of the tax code to incentivize savings.
- Government also can help encourage savings by reducing barriers, such as eliminating asset limits that restrict the amount of money a low-income family can save and still qualify for public benefits such as food stamps.

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