Building strong financial futures for families and communities

Building Family Economic Success

CENTERS FOR WORKING FAMILIES

Centers for Working Families (CWFs) are an innovative new service delivery strategy, bringing together a variety of programs and supports for low-income families in a single location. Situated in community schools, family resource centers, or other community locations, these centers offer a convenient and customer-friendly environment where parents can find the help they need to succeed in the workforce, access available resources, improve their financial management skills, and save for the future. In the case of rural communities, CWF programs and services may not always be located in one place, but they must be convenient and accessible, and should utilize technology to facilitate connections.

The Importance of Centers for Working Families

Federal and state governments, public agencies, and private organizations have developed a wide array of services and programs in recent years to help low-income working families advance up the job ladder, improve their financial literacy (and avoid costly debt traps), open bank accounts and begin saving, and access valuable "work supports" such as the Earned Income Tax Credit, Food Stamps, child care, and subsidized health insurance coverage.

However, these programs and supports are often underutilized by families with fragile finances, and few families who are eligible for multiple programs receive the full array of available opportunities.

Why don't low-income families use these beneficial services more regularly? Many barriers are pervasive: families are often unaware of the services or don't realize they are eligible; many work multiple jobs and have little time to pursue assistance; many lack cars or face other transportation hurdles; some perceive a stigma associated with accepting services. Together, these complications prevent millions of families from taking full advantage of programs that could help them.

Centers for Working Families can help to overcome these barriers and enable families to conveniently and consistently access programs and supports that can improve their lives and move them toward family economic success. Some important facts that illustrate the need for services and supports for low-income working families:

- Since the early 1990s, the federal government and a number of states have created or expanded a range of financial and non-financial work supports that can fundamentally change the income calculus of low-wage work. However, take-up rates for most work supports are well below 100 percent, and many are below 50 percent.
- Up to 20 percent of all American households do not have an account with a bank or credit union, meaning they must pay for services like check cashing and bill paying, and they are unlikely to accumulate savings.
- Forty percent of all white children and 73 percent of all black children grow up in households with zero or negative net financial assets.
- Few low-income workers are advancing to higher paying jobs: one study found that only 27 percent of workers who earned less than $12,000 a year from 1993–95 were consistently earning more than $15,000 six years later.

Strategies for Family Economic Success

The Annie E. Casey Foundation believes that the children in greatest trouble in America today are those whose parents lack the earnings, assets, services or social support systems required to consistently meet their families' needs. Most of these children are growing up in impoverished communities that are disconnected from the economic mainstream. The Foundation is working to help these isolated families secure adequate incomes, accumulate savings and live in stable, economically viable neighborhoods through a combination of workforce development, family economic supports and community investment strategies—an approach known as building *family economic success,* or FES. This fact sheet is one in a series outlining the key strategies of the Foundation's FES grantmaking agenda.

Centers for Working Families

The Earned Income Tax Credit (EITC)

Financial Planning and Education

Financial Services

The High Cost of Being Poor

Homeownership and Predatory Lending

Individual Development Accounts (IDAs) and Other Savings Tools

Workforce Development

Work Supports

Building Family Economic Success
CENTERS FOR WORKING FAMILIES

Resources

Bon Secours (Baltimore)
(www.bonsecours.org/baltimore)

Chicago LISC
(www.lisc-chicago.org)

Seedco (NYC)
(www.seedco.org)

FES and Centers for Working Families

Low-income families might be more likely to achieve family economic success if workforce development programs, income and work supports, financial services, and asset building opportunities could be bundled in a single location – particularly if staff in these centers establish welcoming, supportive relationships with families and help them to set and achieve meaningful economic goals.

The Foundation has funded four prototypes sites (Baltimore, CASA Maryland, Atlanta and Indianapolis) to test that hypothesis and help build the CWF model. These one-stop centers also have been implemented by the Local Initiatives Support Corporation (LISC) network in Chicago, and they've been adapted by Casey Family Services Family Resource Centers in Providence, RI and Lowell, MA.

Casey has invested in management information systems and data collection to begin evaluating the impact of the CWF model. Specifically, the evaluation is seeking to determine whether the Centers will lead to higher incomes and financial stability, greater home ownership, improved financial awareness and/or management skills, and increased self-determination and confidence among participating families, as well as increased consumer spending in neighborhoods where the Centers are situated.

In the coming years, the CWF effort will work toward the following:

- *Refining implementation.* The Casey Foundation will continue to document the lessons learned from the prototype Centers – measuring results, determining best practices, and clarifying the key program elements and organizing principles of the CWF model. New tools also will be developed to assist Centers through coaching support and information technology.
- *Supporting the replication of the CWF model and the sustained funding of existing Centers.* AECF will continue to support the most promising prototype centers and CWF networks in order to demonstrate the potential value and impact of CWFs. In sites that have been most successful, the Foundation will help CWFs expand operations and secure long-term funding support.
- *Developing a broader policy agenda to support CWFs nationally.* Working with local and national policy experts, the Casey Foundation will explore opportunities for widespread replication of the CWF model, and it will identify the policy, regulatory, and procedural barriers that must be overcome before CWFs can be implemented on a larger scale.

Challenges and Opportunities

- The best ways should be identified to not only bring working families into a CWF, but—more importantly—to keep them coming back over time so that they can advance in their careers and capitalize on available work supports and financial services.
- Partnerships should make sure that services and supports are delivered seamlessly to families, even when they are referred to other community resources.
- Technology and innovative case management and coaching techniques can help to ensure that families receive services in an effective and efficient way.
- Sustainability can be achieved through a combination of public and private resources, as well as through fees for service and partnerships with financial institutions.

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The Annie E. Casey Foundation

Building Family Economic Success

THE EARNED INCOME TAX CREDIT (EITC)

The Earned Income Tax Credit (EITC) has become our nation's largest and most important anti-poverty program, offering an average of $1,700 per year to each of 20 million low-income working families. As part of the federal tax code, these credits provide a unique financial opportunity for the working poor and they make a substantial impact on the economies of their communities. EITC campaigns seek to boost the impact of these credits by raising the awareness of eligible families, offering free or low-cost tax preparation services, and encouraging recipients to utilize their credits for saving or building assets.

The Importance of EITC Campaigns

As the largest federal work support program in the country—$37 billion in tax relief annually—the EITC moves over 2.5 million children above the poverty line each year, more than any other federal program. In addition, seventeen states and the District of Columbia have established their own EITCs, lifting tens of thousands more families over the poverty threshold. The credits provide crucial income that hard-working families can use to reduce debt, fund savings, offset education costs, buy a car to get to work, or make the down payment on a home. And they bring millions of dollars into the economies of distressed rural and urban communities. Because they offer benefits only to families who work, earned income credits (and also the federal Child Tax Credits) have earned strong bipartisan support.

Tax incentives are an important part of an asset-building strategy for low-income families that ultimately contributes to their financial stability and the economic viability of entire communities. Unfortunately, millions of eligible taxpayers still do not know that the credits exist, don't know that they qualify, or are paying too much money to claim them. Also, many EITC recipients lack financial education or access to savings programs and other financial services that could help them put credits to optimal use.

Some important facts about the EITC:

- The federal EITC provides up to $4,300 in tax relief to working families with children and limited income, with the largest credits going to families with income less than $15,000 per year and lesser amounts available to families who earn up to $35,000 per year. State EITC programs offer hundreds of dollars in additional tax relief for low-income working families.
- Most EITC benefits are collected by suburban and rural residents, not city dwellers. In 2001, 4.6 million urban EITC filers claimed $8 billion in EITC benefits, while 14.3 non-city residents collected $24.1 billion.
- The IRS estimates that 4 million eligible individuals fail to file for the EITC, which translates to almost $3 billion dollars. Anecdotal evidence suggests that eligibility requirements, complexity and the cumbersome nature of tax filing make filing for the credit an onerous process for many families.
- A 1999 Urban Institute study found that nearly two-thirds of parents nationwide knew about the EITC. But only 55 percent of parents with incomes below 50 percent of the federal poverty level—and only 32 percent of Hispanic families—knew about the tax credit.
- Despite their modest means, an estimated 67 percent of EITC recipients use paid preparers compared to 59 percent of the general population. Tax preparation fees and refund anticipation loans (RALs) siphon away an estimated two billion EITC dollars each year from eligible recipients.

Strategies for Family Economic Success

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Building Family Economic Success
THE EARNED INCOME TAX CREDIT (EITC)

FES and the EITC

Since 1994, the Annie E. Casey Foundation has used strategic outreach and partnerships to increase awareness and use of the EITC by eligible families. Over the last four years, Casey and its partners and allies also have supported free or low-cost tax preparation services for low-income families in both rural and urban sites. In January 2003, the National Tax Assistance for Working Families Campaign was launched as a way to expand the impact of local EITC outreach and free tax preparation projects. Campaign goals include: (1) increasing the number of eligible low-income families who claim the EITC; (2) saving families money through free tax preparation services and by discouraging the use of high-cost refund anticipation loans; and (3) connecting low-wage workers to work supports, financial education, and asset-building opportunities.

The 2005 tax season results were impressive. Forty-four local campaigns offered tax preparation services in 450 locations, filing 216,391 returns and bringing over $310 million dollars in refunds to low-income families. Participating families avoided nearly $14 million in preparation and RAL fees. In line with an emphasis on asset-building, the 2005 campaign helped participating families open 2730 bank accounts and nearly 300 Individual Development Accounts to begin saving for their futures, and it exposed 2400 people to financial education opportunities.

There are several steps funders, advocates, and local leaders can take to support the growth and effectiveness of EITC campaigns:

- Conducting market research, facilitating peer-to-peer exchanges, and identifying best practices to maximize the effectiveness of local campaigns.
- Engaging influential public sector leaders to support EITC campaigns and by linking efforts to existing public programs, mobilizing private sector involvement and volunteer recruitment, and publicizing tax preparation and other asset-building opportunities in low-income neighborhoods.
- Building a broad coalition of government, community, business, and philanthropic leaders to increase funding for EITC campaigns and related asset-building activities and to strengthen public policies that contribute to their success.

Challenges and Opportunities

- New strategies are needed to help local EITC campaigns sustain funding and expand operations over time.
- Tax preparation should be linked to other asset development and financial literacy opportunities for low-income families.
- The EITC must be protected from legislative or regulatory changes that might undermine its positive impact for low-income families.
- Free and low-cost tax preparation campaigns can be strengthened through developing simple tax preparation software, boosting quality control, improving data collection, and providing training and technical assistance.

Resources

The Annie E. Casey Foundation
(www.aecf.org)

The Brookings Institution
(www.brookings.edu)

Center on Budget and Policy Priorities
(www.cbpp.org)

Corporate Voices for Working Families
(www.cvworkingfamilies.org)

IRS
(www.irs.gov)

National Community Tax Coalition
(www.tax-coalition.org)

National League of Cities
(www.nlc.org)

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The Annie E. Casey Foundation

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Building Family Economic Success

FINANCIAL PLANNING AND EDUCATION

Strong financial skills and access to effective financial advice can be crucial for low-income families to avoid high-cost borrowing, maximize savings, and build the strong credit records needed to qualify for affordable mortgages. However, financial education is not integrated into most school curricula or offered in most workplaces, and financial counseling is scarce in most low-income communities. As part of its FES grantmaking agenda, the Annie E. Casey Foundation is striving to fill this financial education and counseling gap in disadvantaged communities.

The Importance of Financial Planning and Education

Every day, rural and urban low-income families face critical choices that can either move them toward a better financial future or trap them in debt and ruin their credit. Having financial management skills and access to fairly priced financial services helps families protect their income, understand and exercise their options, and better cope with inequities in their financial environments.

By empowering low-income families to make more informed choices, basic financial education can help families increase their financial stability and build their wealth. However, some financial choices are very complex, and carry long-term consequences, so families may need personalized financial advice in addition to basic education. Unfortunately, the financial planning services that many middle-income Americans take for granted when buying a home, saving for retirement or saving for a child's education are not available to most lower income families. While high-pressure marketing encourages them to borrow and spend, unbiased financial advice is hard to obtain.

Important facts about the financial challenges faced by low-income families:

- Savings levels for all Americans are low, but working poor families often have no—or negative—savings and assets.
- According to the 1998 Survey of Consumer Finances, families with incomes below $20,000 had median financial assets of only $600.
- Credit card debt among very low-income families grew by 184 percent between 1989 and 2001.
- Forty percent of all white children, and 73 percent of all black children, grow up in households with zero or negative net financial assets.

FES and Financial Planning and Education

Financial management skills and institutional supports can help low-income families stabilize their lives and build wealth, but innovative approaches are needed for the delivery of financial education and advice to low-income families. The public, private and nonprofit sectors all can play a role in designing and delivering effective and relevant financial education and financial planning services.

Strategies for Family Economic Success

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Building Family Economic Success
FINANCIAL PLANNING AND EDUCATION

Resources

ACORN Housing
(www.acornhousing.org)

Aspen Institute, Economic Opportunity Program
(www.aspeninstitute.org)

"Avoiding the Money Trap" (rural version) and **"The Money Trap"** documentaries
(www.aecf.org/initiatives/fes/reading)

Cooperative State Research, Education and Extension Service (CSREES)
(www.csrees.usda.gov)

Corporation For Enterprise Development
(www.cfed.org)

"Implementing a Financial Program in Your Community,"
Karen Murrell, 2004.
(www.aecf.org/initiatives/fes/reading)

Money Smart
(www.fdic.gov)

National Endowment for Financial Education
(www.nefe.org)

PA Banking Secretary
(www.banking.state.pa..us)

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The Annie E. Casey Foundation

Through the FES grantmaking program, the Foundation is investing in several strategies to help improve families' financial skills:

- Promoting best practices in financial education. There are more than 400 financial education curriculums available today, and organizations need guidance in designing programs that meet the needs of their target population.
- Promoting public and private investment in financial education. The costs of poor financial decisions are not borne just by low-income families themselves, but also by communities. Financial education must be integrated into school curricula and other easily accessible locations like the workplace. Major public and private sector institutions must become committed to ensuring that families have access to the basic skills needed to navigate the economy.

Challenges and Opportunities

- Local organizations offering high-quality financial education and debt counseling are critical. Effective organizations like Consumer Credit Counseling have undergone cuts in funding recently, but these organizations are vital in ensuring that consumers receive unbiased advice. The troubling proliferation of ethically questionable for-profit debt counseling agencies underscores the need for greater investment in high-quality financial counseling.
- Coordination of existing financial education resources is important. Most communities already have a variety of financial education workshops and curricula. However, these resources often are uncoordinated and difficult to access. A state office or agency can serve as an effective clearinghouse for financial education and financial services options.
- Ultimately, there are clear limitations to financial education. Informed consumers are important, but it is equally important that there be appropriate and affordable financial services available to families, and regulatory protections against predatory practices.

Building Family Economic Success

FINANCIAL SERVICES

Lacking access to affordable bank accounts, consumer credit, wire transfers, check cashing, bill paying and other financial services, millions of low-income Americans are paying excessive fees to manage their money. They also are losing crucial opportunities to build assets and save for their future. FES is working to fill the financial services gap by supporting an array of innovative strategies and partnerships aimed at lowering the cost of money and increasing opportunities for asset development among low-income families.

The Importance of Affordable Financial Services

Up to 20 percent of American families lack checking or savings accounts. Without a banking relationship, these families often meet their financial transaction needs through check cashers, bill payment and other "fringe" financial services that can eat up a substantial portion of their limited budgets. Also, families without a bank account are far less likely than other families to own homes and acquire savings. Unfortunately, mainstream bank accounts can be expensive for families who cannot maintain a large minimum balance – especially if they bounce checks or incur "bounce protection" fees by overdrawing their debit cards.

In addition, even families with bank accounts may pay exorbitant prices to access consumer credit – either maintaining large balances (and paying high interest rates and costly fees) on credit cards, or resorting to fringe financial outlets such as payday lenders, rent-to-own furniture shops, car title lenders, "refund anticipation loan" marketers (at tax time), or pawn shops. These high-interest loans often trap families in a debilitating debt spiral.

Many families also are paying more than necessary for home loans, auto loans and short-term consumer needs. And families who face costly home repairs, medical emergencies or other unexpected financial needs, but who do not have access to the mainstream lending market, are especially vulnerable to high-cost lenders. Struggling families can easily be ensnared in this trap, as predatory lending is a "push" market, where borrowers who are not actively seeking a loan may be persuaded through aggressive solicitations. Building family economic success requires the careful stewardship of already-scarce resources and the avoidance of unnecessary fees and loan costs so that families can begin to accumulate assets and establish financial stability.

Some important facts about the growing financial pressures on rural and urban low-income families:

- Consumer debt has doubled in the past decade. Credit card debt among very low-income families grew by 184 percent between 1989 and 2001.
- The payday lending industry now operates more than 20,000 outlets across the country, making $40 billion in loans each year and collecting $6 billion in fees and interest. A growing number of these payday lenders are operating in rural areas. The average payday loan customer has 13 rollovers, paying interest on the loan for six months. In this common scenario, the borrower will typically end up paying $520 in fees for a $200 loan.
- Immigrants living in the U.S. send an estimated $28 billion per year to their home countries – but 13 to 20 percent of that amount is lost to fees and commissions charged by wire transfer outlets.
- The number of pawn shops nationwide grew 142 percent from 1986 to 2003.

Strategies for Family Economic Success

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Building Family Economic Success
FINANCIAL SERVICES

Resources

Aspen Institute, Economic Opportunity Program
(www.aspeninstitute.org)

Brookings Institution, "Banking the Poor,"
by Michael Barr, Oct. 2004
(www.brookings.edu)

One Economy Corporation
(www.one-economy.com)

Retail Financial Services Initiative
(www.ncif.org)

FES and Financial Services

For working families, accessing affordable financial services can help save income that can be used to reduce debt, pay for basic necessities, or save for a child's education. In addition, use of mainstream financial services can help a family build a positive credit history and access credit at lower rates. Yet many families cannot use affordable financial services because banks and credit unions are not easily accessible in their neighborhoods, the right mix of products and services are not available, or because they have a poor credit rating or credit history.

Low-income families need affordable financial services to stabilize their finances and build wealth. By preventing income drain, avoiding debt traps and utilizing tools for saving, families may be able to move forward financially.

There are several strategies that can make low-cost financial services more readily available and help low-income families keep more of their hard-earned money. These strategies include:

- Supporting experimental partnerships between check cashing outlets and mainstream banks or credit unions that allow "unbanked" families to deposit funds into saving accounts or debit cards while still benefiting from the convenience of check cashing outlets.
- Investing in innovative services such as stored value cards (usable in multiple countries) to reduce the use of higher priced international wire transfers; low-cost loan products like alternative payday loans; and alternative refund anticipation loans.
- Mobilizing public sector leaders and community coalitions to advocate for policy changes that support low-cost financial services and prevent high-cost lenders from using deceptive trade practices or marketing exploitive financial products.
- Utilizing program-related investments (PRIs) that leverage the resources of financial institutions to make affordable financial services more widely available for low-income families.
- Promoting market research on the financial needs of low-income families—including families' preferences for products, delivery systems and product bundling—to help in designing alternative products that can compete with those offered by slickly marketed fringe financial service providers.

Challenges and Opportunities

- An ongoing challenge is getting mainstream financial institutions involved in reaching low to moderate-income customers. Without the participation of banks and other financial institutions, it will be difficult to achieve scale in the field of alternative financial services.
- There is an inherent tension between the need for the private market to earn a profit and the costs of serving low-income families. Low-income customers are likely to have lower account balances, and financial institutions may have difficulty earning a profit from these accounts without charging significant fees.

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The Annie E. Casey Foundation

Building Family Economic Success

THE HIGH COST OF BEING POOR

Family Economic Success

Building strong financial futures for families and communities

The families who earn least in our country often pay the most for basic goods and services. Groceries, utilities, auto loans and insurance, banking services, consumer credit, mortgages and home insurance can all cost hundreds or thousands of dollars more for low-income families in disconnected rural and urban communities than for middle-class families in the suburbs. Since 2003, the Annie E. Casey Foundation has been raising awareness of this disturbing trend and supporting efforts to drive down the prices paid by struggling families.

The Importance of Reducing High Costs for Low-Income Families

The U.S. media has focused extensive attention in recent years on the employment difficulties facing less-skilled workers and their families, including the recession of 2001-2002, the "jobless recovery" that followed, and stagnating wages for nonsupervisory workers. Yet low earnings are just part of the economic squeeze facing many economically fragile families—high costs are the other half of the equation.

The high costs found in low-income areas are a result of multiple factors. Many inner city areas lack access to large retail stores, due in part to a dearth of available market information about the buying power present in urban neighborhoods. Financial deregulation and aggressive marketing by credit card companies and "fringe finance" outlets have dramatically increased the amount rural and urban low-income families spend on interest and fees for consumer credit and home loans. Predatory lending and other market abuses by lenders and retailers also have contributed.

As a result, high costs have become a problem both for individual low-income families trying to stabilize their finances and build assets, and for communities striving to create attractive, supportive environments for residents. The collective income drain can reinforce a spiral of disinvestment and decay that pulls down entire communities. Reducing the high cost of being poor can provide families with more money to pay for day-to-day expenses, or enable them to begin saving for retirement, education, or homeownership.

Some important facts about the costs faced by low-income families:

- Families in low-income rural communities who lack access to supermarket chains pay 17.5 percent more—and inner city families pay 22 percent more—than the USDA recommended budget for basic food items.
- The annual cost to insure a car in Philadelphia neighborhoods with a median income less than $30,000 is $400 more than the cost to insure the exact same car and driver in nearby neighborhoods with a median income above $70,000.
- A homebuyer paying a subprime mortgage at 13 percent interest on a loan of $107,500 will owe $514 a month more than the homebuyer with a prime mortgage at seven percent. Over the life of a 30-year mortgage, the subprime borrower will pay $184,000 more in interest.
- In 2000-2001, low-income families spent almost 20 percent of their annual income on energy bills. For all other consumers, the proportion was about four percent.

Strategies for Family Economic Success

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Building Family Economic Success
THE HIGH COST OF BEING POOR

Resources

ACORN Housing
(www.acornhousing.org)

Brookings Institution
(www.brookings.edu)

Commonwealth of Pennsylvania, Department of Banking
(www.banking.state.pa.us)

Demos
(www.demos-usa.org)

"The High Cost of Being Poor: What It Takes for Low-Income Families to Get By and Get Ahead in Rural America"
(www.aecf.org/publications)

National Economic Development and Law Center
(www.nedlc.org)

"The Price is Wrong: Getting the Market Right for Working Families in Philadelphia,"
The Brookings Institution, 2005.
(www.brookings.edu/metro)

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The Annie E. Casey Foundation

FES and the High Cost of Being Poor

Each year, as part of the Kids Count Data Book, the Annie E. Casey Foundation publishes an essay analyzing one key challenge facing America's low-income families and children. In 2003, the Kids Count essay highlighted the high costs of being poor – bringing the problem to the attention of policymakers, advocates and journalists across the country.

Since then, actions have been taken to reduce high costs for families through the following investment strategies:

- Supporting commissions in nine local sites that will engage community leaders in reducing the high cost of being poor.
- Researching and documenting high costs in major metropolitan areas and investment by both public and private sector leaders in lowering these costs.
- Promoting effective policies at the local, state and federal levels to lower the costs of consumer and mortgage lending, and supporting community-based coalitions to advocate for and monitor the enforcement of anti-predatory lending laws and regulations.
- Disseminating market information about the buying power of low-income communities to spur increased private sector investment.

Challenges and Opportunities

- In a time of tight federal and state budgets, getting the market price right for residents in disadvantaged neighborhoods can be a low-cost approach for helping families.
- The long distances and low population density make affordable goods and services difficult to provide in some rural areas.
- Lowering the high costs faced by low-income families requires a complex mix of changes in government policies and private sector behaviors. Given that the savings to families for any single change are small, it may be difficult to build constituencies around this issue.
- The risks associated with providing goods and services in lower income neighborhoods partially explain the higher costs of providing these services. Finding ways to minimize these risks and educating the private sector about risk management could help to mitigate these costs.

08/2005

Building Family Economic Success

HOMEOWNERSHIP AND PREDATORY LENDING

Owning a home and accumulating home equity provide the single greatest opportunity for low-income families to acquire wealth and enter the middle class. It also gives them an asset that can be leveraged to survive crises, or to help themselves or their children get ahead. The Annie E. Casey Foundation is supporting a variety of efforts to make homeownership accessible, affordable and sustainable for low-income families and to protect them from costly and exploitive predatory mortgage lending schemes.

The Importance of Affordable and Sustainable Homeownership

Homeownership is the linchpin of the American Dream, the primary route through which most American families build wealth. For low-income families, especially, homeownership represents the only real opportunity to save a significant amount of money. Studies have shown that homeownership also leads to increased family stability, higher educational attainment for children, an opportunity to freeze housing costs for a long period of time, and stronger neighborhood and civic participation.

Over the past two decades, new credit scoring techniques, financial market deregulation, the Community Reinvestment Act and reduced lending discrimination have made mortgage loans more available to low-income applicants, particularly African-American and Latino families. But owning a home still remains out of reach for many families due to the wide-spread problems of high and still-rising home costs, a low supply of affordable housing, and negative credit histories.

In addition, many families who have attained homeownership struggle to retain their homes in the face of daunting circumstances, such as high-interest mortgages. Many of the newly available mortgages have been in the "subprime market" where interest rates can be two to three times higher than prime loans – costing thousands of dollars in additional interest each year. Predatory lending, a subset of subprime lending, has become widespread: these loans often utilize hidden costs and disadvantageous terms such as prepayment penalties, excessive fees and unneeded add-ons. Many predatory lenders target older homeowners with substantial equity in their homes, frequently making loans without considering the borrowers' ability to repay. Some unscrupulous lenders seek to "flip" these loans by encouraging borrowers to refinance repeatedly, stripping thousands of dollars from the homeowners' equity in each transaction.

Some important facts about homeownership and low-income families:

- Whereas 68 percent of all American families own their own homes, just 48 percent of African-American and 46 percent of Latino families are homeowners.
- The median net wealth of homeowners in the lowest income quintile is $68,000; for renters in this quintile the median household net worth is just $500.
- The subprime mortgage lending market has grown nine-fold since 1994 and has become a $385 billion market.
- African-Americans and Hispanics are disproportionately represented in the subprime market: Lower income African-American mortgage borrowers are 2.4 times as likely to receive subprime mortgages as lower income white borrowers, and Hispanic families are 1.4 times as likely as white families to receive subprime mortgages.
- Subprime loans are 10 times as likely as conventional loans to go into foreclosure.

Strategies for Family Economic Success

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Building Family Economic Success
HOMEOWNERSHIP AND PREDATORY LENDING

FES, Homeownership and Predatory Lending

A number of FES strategies focus on expanding homeownership opportunities for low-income families. One key goal is to combat the epidemic of predatory lending and lower the cost of borrowing for low-income homeowners. The Foundation is supporting policy research and advocacy efforts aimed at strengthening regulations against predatory lending, as well as financial and homeownership counseling efforts to help low-income families.

The Casey Foundation also is working to help low-income families accumulate the savings needed for down payments and closing costs in purchasing a home. Strategies include matched savings programs like individual development accounts (IDAs) and the Family Self-Sufficiency Program (which helps public housing residents and housing voucher recipients to build assets and become homeowners), the extension of publicly and privately funded down payment assistance programs and intensive housing counseling.

Families must be ready to become homeowners and capable of sustaining their commitment. This may require assistance in addressing credit barriers, inadequate incomes and a lack of financial understanding. If families are not financially stable, with the basic financial knowledge to help in making wise decisions, they may be vulnerable to predatory practices and the long-term consequences of poor choices. They may slide quickly into default, foreclosure and bankruptcy. As a result, many sites in the Casey Foundation's *Making Connections* project are working on comprehensive homeownership preparation, credit repair, financial education and affordable housing construction programs to help families surmount these challenges.

In the coming years, the Foundation will help families access and sustain homeownership, as well as prevent wealth stripping and high-cost lending, through the following strategies:

- Working with the *Making Connections* sites to develop homeownership strategies that build on federal programs such as Section 8 homeownership and HUD's Family Self-Sufficiency program.
- Promoting policies to prevent predatory lending and provide early warning systems that trigger counseling before loans go into default.
- Placing a portion of the Foundation's assets into program-related investments (PRIs) designed to spur the creation of affordable housing and homeownership opportunities.
- Encouraging innovative models such as mutual self-help housing.

Challenges and Opportunities

- Rising real estate costs in many parts of the country make homeownership very hard to attain for many low- to moderate-income families.
- Manufactured housing can provide decent, affordable homes but must be financed as personal property instead of as real estate. There also is a risk of the underlying land being sold.
- Alternative strategies such as limited equity mortgages, community land trusts, cooperatives, self-help housing and manufactured housing might allow families to access homes at lower prices.
- Credit repair, homeownership counseling and financial education programs need to be strengthened and coordinated so more families can progress towards, access and sustain homeownership.

Resources

ACORN Housing
(www.acornhousing.org)

Center for Responsible Lending
(www.responsible lending.org)

Consumer Federation of America
(www.consumerfed.org)

The Enterprise Foundation
(www.enterprise foundation.org)

Fannie Mae Foundation
(www.fanniemae foundation.org)

Local Initiative Support Corporation
(www.lisc.org)

National Housing Conference
(www.nhc.org)

National Low Income Housing Coalition
(www.nlihc.org)

NeighborWorks America
(www.nw.org)

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The Annie E. Casey Foundation

Building Family Economic Success

INDIVIDUAL DEVELOPMENT ACCOUNTS (IDAs) and OTHER SAVINGS TOOLS

Accumulating assets and saving for the future—or a "rainy day"—are critically important to a family's long-term financial well-being. Unfortunately, low-income families, who constantly struggle to pay for basic necessities, seldom have extra money to set aside or invest. Individual Development Accounts (IDAs) have been developed as a strategy to address this need. They are special savings accounts offering low-income individuals and families a valuable opportunity to build assets and save for the future. In IDA programs, the savings deposited by low-income account holders are matched by public or private funds – often at a ratio of $2 or more for every dollar saved by the account holder. IDA account balances can be used only for specified purposes, such as buying a home, starting a small business, or paying for education.

The Importance of Savings for Low-Income Families

Historically, most efforts to measure and combat poverty have focused only on current income – the ability of families to earn enough in any given year to put a roof over their heads, clothes on their backs, and food on their tables. Yet increasingly, experts recognize that financial assets are an equally important measure of financial well-being.

Unfortunately, asset poverty is widespread in America. One-third of all American families and 60 percent of African-American families have no – or negative – net financial assets: the amounts they owe in debts and other obligations are greater than or equal to the value of their home equity, bank accounts and all other financial assets. Forty percent of white children in America and 73 percent of black children grow up in families with zero or negative net financial assets. Low savings rates and lack of assets can make families vulnerable to high-cost financial services and predatory practices.

Accumulated assets can mean the difference between stability and financial ruin when a family runs into hard times—a job is lost, a car breaks down, or an illness strikes. Leveraging assets can stabilize a family's income stream, and it can enable people to further their education, buy a home, build a positive credit history, or start a small business. Assets also can promote family stability, encourage political participation, and give people a stake in their communities.

Some important facts about savings and low-income families:

- An estimated 25 percent of all American households (and 50 percent of nonwhite house holds) are asset poor – i.e., they do not have enough net worth to live at the federal poverty level for three months.
- The median white household has seven times more assets than the median African-American household.

Strategies for Family Economic Success

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Building Family Economic Success
INDIVIDUAL DEVELOPMENT ACCOUNTS (IDAs) and OTHER SAVINGS TOOLS

Resources

Center for Social Development
(www.gwbweb.wustl.edu/csd)

Corporation for Enterprise Development (CFED)
(www.cfed.org)

New America Foundation
(www.assetbuilding.org)

FES and Savings

A combined effort of individuals, government, and the private market can help low-income families achieve financial stability, maximize their income, and build wealth. In order for families to become financially stable and begin to build assets, they must first achieve a steady and predictable income to pay for their basic needs. Families then can begin to grow their income and accumulate savings and practical assets such as a car. Eventually, they may begin to build long-term wealth through owning assets such as a home or a small business. Once families have accumulated assets, it is important to protect them from predatory, wealth-stripping practices that are common in many low-income neighborhoods.

Individual Development Accounts are a key component of asset accumulation. First proposed in 1991, IDAs have spread quickly throughout the nation. Currently, more than 400 IDA projects are operating in urban, suburban and rural areas with support from the federal government, more than 30 state governments, and several national foundations.

Currently, FES is supporting several strategies to help low-income working families save and accumulate assets. These strategies include:

- Building an infrastructure for scaling up the IDA field to reach millions of low-income families. Currently IDAs only reach about 20,000 families out of the millions who could benefit. The IDA field needs increased resources dedicated to policy, research, and technical assistance to expand its reach to more people.
- Promoting federal and state policies supportive of asset development. For example, states can modify Temporary Assistance for Needy Families (TANF) regulations to allow federal and state funds to support IDAs, or change asset limitations within public benefit programs so that families don't lose benefits like Food Stamps and Medicaid when they save money in IDAs.
- Investing in innovations to broaden the range of asset development strategies available to communities and policymakers. Examples include:
  - Expanding matched 529 college savings plans.
  - Widening the reach of the U.S. Housing and Urban Development Department's Family Self-Sufficiency account program, which is an IDA-like savings account for families in public housing.

Challenges and Opportunities

- The main federal support for IDAs, the Assets for Independence Act, requires local matching dollars. There is a need for additional resources at the local level devoted to matching IDA accounts to leverage federal dollars for IDAs.
- The IDA field also needs more resources devoted to technical assistance, training, and other services for practitioners, to ensure the effectiveness of local IDA programs.
- IDAs currently reach a tiny fraction of the millions of families who might benefit. If they were made simpler and more cost-effective, IDA programs could more easily be expanded to a greater scale. For example, a streamlined financial product combined with additional public matching dollars could help the IDA field reach many more families.
- Purchases that could be invaluable in helping families move ahead (i.e., a car or tools for a self-employment trade) are not eligible under some IDA programs.

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The Annie E. Casey Foundation

08/2005

Family
Economic Success

Building strong financial futures
for families and communities

Building Family Economic Success

WORKFORCE DEVELOPMENT

As a critical part of the FES approach, the Annie E. Casey Foundation (AECF) supports efforts to connect low-skilled adults to well-paying jobs with career potential. For the past nine years, AECF's "Jobs Initiative" has funded and evaluated intensive workforce development efforts in six U.S. cities. In each of these sites, community organization and partner agencies have offered a combination of job readiness training, sector-specific skills training, and post-employment supports to help participants retain their jobs and advance up the career ladder. The Foundation now is working to distill and disseminate the lessons learned through the Jobs Initiative, and to promote policy reforms that put these lessons to effective use for low-income workers.

The Importance of Workforce Development

Changes in the global economy are challenging policymakers and service providers to come up with new ideas and approaches for workforce development. Over the next 20 years, the U.S. must address an aging labor force, a need for highly trained workers who can compete globally, and increasing numbers of low-income working families struggling to climb the economic ladder. Of particular importance are the growing earnings gap between more educated workers and those with a high school diploma or less, and the growing number of jobs that do not pay family-sustaining wages or provide health benefits. In rural areas, a substantial number of workers are underemployed due to a lack of jobs and advancement opportunities.

Some important facts about work and low-income families:

- More than 2.5 million working families, with six million children, earned less than the official poverty level ($18,392 for a family of four) in 2002.
- 9.2 million American working families, one in four, earned less than twice the official poverty level ($36,784 for a family of four) in 2002. These families were home to 20 million children.
- Forty percent of minority working families were low-income in 2002—twice the percentage of white working families.
- According to a 2004 study by the Brookings Institution, only 27 percent of workers who earned less than $12,000 a year from 1993–95 were consistently earning more than $15,000 six years later.
- As the cost of health insurance premiums has increased steadily in recent years, the number of workers without employer-provided health insurance has continued to rise.
- In the last 30 years, workers without a high school degree experienced an 18.5 percent decline in real wages, while those with a college degree experienced an increase of 15.9 percent.

FES and Workforce Development

Launched in 1995, the Jobs Initiative (JI) supported ambitious, community-driven initiatives in New Orleans, Denver, St. Louis, Philadelphia, Seattle, and Milwaukee to help young, low-income workers find meaningful jobs and to identify ways to reform and improve existing employment and training programs. Each site offered opportunities for low-income job-seekers to participate in

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Centers for Working Families

The Earned Income Tax Credit (EITC)

Financial Planning and Education

Financial Services

The High Cost of Being Poor

Homeownership and Predatory Lending

Individual Development Accounts (IDAs) and Other Savings Tools

Workforce Development

Work Supports

Resources

The Annie E. Casey Foundation, Family Economic Success
(www.aecf.org/initiatives/fes)

Aspen Institute
(www.aspeninstitute.org)

Jobs for the Future
(www.jff.org)

Public Private Ventures
(www.ppv.org)

Working Poor Families Project
(www.aecf.org/initiatives/fes/workingpoor)

employment training programs designed to prepare them for jobs with clear career ladders and opportunities to increase their skills and education. The sites also provided necessary post-employment supports to help them stay employed. The Initiative enrolled more than 20,000 JI participants and resulted in 10,000 job placements.

Through the Jobs Initiative and other efforts in workforce development, several important principles have emerged that should guide workforce development efforts in the years ahead:

- Attention must be paid to the role of race and cultural competence in the workforce field.
- Workforce "intermediary organizations" – local agencies capable of convening and coordinating the efforts of employers, service providers and job seekers – can be invaluable in bringing together key partners and in developing and sustaining effective workforce development programs for job seekers with limited skills and experience.
- Long-term retention (12 months of steady work) is a critical measure of success. "Job readiness" services are a crucial tool to help the least job-ready workers achieve a three-month retention, but "hard skills" (i.e., job-specific training) is the most important factor for achieving 12-month retention. Also, access to employer-subsidized health and leave benefits results in higher retention rates.
- Data are a crucial tool for strengthening program and policy outcomes. Data can be used to assess labor market opportunities, as a management tool to improve program performance, and to influence state and federal workforce policy on behalf of working poor families.

Today, in addition to identifying the lessons learned from the Jobs Initiative and sharing them with policymakers, practitioners, and researchers, the Casey Foundation is investing in the following workforce strategies:

- Supporting career advancement models for low-wage workers. These strategies must take into account the time pressures on families to balance work, additional skill acquisition, and family responsibilities. Career advancement often involves partnerships among community-based organizations, community colleges, and employers.
- Advancing advocacy and public education to influence national workforce policy. Grants to workforce development organizations, and the production of a documentary, *Waging a Living,* are focused on improving policies that can support low-wage workers.
- Developing effective workforce strategies for neighborhoods and specific populations. Through its *Making Connections* initiative and its commitment to Baltimore, Atlanta, and New Haven, AECF is heavily invested in 10-12 urban neighborhoods. Neighborhood efforts focus on preparing residents for employment opportunities through recruitment, job readiness, literacy, support services, and connecting to employers.

Challenges and Opportunities

- The decreasing volume of public workforce development dollars must be invested in effective programs and strategies, as demonstrated through outcomes.
- Two problems must be addressed: (1) the growing number of jobs that do not pay family-sustaining wages—or provide health insurance, and (2) the need to increase the skills of low-wage workers to compete for higher wage jobs.
- Investments in economic development should be linked to workforce development and jobs for low-wage workers.
- The lack of reliable, affordable transportation options – and the suspension of drivers licenses – are major barriers for working poor families in getting and keeping jobs. Car ownership programs and drivers license reinstatement programs can help address these serious obstacles.

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The Annie E. Casey Foundation

Building Family Economic Success

WORK SUPPORTS

Family Economic Success

Building strong financial futures for families and communities

In recent years, the federal government and states have offered an array of programs and benefits – including low-cost medical coverage, food stamps, tax credits, child care subsidies, and more – to supplement the earnings of low-income working families. Unfortunately, many eligible families remain unaware of these "work supports," or they face considerable barriers to accessing them. The Annie E. Casey Foundation is striving to increase utilization of work supports in order to maximize working families' opportunities to achieve financial stability.

The Importance of Work Supports

The picture of U.S. poverty is changing. Overwhelmingly, low-income families are working. Whereas 86 percent of income-eligible families with children received cash welfare benefits in 1992, just 48 percent were receiving welfare in 2001. At the same time, nearly one-third of American families today earn less than twice the federal poverty level, or $31,340 for a family of three in 2004. There are millions of children and parents who are hungry, lack medical coverage and are detached from the economic mainstream in this country.

Not only are more families experiencing economic hardship, but the face of Americans living in poverty is also changing. Contrary to popular belief, those falling below the poverty line are not only the welfare-dependent or unemployed. Working families, too, struggle to make ends meet. The U.S. labor market is facing its worst recovery since WWII. This jobless recovery has persisted long enough that inflation-adjusted hourly wages, specifically those of middle- and low-income men and women, fell between 1998 and 2003, hurting many working families, despite the fact that they maintained employment during this period. With smaller incomes, low-income families are forced to spend a larger portion of their wages on basic needs and work-related expenses.

Work supports such as Medicaid and state child health insurance programs, food stamps, and child care subsidies play a crucial role in helping families bridge the difference between their modest earnings and burgeoning living expenses. Combined with the Earned Income Tax Credit (EITC) and the refundable Child Tax Credit, these programs supplement working families' limited wages and scant benefits, enabling them to continue to work and provide for their families despite insufficient incomes.

Some important facts about work supports and low-income families:

- Although 15.7 million children were qualified to receive child care subsidies under federal guidelines in FY 2000, only 2.4 million (15 percent) of these eligible children actually received federal subsidies.
- Low-income working families (those earning less than twice the federal poverty level) spend 16 percent of their income on child care, compared with just six percent for higher-income families.
- More than 11 million households in 2003 were "food insecure" – lacking the resources needed to access enough food for an active, healthy life for all household members; and one-third of these households experienced hunger at some time during the year.
- Among food insecure households, 56 percent participated in federal food assistance programs and 20 percent received emergency food assistance. Households with children were twice as likely to report food insecurity as households without children.

Strategies for Family Economic Success

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WORK SUPPORTS

Resources

American Public Human Services Association (www.aphsa.org)

Center on Budget and Policy Priorities (www.cbpp.org)

Food Research and Action Center (FRAC) (www.frac.org)

MDRC (www.mdrc.org)

National Center for Children and Poverty (www.nccp.org)

National League of Cities (www.nlc.org)

United States Department of Agriculture (www.usda.org)

The Urban Institute (www.urban.org)

FES and Work Supports

The number of families who participate in work-support programs remains far below the number of those who are eligible. Families in every state and community lack access to food, health care and child care, despite the federal and state programs expressly designed to help them meet these needs.

Expanding access to needed work supports is a crucial strategy to help struggling families achieve financial stability. The Casey Foundation's investments are designed to increase participation for those eligible families that desire work supports. For many families, work supports will be necessary to make up the difference between wages and living expenses.

Building on the success of the National Tax Assistance for Working Families Campaign, the Foundation has supported a neighborhood-based approach to helping low-income working families. Casey's experience with this initiative has demonstrated that a neighborhood-based campaign is a viable approach for increasing take-up rates.

Several strategies are important in successfully maximizing the use of work supports:

- Involving and utilizing existing community organizations and networks with a mission-related commitment to helping low-income families become financially secure.
- Emphasizing the message that work supports can increase employment and job retention among low-income parents who might otherwise depend on cash welfare.
- Developing Centers for Working Families (CWFs) and employing other strategies to ensure that families applying for one work support gain access to the full range of available programs and benefits.
- Making utilization of work supports an integral goal of existing outreach community organizing activities in low-income neighborhoods.

Challenges and Opportunities

- Public education is needed to eliminate the perceived stigma connected with receiving work supports.
- Advocacy is needed to expand and improve work support policies and programs so that families receive the assistance they need to reach self-sufficiency.
- More "best practices" are needed to build a case for multi-program outreach.
- Research would confirm and illustrate that there is a real cost to society when eligible families do not access work supports (school readiness, employment retention, business cost, etc).

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