State Policy Options for Building Assets

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States continue to play an important role in helping low- and moderate-resource families save and build wealth. They have been innovators in assets policy, whether on their own or through the forces of "devolution," in which federal funds and decision-making authority are shifting from the federal to the state level. These initiatives and experiments— these "laboratories of democracy"—have inspired and informed other states as well as policymakers at the national level.

The following ideas to broaden savings and asset ownership include a range of simple proposals that may have a significant impact with little associated cost; some medium cost ideas; and others that, with a somewhat larger investment, would potentially alter the longer-term outlooks and prospects of millions of struggling Americans.[2] As can be seen in table 2 of the Appendix, many states across the U.S. are implementing, or seriously considering, many of the ideas presented here.[3]

Policy Area	**Proposals**
Financial Education	• Require youth financial education in schools • Create opportunities for K-12 teachers to receive financial education training • Provide incentives and facilitate workplace financial education • Allow financial education to fulfill TANF work requirement • Support public awareness campaigns that create demand for financial education
Saving for College	• Ensure 529 college savings plans are inclusive • Match and/or provide initial deposits to spur 529 savings among low- and moderate-income families

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[2] This issue brief serves as a companion to an annual federal asset building policy options paper, *The Assets Agenda*, available at www.assetbuilding.org.
[3] The appendix also includes a table with organizations to contact for further information on each policy option, as well as a table detailing comprehensive statewide asset building initiatives at various stages of development in several states.

Policy Area	**Proposals**
Children's Savings Accounts	• Create universal children's savings accounts for education, homeownership, and retirement • Create a universal system of accounts for all kids based on the 529 college savings plan platform
Banking the Unbanked	• Link benefit cards to bank services • Partner with banks and non-profits to create basic bank accounts • Support alternative banking services in remote or financially distressed areas
Matched Savings Accounts	• Create IDA programs supported by CDBG and TANF funds • Create a tax credit to leverage private sector contributions to IDAs • Appropriate state general revenue funds to support IDAs • Provide initial deposits for IDAs to spur savings and attendance in financial education classes • Allow savings in IDAs to be used for debt reduction
Homeownership	• Support pre- and post-homeownership counseling • Increase resources available for downpayment, mortgage, and closing cost assistance • Support and expand lease purchase programs • Encourage and support employer-assisted housing • Promote federal programs that support homeownership opportunities for lower-income households • Enact a state-level CRA to expand the pool of mortgages in underserved communities • Support affordable housing construction • Enact inclusionary zoning policies • Support alternative affordable homeownership strategies • Establish a housing trust fund • Allocate tax increment revenues to support affordable homeownership
Saving for Retirement	• Create a voluntary, state-wide universal 401(k) plan • Encourage companies to adopt "opt out" features in their retirement plans

Policy Area	**Proposals**
Entrepreneurship/Business Ownership	• Allow CDBG, TANF, and WIA block grants to be used to support microenterprise • Create a state microenterprise loan fund and/or support state microenterprise intermediaries that strengthen the capacities of local programs • Coordinate state support for microenterprise • Build public awareness of microenterprise as a business development strategy • Target economic development resources to support microenterprise • Support minority and women entrepreneurs • Support revolving loan funds to spur small business growth • Support Community Development Financial Institutions (CDFIs) • Support worker ownership centers • Support the use of employee stock ownership plans • Support employee and other wealth-sharing programs
Tax Refunds and Saving	• Create a state EITC and CTC • Launch an EITC and CTC awareness campaign • Allow taxpayers to split refunds into accounts for “money to save” and “money to spend”
Wealth Sharing	• Develop a wealth sharing mechanism to benefit all state residents
Asset Limit Reform	• Eliminate asset limits from eligibility considerations, or raise them significantly • Exclude certain asset holdings, such as education, health, and retirement savings, a car, and EITC refunds
Asset Protection	• Enact a strong anti-predatory mortgage lending law • Restrict abusive payday lending practices • Curb abusive tax preparation practices

FINANCIAL EDUCATION

Families across America face a complex and growing array of financial decisions. While financial illiteracy is a problem for youth and adults across all socioeconomic lines, those with low-incomes—who disproportionately lack both financial know-how and any relationship with financial institutions—are especially vulnerable to being shut out of an increasingly sophisticated financial marketplace.

- **Require youth financial education in schools.** To ensure that all children become financially educated, states could require a personal finance course for high school graduation. In addition, financial education concepts could be integrated into existing material in grades K-8 and made part of the standardized tests mandated by the No Child Left Behind Act. States, local school districts, and Native American Tribal schools would have the flexibility to draw from a variety of existing curricula or craft their own. These courses could then be evaluated for impact to discern which curricula and delivery methods work best. To make financial education particularly relevant, an account of some sort could be integrated into the curriculum, as many states have already done with "Bank at School" programs. One of the earliest and most comprehensive is Delaware's Bank at School program, which has opened bank branches in twenty-seven schools across the state. Similar programs in New Jersey, Illinois, and California have been created based on the Delaware model.[4] Regardless of the exact approach to making youth financial education relevant, parents should be given opportunities to support their children's efforts and share in lessons so that the whole family can benefit.

- **Create opportunities for K-12 teachers to receive financial education training.** For financial education in schools to become a reality, teachers will need to receive the appropriate training to offer stand-alone personal finance courses and incorporate lessons into existing curricula. A partnership which includes the Philadelphia branch of the Federal Reserve, the JumpStart Coalition, and others has provided professional development and hands-on financial education tools to over 500 teachers across Pennsylvania. Additionally in Pennsylvania, the Governor's Institute on Financial Education offers training institutes on how to integrate financial education into existing courses. These models could be adapted in other states to build teacher capacity and will be especially needed if financial education becomes a requirement in a state's K-12 system.

- **Provide incentives and facilitate workplace financial education.** Financial education offered at the workplace can help employees avoid personal financial problems that can lower their productivity and cause higher absenteeism, turnover, and stress-related illness. Recently, the federal government began implementing a retirement financial education strategy to ensure all federal workers get the training and resources they need to set savings goals and take advantage of retirement savings benefits offered as part of their jobs. State and local governments could follow suit by providing financial education for their employees. To help spur workplace financial education among private sector employers, tax credits could be offered to offset the costs associated with financial education and investment advice. In addition, states running their own workplace financial education programs can serve as a resource to private sector employers by offering tips on how best to run a financial education program based on the implementation experiences with state employees.

- **Allow financial education to fulfill TANF work requirement.** Welfare reform in 1996 gave states broad flexibility in how to craft their TANF programs. Several states have used this flexibility to allow TANF recipients to attend financial education trainings and count their attendance as an allowable work activity. For example, Illinois Human Services partners with Financial Links for Low-Income People (FLLIP) and the University of Illinois Cooperative Extension to provide a twelve-hour financial education program which counts as a work activity. Research related to the program shows that eighty percent of FLLIP participants did a better job budgeting and tracking expenses after the program, and many who did not previously have bank accounts opened them and, as a result, relied less on fringe financial services such as payday loans.[5] FLLIP

[4] See www.bankatschool.com for more information.
[5] See Anderson, Steve, Jeff Scott, and Min Zhan (2004). *Financial Links for Low-Income People (FLLIP): Final Evaluation Report*. Chicago: Sargent Shriver National Center on Poverty Law. Available at www.assetbuilding.org.

shares this curriculum with other states interested in creating similar programs which offer work activity credit to TANF recipients.

- **Support public awareness campaigns that create demand for financial education.** While many financial education materials exist, consumer demand for financial education is not high among the general population. This may be because people "don't know what they don't know" and are unaware of how their lack of knowledge may be costing them money or opportunities. These types of campaigns could teach parents how to talk to their kids about finances and how to model good spending behavior, similar to ads now that direct parents to resources on talking to their kids about drugs and other risky behaviors. Nationally, the non-profit National Endowment for Financial Education (NEFE) is sponsoring a campaign called "Get Smart About Money"[6] and the Treasury-led Financial Literacy and Education Commission will soon be rolling out a government-sponsored awareness campaign, both of which could be promoted and/or otherwise supported by states.[7] While not specifically public awareness campaigns, some states have made financial education a priority in similar efforts. For example, Pennsylvania and Wisconsin have created Offices of Financial Education within their states' banking departments to coordinate financial education efforts across the state and serve as a centralized resource for residents seeking financial education information.[8]

SAVING FOR COLLEGE

Qualified Tuition Plans, tax-benefited education savings accounts commonly called 529 college savings plans after the applicable section of the federal tax code, were implemented in their present form in 2001. These state-sponsored plans help families save for their children's college education, or an adult may open an account to use for their own post-secondary expenses. Since each state, working in concert with a contracted financial services firm, designs its own college saving plan within the 529 construct, they can have great impact on the cost, structure, and saving incentives (such as matches) in their individual plans. Therefore, a myriad of opportunities exist to make these plans attractive options for low-income families.[9]

- **Ensure 529 College Savings Plans are inclusive.** As mentioned above, states enjoy broad flexibility in setting the terms for their 529 plans. They can negotiate with financial services firms to incorporate inclusive features into their plans, such as no or low enrollment fees, low minimum initial and subsequent contributions, automated features such as direct deposit and payroll deduction, affordable management fees, and an "age adjusted" investment option that readjusts the portfolio automatically from aggressive to conservative as the child gets closer to the age when withdrawals will occur. States can also play an important role in educating families about the benefits of saving in 529 plans and how to best determine which plan is best for them.

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[6] See www.smartaboutmoney.org.
[7] The Financial Literacy and Education Commission describes this and other strategies in its report, *Taking Ownership of the Future: The National Strategy for Financial Education*. Available at www.assetbuilding.org.
[8] Pennsylvania's Office of Financial Education recently launched an online clearinghouse at www.moneysbestfriend.com to provide residents with a variety of financial education resources.
[9] For more information on 529 college savings plans, see Clancy, Margaret, Reid Cramer, and Leslie Parrish (2005). *Section 529 Savings Plans, Access to Post-Secondary Education, and Universal Asset Building*. Washington DC: New America Foundation. Available at www.assetbuilding.org.

- **Match and/or provide initial deposits to spur 529 savings among low- and moderate-income families.** Several states, including Colorado, Louisiana, Maine, Michigan, Minnesota, Rhode Island and Utah, provide matching grants as an incentive to encourage low- and moderate-income families to save for post-secondary education in 529 plans. Some states allocate user fees from non-resident 529 plan accountholders to a fund that provides a savings match for low- to moderate-income state-resident families, while others provide a savings match through state appropriations. These matching funds are awarded on an annual basis, kept in a separate 529 account for the beneficiary, and paid directly to the post-secondary institution. Another possible option would be to encourage employers or other entities, through a financial incentive such as a tax credit, to match the savings of their employees or other targeted group into a 529 college savings plan. Alternatively, or in addition to, offering a match, states could "jumpstart" 529 plans for low-income children by providing an initial deposit to spur families to begin regular savings into these accounts.

In addition to these policy options, the 529 college savings plan infrastructure can be used to create a system of universal children's savings accounts. This idea, which has been proposed in various forms in several states, is described in more detail in the following section.

CHILDREN'S SAVINGS ACCOUNTS

One of the most novel and promising ways to achieve a universal, progressive asset building system over time would be to provide each generation of children with a restricted, start-in-life asset account at birth. These accounts are not only an investment in a child's future but can also serve as a tool to effectively teach personal finance basics to children and their parents.

- **Create universal children's savings accounts for education, homeownership, and retirement.** States could ensure all children start life with an investment account and the financial education they need for the future by creating a "Kids Account" program. Each child could have an account opened for them at birth with a starter deposit (which could be larger for low-income children) to be invested in a selected set of mutual funds or other investment option. Additional contributions could come from family, friends, the child, or private sector and charitable sources. Further, the state could encourage tax filers to deposit tax earnings, from various tax credits—i.e., the Earned Income Tax Credit, the Child Tax Credit, etc.—into these accounts. Savings could grow tax-free, and eventually be used for a college education, a home, or retirement. A similar proposal, called the ASPIRE Act,[10] is being considered in Congress to implement these universal accounts on a national scale, and a state version of this idea has been proposed by Kentucky's State Treasurer and Secretary of State, who have proposed a "Cradle to College" initiative. This initiative would provide a savings account for every child, seeded with enough funds for a child to attend a technical or community college, and further contributions could be made by the child's family or others. To withdraw the money, community volunteer or military service would be required.[11] Additionally, a candidate for Lieutenant Governor

[10] See www.AspireAct.org for more information.
[11] See www.cradletocollege.ky.gov for more information.

in North Carolina proposed universal retirement security accounts with a $700 starter deposits and matching funds from the government.[12]

- **Create a universal system of accounts for all kids based on the 529 college savings plan platform.** As an alternative to creating a new type of account such as the Kids Account described above, a state could open a low-cost 529 college savings plan for each child. This account could be seeded with an initial deposit and/or contributions into the account could be matched. While this system of universal accounts would be limited in that children could only put these savings towards a post-secondary education, it would build upon an existing account structure. A candidate for Ohio Governor, Ted Strickland, has an "Ohio Knowledge Bank" proposal which would provide an initial $500 grant to families who open a 529 account with at least a $15 initial investment. The state would contribute an additional $100 a year (or $200 for low-income families) until the child graduates from high school. Likewise, a candidate for Arkansas State Treasurer, Mac Campbell, has proposed universal 529s for every child born in that state with initial seed money.[13] Advocates in other states, such as Illinois, Oklahoma and Michigan, are also considering the use of 529s to create universal children's savings accounts.

BANKING THE UNBANKED

Somewhere between 10 and 20 million Americans are "unbanked," meaning they lack a basic checking or savings account. Many others are "under-banked;" they have a bank account but may have difficulty retaining it, and are not fully integrated into the financial mainstream. These families may not have access to financial services due to living in remote locations or impoverished areas. Instead, they may pay more for basic financial services such as cashing a check, borrowing money or paying a bill. These higher fees, and often predatory practices, can trap users into an ever-increasing cycle of debt.

- **Link benefit cards to bank services.** States have the opportunity to link benefit delivery with bank accounts, thus ensuring that low-income families receiving benefits will become connected to the financial mainstream. One way this could be done is to require that benefits be sent via direct deposit to a recipient's bank account. For those lacking an account, caseworkers could be trained to educate recipients about the benefits of account ownership and help them open a low or no cost account at a local financial institution. If recipients fail to open an account on their own, or have a history of failed account management, the state could open a limited use bank account for them, which would be linked to their existing benefit card.

- **Partner with banks and non-profits to create basic bank accounts.** Unbanked households routinely turn to check cashers and other alternative financial services providers that usually charge high fees for their services. These households may be unbanked because they perceive that a bank account would be too expensive to maintain or personal credit problems cause banks to refuse them services. To ensure these families have access to at least one low-cost account, regardless of their credit history, several states have implemented lifeline banking laws which require all state-chartered banks to

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[12] Republican Jim Snyder lost to his Democratic challenger in the 2004 election. See www.assetbuilding.org/AssetBuilding/index.cfm?pg=docs&SecID=4&more=yes&DocID=1150 for more information on his proposal.
[13] More information on this proposal is available at the candidate's website, www.backmac.org.

offer a basic checking account. These accounts have features such as low minimum balance requirements and no or limited monthly fees; while imposing some restrictions on the number of withdrawals per month and overdrafts to limit the bank's liability. Studies on some of the eight states that currently have these laws have shown that they need to be implemented alongside financial education campaigns and outreach efforts, perhaps conducted by community non-profit groups, to ensure that the unbanked are aware of the availability and benefits of these accounts, and to encourage account management success.

While requiring all banks to provide these accounts is an option, states alternatively could find willing bank and credit union partners that want to expand their base of customers by banking the unbanked in their communities. For example, a state could partner with organizations and financial institutions affiliated with Get Checking program,[14] which provides financial education to individuals who cannot open a bank account because of past credit or account problems. Upon graduating from the program, these individuals can open an account at a participating bank.

- **Support alternative banking services in remote or financially distressed areas.** In addition to supporting efforts to ensure people have access to accounts, some individuals in remote or impoverished areas may have a more fundamental problem—lack of access to any kind of financial institution. For example, only 14 percent of Native American reservations have a financial institution and 15 percent of Natives live 100 miles or more away from an ATM or bank branch.[15] Policymakers can support the creation of Community Development Financial Institutions (CDFIs)—which provide credit, capital, and financial services to underserved populations--in communities where no other financial services are available. For example, the Department of Housing in Arizona is working with the Native American community to secure a planning grant from the Treasury Department's CDFI Fund to develop a Tribal CDFI which will provide financial services for all Native communities statewide.

MATCHED SAVINGS ACCOUNTS

Individual Development Accounts (IDAs) allow low and moderate-income individuals to save money for a specific purpose, receive financial education, and have their savings matched. More than 20,000 people have opened IDAs to save for a home, education, small business, or other assets.

- **Create IDA programs supported by CDBG and TANF funds.** Community Development Block Grant (CDBG) and Temporary Assistance for Needy Families (TANF) funds can be used for IDA programs. Currently, CDBG funds are used in at least 6 states, and TANF and related welfare-to-work funding sources are used in at least 9 states, and Puerto Rico, to support IDA programs

- **Create a tax credit to leverage private sector contributions to IDAs.** Currently, seven states offer a tax credit for individuals and businesses who contribute money to an IDA program. Though non-profit organizations lack tax liability, they can partner with other

[14] See www.getchecking.org.
[15] See *The Report of the Native American Lending Study* from the Treasury Department's CDFI Fund at www.cdfifund.gov/docs/2001_nacta_lending_study.pdf.

organizations that may want to lower tax payments, to participate in these programs. Tax credit rates range from 5 to 75 percent, depending on the state. An additional 16 states have appropriated state general revenue funds (including moneys leveraged from state IDA tax credits) to support IDA programs, including administration, technical assistance and matching components. CDBG and state general revenue funds may be used to leverage federal matching funds for IDAs, through the Assets for Independence Act.

- **Appropriate state general revenue funds to support IDAs.** Nine states and the District of Columbia have appropriated state general revenue funds (including moneys leveraged from state IDA tax credits) to support IDA programs, including administration, technical assistance and matching components.

- **Provide initial deposits for IDAs to spur savings and attendance in financial education classes.** States could tweak the IDA model to encourage more low-income individuals to open these accounts by providing a modest initial deposit into an IDA to spur savings and interest in becoming financially educated. This initial deposit could provided to jumpstart the savings habit or in addition to matching grants.

- **Allow savings in IDAs to be used for debt reduction.** In addition to setting savings goals for a particular asset, IDA participants may also need to pay down debts for medical expenses, a business, or other purposes. This would allow indebted families who do not feel financially able to start an IDA, 529, 401(k) or other savings plan work towards their debt reduction goals. For example, the Hoopa Valley American Indian Tribe in California allows families to save in one IDA for debt reduction, while saving in another for an asset. States could adopt this model with their own IDA programs.[16]

HOMEOWNERSHIP

Homeownership is a key wealth-building strategy for all families, with most deriving a significant portion of their net worth from their home. Many state policies address barriers to low-income homeownership, such as a lack of resources to cover downpayment and closing costs, insufficient income to cover mortgage payments, poor credit, and a limited supply of affordable homeownership opportunities. Policies to address these barriers include demand-side strategies, focused on supporting low-income homebuyers; supply-side strategies, which aim to expand the supply of affordable homeownership opportunities; and comprehensive policies, which support both demand and supply-side approaches.

Demand-Side Strategies

- **Support pre- and post-homeownership counseling.** Homeownership counseling is a critical first step towards homeownership access and retention for low-income families.[17] Homeownership education helps families to determine if they are ready for homeownership, to address credit issues, to connect to relevant mortgage products and downpayment assistance programs, and to learn about predatory lending products and practices. State policies and programs can be designed to connect residents to available

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[16] For more information on the Hoopa Valley IDA program, contact Peter Morris at First Nations Development Institute, pmorris@firstnations.org.

[17] For a full discussion, see Jeff Lubell (2005), *Strengthening the Ladder for Sustainable Homeownership*. The National Housing Conference:Washington DC., prepared for the Annie E. Casey Foundation.

programs, provide financial support to existing programs and/or launch public awareness campaigns about the value of homeownership education and/or the dangers of predatory mortgage products.

- **Increase resources available for downpayment, mortgage, and closing cost assistance.** Families with limited financial resources face a host of barriers to homeownership, including a lack of resources to cover downpayment and closing costs, and/or income levels that limit their ability to cover mortgage payments. State strategies to address these barriers include providing state support for: deferred payment subordinated loans to cover downpayment and closing costs, downpayment assistance targeting underserved communities, downpayment assistance targeting specific sectors of the workforce, mortgage revenue bonds, mortgage loan products, state mortgage tax credits and mortgage insurance.

- **Support and expand lease purchase programs.** For some low- and moderate-income families, poor credit is the primary barrier to purchasing a home. In a lease-purchase arrangement (also known as "rent-to-own") a family is able to lease a home from a sponsoring organization while they clean up their credit. Most programs return a portion of the rental or lease payments back to the family to support downpayment and closing costs on their home purchase. States can provide financial support to these programs—for example, in California the state housing finance agency supports lease purchase programs in targeted communities.[18]

- **Encourage and support employer-assisted housing.** In the past decade, employers have begun to play a role in supporting their employees to purchase a home through forgivable, deferred or repayable second loans, grants, matched savings plans, or home-buyer education programs. Many states currently support or encourage employer-assisted housing (EAH) programs.[19] For example, the Nebraska Investment Finance Authority encourages employers to establish EAH programs.[20] The Michigan State Housing Development Agency (MSHDA) supports an EAH program that allows employees in specific companies to obtain financial assistance and access to below-market financing.[21] The New Jersey Housing and Mortgage Finance Agency offers an employer-assisted housing program in partnership with Fannie Mae and New Jersey employers.[22] Finally, the North Dakota Housing Finance Agency offers new employees of targeted businesses with an interest rate deduction on a first mortgage or downpayment or closing costs assistance through a second mortgage.[23]

- **Promote federal programs that support homeownership opportunities for lower-income households.** Federal resources are available to help lower-income families to save for homeownership but these resources are underutilized in many states. States can play a role in expanding residents' knowledge of and access to the HUD Voucher

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[18] For a detailed description of one of the programs supported by CalHFA, see www.calhomesource.org/index.html.
[19] For a full list of state and local policies, see the National Housing Conference website at www.nhc.org/index/policy-action-hi-eah-statebystate.
[20] For more information, see www.nifa.org/programs/?topic=desc&ps=choose&prog_name_sent=Employer+Assisted+Housing.
[21] See www.michigan.gov/documents/mshda_05_annual_report_eah_113378_7.pdf.
[22] See www.nj.gov/dca/hmfa/consu/buyers/close/assisted.html.
[23] See www.ndhfa.org/Default.asp?nMenu=0337.

Homeownership Program, more commonly known as the Section 8 Homeownership Program. The program gives local public housing authorities (PHAs) the option of allowing Section 8 voucher holders to use their voucher to cover mortgage, instead of rental, payments.[24] State leaders can help to increase access to the program in local communities by creating incentives and/or supporting PHAs to implement the program. In addition, the HUD Family Self-Sufficiency (FSS) program, which can be administered by local PHAs, helps families who are participating in the Section 8 voucher program or living in public housing to save. Normally, families pay 30% of their income towards their rent. However, as the income of FSS program participants increases, the additional rental fees are deposited into an escrow account. Upon successful completion of the FSS program, families can access the savings and interest built up in their account for any purpose. A 2004 study of the program found that the median escrow account disbursement for program graduates was $3,351 and that a common use of funds was downpayment on a home.[25]

- **Enact a state-level Community Reinvestment Act (CRA) to expand the pool of mortgages in underserved communities.** The federal CRA was enacted in 1977 and revised in 1995. The Act requires financial institutions to reinvest in the communities from which they receive deposits and has benefited low- and moderate-income borrowers by increasing mortgage lending in previously underserved communities. Illinois, Massachusetts and New York have enacted state-level CRA legislation, covering state-chartered banks, as a way to expand investment in low-income communities.[26]

Supply-Side Strategies

- **Support affordable housing construction.** Many states are funding programs to provide local jurisdictions with a pool of low-interest loans to support the development, acquisition and rehabilitation of rental and homeownership projects targeted to lower-income families. For example, California's CalHOME program provides loans to state-certified nonprofit developers to create and retain affordable housing,[27] and the state's Workforce Housing Reward Program offers grants to cities and counties to encourage them to issue building permits for the development of new housing for very-low and low-income households.[28]

- **Enact inclusionary zoning policies.** Inclusionary zoning policies increase the supply of affordable housing by requiring private developers to include units that are affordable to low- and moderate-income families as a percentage of new housing developments. Some policies allow developers to support the development of the housing off site and/or to pay a fee (often called an "in-lieu fee") to contribute to local affordable housing development.

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[24] See www.hud.gov/offices/pih/programs/hcv/homeownership/index.cfm.
[25] Robert C. Ficke and Andrea Piesse (April 2004). *Evaluation of the Family Self-Sufficiency Program*. U.S. Department of Housing and Urban Development, Office of Policy Development and Research: Washington DC..
[26] Lillian Woo (2002). *State Asset Development Report Card*. Corporation for Enterprise Development: Washington DC.
[27] For more information, see www.hcd.ca.gov/fa/calhome/.
[28] For more information, see www.hcd.ca.gov/fa/whrp/.

Several states—including California, Massachusetts, Minnesota and New Jersey—have passed state inclusionary zoning legislation.[29]

- **Support alternative affordable homeownership strategies.** In many states, high home prices are prohibiting low- and even moderate-income families from being able to afford single-family, market-rate homes. In response, many communities have been advancing alternative homeownership strategies that lower per-unit costs through shared ownership of land and buildings, innovative development strategies that lower costs, and other approaches. These approaches include the following four strategies:

  1. ***Community land trusts***
     "Community land trusts (CLTs) are nonprofit organizations that separate the ownership of land from the ownership of homes on the land. In so doing, they lower the cost of homeownership to individual families, while maintaining a degree of affordability for the homes over time"[30] Some states are providing support for the development of community land trusts. For example, Vermont has established a citizen board to govern the allocation of grants, loans and technical assistance to nonprofits, municipalities and state agencies for the development of perpetually affordable housing and the conservation of land and historic buildings. This program has supported organizations such as the Burlington Community Land Trust, one of the largest CLTs in the country.

  2. ***Housing cooperatives***
     Housing cooperatives are corporations whereby each resident-member purchases a share in the corporation, which owns the building where they live. A limited equity cooperative places restrictions on the resale value of shares in order to ensure that the housing remains affordable, over time. Financial benefits to members include stable housing, the deduction of mortgage and tax expenses, and some equity appreciation. States can help to expand the supply of cooperative housing by: (1) using TANF funds for families to purchase a cooperative building unit; (2) supporting the rehabilitation of cooperative housing; (3) supporting conversion of rental buildings financed through the low-income housing tax credits (LIHTC) to cooperatives; (3) providing closing cost help for first-time homebuyers of cooperative units, and/or (4) establishing a state tax credit or deduction to encourage the cooperative housing development**.**[31]

  3. ***Self-help housing***
     The self-help model allows low-income families to invest in a home through "sweat equity"—families contribute their labor to the building of a home as their contribution towards downpayment and/or closing costs. Many self-help programs connect families to subsidized mortgage products and other first-time homebuyer programs. Mutual self-help organizations are more common in rural areas, where they receive some USDA support. Habitat for Humanity is a unique national model that is working in urban and rural communities. States can expand the supply of self-help housing through grants to technical assistance programs—for example,

[29] The PolicyLink Equitable Development Toolkit is available at www.policylink.org/EDTK/IZ/policy.html.
[30] For more information, see www.ice.org.
[31] For more information on these and other strategies, see the PolicyLink Equitable Development Toolkit at www.policylink.org/EDTK/LEHC/Policy.html#State.

California's CalHOME Self-Help Housing Set Aside program has provided grants to nonprofits that support low- and moderate-income households to build their own homes.[32]

4. ***Manufactured housing***
In recent years, two-thirds of the affordable housing units added to the nation's stock were HUD-code manufactured homes. Over 19 million American households live in manufactured homes, and their numbers are rising.[33] State policies to ensure that manufactured housing is an option include: nondiscrimination statutes—as of January 2006, 23 states had enacted statutes;[34] state funding for construction, rehab, conversion or preservation; state processes to enable manufactured homes to be converted from personal property to real property—40 states offer this option to homeowners; and a range of policies to enable residents to gain an ownership stake in their manufactured and mobile home park.[35]

Comprehensive Proposals (Demand and Supply)

- **Establish a housing trust fund**. Housing trust funds are specialized funds, typically established through legislation, that support affordable housing. Funds are often administered by state housing finance agencies, a state agency or a partnership between agencies. They are funded through a variety of sources including: real estate transfer taxes, interest from real estate escrow accounts, state unclaimed property funds, deed recording fees, bond and fee revenues, interest on tenant security deposits, general fund resources and other sources. Over 34 states currently have some form of housing trust fund. Some of these funds support affordable homeownership, as well as rental housing. For example, Maine's housing trust fund, Home Ownership for Maine (HOME), combines trust fund and bond revenues to support homeownership; the Michigan Housing and Community Development Fund will support rental and homeownership.[36]

- **Allocate tax increment revenues to support affordable homeownership.** Today, 49 states and Washington D.C. are using tax increment financing as a redevelopment tool.[37] Tax increment districts are established through state law and some states require that a portion of tax increment revenues be allocated to support the development of affordable homeownership opportunities. For example, California Redevelopment Law requires that redevelopment agencies set aside 20% of tax increment revenues to support affordable housing development, and they may use a portion of these funds to support homeownership for families earning up to 120% of the area median income. Some California redevelopment agencies use these resources to provide homeownership

[32] See the Asset Policy Inventory, development by the Asset Policy Initiative of California. Available at www.assetpolicy-ca.org.
[33] Heather McCulloch (2006). *Building Assets While Building Communities: Expanding Savings and Investment Opportunities for Low-Income Bay Area Residents*. Walter and Elise Haas Fund: San Francisco, CA. Available www.haassr.org/html/resources_links/pdf/buildingReport2006.pdf.
[34] See www.ncsl.org/programs/econ/housing/nondiscrimnatory.htm.
[35] For a full list of approaches, see Cathy Atkins (January 2006). *Manufactured Housing: Not What You Think*. National Conference of State Legislatures: Denver, CO. Available at www.ncsl.org/programs/econ/housing/manufacturedhousing.htm#charts.
[36] Mary Brooks (June 2002). *Housing Trust Fund Progress Report 2002*. Center for Community Change: Washington DC; and Center for Community Change (Winter 2005), "Michigan Creates State Housing Trust Fund," *Housing Trust Fund Project Newsletter*.
[37] For more information: http://en.wikipedia.org/wiki/Tax_increment_financing

education, downpayment assistance and/or to expand the supply of affordable homeownership units.

SAVING FOR RETIREMENT

With the future solvency of Social Security in question, and many traditional pension plans eroding, families must take more initiative in saving money for retirement. Many workers may not work for a business that offers them the opportunity to save in a tax-preferred retirement account at work, such as a 401(k). Because these plans are often complex, small businesses in particular often find that providing retirement savings options to their employees cost prohibitive.

- **Create a voluntary, state-wide universal 401(k) plan.** To ensure every worker has a chance to save for retirement, a state could allow small businesses to participate in pooled accounts managed by the state's retirement system or, alternatively, open up the retirement system enjoyed by state employees to all workers. Either option would create portable 401(k)-style retirement accounts that workers could take with them from job to job, while enabling employers to offer a savings option, and perhaps even a small match, without incurring excessive costs. Any worker who wanted to participate could elect to have tax-deferred contributions deducted directly from each paycheck. Employers would then have the option to contribute to employee accounts independently, or match employee contributions. A state-sponsored universal 401(k) has been proposed in the state of Washington, and is also under consideration in Pennsylvania.[38] Additionally, retirement policy advocates in California, Massachusetts, Michigan, and New Hampshire have shown interest in this type of voluntary retirement account model.

- **Encourage companies to adopt "opt out" features in their retirement plans.** Only about one-half of employers offer their employees 401(k) retirement plans (cite Brookings). Roughly three-quarters of employees choose to participate, but participation tends to be linked with income. The problem is that currently workers are required to actively choose to participate in a company 401(k), or "opt-in." Many workers, especially low-income workers, choose not to do so. However, research has shown that participation in retirement savings plans increases if workers are automatically enrolled rather than compelled to sign up. In one study by Madrian and Shea,[39] this "opt-out" approach was found to increase participation from 36 percent to 86 percent when employed at a Fortune 500 company, and the increase was higher for lower-income workers. While Congress is looking at ways to encourage automatic enrollment on a national level, companies can incorporate these features right now and should be encouraged to do so by state governments. In addition, states can look into adding these features into their own retirement plans for state employees.

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[38] The proposal for Washington Voluntary Accounts is described in more detail at www.econop.org/Policy-WVA.htm.

[39] See Madrian, Brigitte and Dennis Shea (2001). "The Power of Suggestion: Inertia In 401(K) Participation And Savings Behavior." *The Quarterly Journal of Economics*, MIT Press, vol. 116(4), pages 1149-1187, November. Available at www.assetbuilding.org.

ENTREPRENEURSHIP/BUSINESS OWNERSHIP

Building business equity is an important asset-building opportunity for low-income state residents. This section explores a number of policies and strategies that support low-income entrepreneurs to build and expand business equity. Microenterprises—businesses with five or fewer employees that can benefit from a start up or capitalization loan of $35,000 or less— can supplement entry-level employment opportunities, reduce a family's reliance on public assistance, and offer flexibility when families try to balance work-life issues. Employee ownership—where workers have a shared stake in a business entity—is another approach to expanding access to business equity. Cooperatively-owned businesses also help to create job opportunities and promote economic development in urban and, especially, rural areas where nearby job opportunities may be limited.

Microenterprise/Entrepreneurship

- **Allow federal funding streams such as CDBG, TANF, and WIA block grants to be used to support microenterprise.** Some programs which are at least partially-funded by the federal government allow states to support microentrepreneurs through training and other activities. As of 1993, microenterprise development activities can be supported by CDBG funds which are part of the Small Cities Block Grant program. In addition, states have a great deal of flexibility in crafting TANF plans, which may allow microenterprise training to be classified as an allowable work or training activity. Finally, in their Workforce Investment Act (WIA) programs, states can permit microenterprise training and consider a microentrepreneur who successfully opens a business to be employed at the end of their WIA training. At least eight states use WIA and TANF funds to support microenterprise and fourteen use CDBG funds for this purpose.

- **Create a state microenterprise loan fund and/or support state microenterprise intermediaries that strengthen the capacities of local programs.** In addition to supporting microenterprise activities with federal block grants, over twenty states use their own funds to capitalize microenterprise loan funds, support training and technical assistance for the self-employed, and build the capacity of microenterprise programs across the state.

- **Coordinate state support for microenterprise.** Coordinating the delivery of microenterprise services is another strategy that states might consider as a way to increase synergy among different agencies, programs and funding streams. For example, the Oregon Microenterprise Development Act, enacted in 2001, required that the Oregon Economic and Community Development Department convene a working group on microenterprise development to coordinate the work of state agencies and other entities related to microenterprise and to report biennially to the Governor and the Legislative Assembly.[40]

- **Build public awareness of microenterprise as a business development strategy.** Expanding public awareness of microenterprise as a job creation, economic development and wealth-building strategy is another approach to building support for microenterprise

[40] For more information, see www.oregon-microbiz.org/news.cfm.

programs. For example, the California state legislature passed a resolution to recognize microenterprise month in October 2005.[41]

- **Target economic development resources to support microentrepreneurs.** Another approach to supporting microentrepreneurs is to earmark state economic development resources. For example, the Asset Building Coalition for Michigan—a statewide task force that includes the governor's office, state legislators and state departments—recently recommended the state economic development corporation establish a specialized staffing unit to support microenterpreneurs across the state and that a percentage of the Venture Michigan Fund be separately managed as a microenterprise fund.[42]

- **Support minority and women entrepreneurs.** In 2004, minorities represent 27% of the U.S. population but only 14.6% of businesses were minority-owned.[43] At the same time, studies point to the high success rate of minority-owned firms, and the fact that they are growing at a higher rate than other firms in the U.S.[44] States can undertake a range of strategies to support low-income/low-wealth minority entrepreneurs to establish and grow businesses through support for: below-market rate business loans, education and training, supportive procurement policies, small business centers, state funds earmarked for nontraditional entrepreneurs and other approaches. [45] For example, the Virginia Department of Minority Business Enterprise works to ensure that minority and women entrepreneurs in the state have access to the full range of services—access to capital, education, procurement opportunities, etc.—available across Commonwealth departments.[46]

- **Support revolving loan funds to spur small business growth.** Many states support revolving loan fund programs, which often include low- and moderate-income entrepreneurs among their primary clients. These funds tend to fill the gap in resources available from microfinance programs and mainstream commercial lenders. At least 19 states operate revolving loan fund programs—in some cases programs are operated by the state and in others they are operated by other entities, supported by state resources.[47]

- **Support Community Development Financial Institutions (CDFIs).** CDFIs play an important intermediary role in responding to unmet demands for capital in low-income communities by providing loans and equity investments to enterprises that are considered too risky by mainstream lenders or investors. Support for CDFIs can increase the capital available to low-wealth entrepreneurs. At least 12 states support CDFIs, typically through tax credits or direct funding.[48]

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[41] For more information, see the California Association for Microenterprise Opportunity (CAMEO) at www.microbiz.org/html/press_center.htm.
[42] Asset Building Coalition for Michigan (January 2006). *Helping Working Families Achieve Financial Security*. Community Economic Development Association of Michigan and the Council of Michigan Foundations.
[43] Ian Pulsipher (June/July 2004). "Minority-Owned Business Development," National Conference of State Legislatures, *Legisbrief*, Vol. 12, No. 28.
[44] Pulsipher (2004). Data on growth rates from the 2000 US Census.
[45] Pulsipher (2004)
[46] For more information, see www.dmbe.virginia.gov/aboutus.html.
[47] Ian Pulsipher (January 2006), "Revolving Loan Funds for Small Business Development," National Conference of State Legislatures, *Legisbrief*, Vol. 14, No. 1.
[48] Woo (2002)

Employee Ownership

- **Support worker ownership centers.** Several states—including California, Michigan, Ohio, Oregon, New York and Washington and Vermont—have supported or continue to support employee ownership centers, which offer education, technical assistance and other resources to cooperatively-owned businesses.[49] For example, the Ohio Employee Ownership Center, a state-supported university-based center, provides outreach, training and technical assistance services to employees, unions and business owners interested in exploring employee ownership.[50]

- **Support the use of employee stock ownership plans.** Employee stock ownership plans, or "ESOPs", are a type of employee benefit plan, governed by the federal Employee Retirement Income Security Act (ERISA), that provide tax benefits to business owners and a stake in the company to employees. As of 2004, about 11,500 ESOPs in the United States included 10 million participants and controlled $500 billion in assets.[51] A study of ESOPs in the State of Washington found that workers in ESOP companies held three times the level of retirement assets as comparable employees in non-ESOP companies.[52] Some states, like Ohio, support ESOP planning through their employee ownership centers.

- **Support employee and other wealth-sharing programs.** Innovative wealth-sharing programs are under development in the U.S. and around the world that could be championed by state leaders and supported by state policy. For example, in San Francisco a community development venture capital fund included an employee-wealth sharing program for non-managerial workers as a condition for their investment in an emerging company in 2002. When the company was sold, in 2005, the sale resulted in a cash payout of more than $1 million to 40 non-managerial employees.[53] An international example of this concept is in Ecuador, where oil companies are required by law to distribute 15 percent of local profits to employees.[54]

TAX REFUNDS AND SAVING

The tax system can be a gateway to the financial system and to building savings and assets. Last tax season the IRS sent refund checks averaging $2,300 to 130 million tax filers. These cash infusions into people's livelihoods are often the best chance people have to save some money on an annual basis. This is particularly true for lower-income families. Over 20 million lower-income families—one in six taxpayers—received an average of more than $1,700 boost to their refund from the Earned Income Tax Credit (EITC), a refundable tax credit designed to reward

[49] Information on state centers gathered from a range of resources including staff of the Ohio Employee Ownership Center, the National Center for Employee Ownership and an article by John Logue and Marjorie Kelly (2000). *It's Time to Renew Our National Enthusiasm for Employee Ownership*. Corporation for Enterprise Development: Washington DC. Available at http://www.cfed.org/publications/accountability/Accountability%20Dec%2000-1%20Logue.pdf
[50] For more information, see www.dept.kent.edu/oeoc/abouttheoeoc/abouttheoeoc.htm
[51] For more information, see www.nceo.org.
[52] For more information, see www.nceo.org/library/ownership-society.htm.
[53] For more information and NPR coverage of the story, visit the website of Pacific Community Ventures at www.pacificcommunityventures.org/newsroom/index.html#second.
[54] Geri Smith, "Nice Work, If You're From Equador," *Business Week*, November 14, 2005

work. The Child Tax Credit (CTC)—which is partially refundable—is another vital source of tax refunds for low-income families.

- **Create a state EITC and CTC.** Fourteen states and the District of Columbia currently have a state EITC that works in concert with the federal EITC to bring more benefits to working families. Many state EITC initiatives are supported with TANF funds. Other states could join this effort by creating their own state EITC that could be linked to the federal EITC eligibility rules for administrative ease. For example, a state could provide a refundable EITC credit equal to 15 percent of whatever federal EITC a family might receive. States also have innovative options such as less restrictive definitions of "earned income," to better serve such traditionally low-income populations such as American Indians and people with disabilities. In addition, states can also create a child tax credit that links to the federal version and make this refundable. Currently, twelve states have a refundable child tax credit and an additional fourteen and the District of Columbia have a non-refundable version of this credit.[55]

  If a state decides to implement an EITC or CTC, policymakers could consider making the definition of earned income broad enough to accommodate the income of Native Americans. For example, to ensure that a state EITC is available for Native Americans living and working on reservation land in the state, policymakers could include a provision which ensures that income does not have to be considered taxable by the state to qualify for the state credit. Wisconsin needed this provision in their EITC regulations because Native Americans who live and work on their tribal reservation land may exclude their income from state taxation. This provision enables Native families who have a zero income for state income tax purposes to qualify for the state EITC.[56]

- **Launch an EITC and CTC awareness campaign.** The EITC lifts millions of families out of poverty each year, while rewarding work. Yet, roughly 15 to 20 percent of families who qualify do not claim the credit, many because they are simply unaware the credit exists. These refunds—which averaged $1,789 per family in 2004—not only help current recipients, but may cause an economic ripple effect across entire communities. Recognizing this, some states have launched effective EITC awareness campaigns to bring more of these dollars into families and communities. For example, the state of Washington launched a media campaign, set up a telephone hotline, and developed materials to increase awareness of the EITC. After five years, they found that the number of eligible families claiming the EITC had doubled. Likewise, in Louisiana, state leaders have created a multi-agency Tax Assistance Preparation and Assistance Network and appeared in radio and television spots to increase awareness of the credits. These campaigns can be done in concert with VITA (volunteer income tax assistance) sites, which offer an alternative to commercial tax preparation and—in some cases—use the time to inform tax filers of opportunities to open bank accounts, save their refund, and apply for any public assistance for which they are eligible.[57]

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[55] For more information on the value of states' EITC and CTC programs, see, *Policy Matters: Twenty State Policies to Create Bright Futures for America's Children*, by the Center for the Study of Social Policy at www.policymatters.us/fullreport.html.
[56] For more information, contact Shelia Z. Siegel at the IRS at Sheila.Z.Siegel@irs.gov.
[57] More information on VITA sites is available through the IRS website at www.irs.gov/individuals/article/0,,id=107626,00.html. In addition, the Center for Economic Progress has developed best practices and other resources for free tax preparation sites, which is available at www.tax-coalition.org.

- **Allow taxpayers to split refunds into "money to save" and "money to spend."** Currently, taxpayers can take their tax refund only in one lump sum—it can only be directed into one account. Many families may have already targeted at least some of this money for debt repayment or other immediate uses, but have a hard time saving even a small portion of their refund if they have access to the entire amount at once. Under this proposal, people could split their refund into "money to save" and "money to spend" by depositing at least a potion of their refund directly into an IRA, 529 college savings plan or a variety of other savings products. The federal government will implement this change in 2007 by allowing federal tax refunds to be split among up to three accounts, and states can follow suit by enacting a similar strategy on state tax forms. Legislation is currently pending in California to provide this option at the state level, and a pilot program has showed some potential for this strategy to encourage savings.[58]

WEALTH SHARING

Wealth sharing is a strategy that aims to distribute some of the state's wealth to individuals so that everyone benefits from a shared resource. States can create wealth sharing opportunities for their residents by determining if any revenues could be shared among all state residents to provide a start to building assets. Resources that can generate revenue include natural resources, state-owned enterprises, and state-managed investments, among others.

- **Develop a wealth sharing mechanism to benefit all state residents.** One of the most well-known examples of a wealth sharing mechanism at the state level is the Alaska Permanent Fund. Created in 1980, the Fund manages and invests tax revenues from the extraction of North Slope oil. Every resident is eligible to receive a dividend which is based on the revenues generated. In 2005, the dividend was $845 for every individual.[59] The state has begun to link these dividend payments to asset building opportunities. For example, an individual can choose to automatically invest up to half of their dividend each year in the state's 529 college savings plan.[60]

ASSET LIMIT REFORM

Assets limits were put into place alongside income limits for eligibility purposes in public assistance programs such as TANF, Medicaid, and Food Stamps. The purpose makes sense at first glance—these programs have limited resources and therefore want to offer help to those most in need. However, asset tests can put low-income families in a precarious position, forcing families to deplete their assets to extremely low levels before help becomes available. This scenario prevents families from building up adequate asset reserves, while receiving temporary assistance, to move towards long-term economic self-sufficiency. Research has shown that asset limits are typically expensive and administratively cumbersome for states to enforce.

States have complete flexibility to set asset limits for their TANF and Medicaid programs, and have some degree of flexibility in choosing which assets count in their Food Stamp programs.

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[58] This pilot project, Refunds to Assets, was conducted by the Doorway to Dreams Fund. More information is available at www.d2dfund.org/r2a/index.php.
[59] More details on the Alaska Permanent Fund are available at www.apfc.org.
[60] For more information on this option, see www.uacollegesavings.com.

- **Eliminate asset limits from eligibility considerations, or raise them significantly.** Several states have eliminated asset limits entirely in certain assistance programs. Ohio eliminated asset tests from its TANF program in 1997 and the state has still experienced steady declines in caseloads for the program. Citing a need to streamline administrative burdens of the TANF program, Virginia followed suit in late 2003 and also eliminated its asset test.

  Close to half the states have also waived asset tests for families on Medicaid and have found that the cost and time savings in administering the program have far outweighed the cost of any additional caseload. New Mexico, one of the states that tracked this change, found that the only additional cost of eliminating the Medicaid asset tests was $23,000 in state funds per year due to a slight increase in enrollment. However, this is more than offset by administrative cost savings. For example, Oklahoma is spending $1 million less to administer its Medicaid program now that the asset test has been removed.

  Alternatively, if it is not possible to completely eliminate the asset test, it could at least be raised to a more realistic level, so that families could save more without being penalized, and then indexed to inflation to keep pace with rising costs. Income limits are adjusted upwards in this fashion, but asset limits in some programs have remained the same for several decades. In effect, asset limits have caused eligibility to become more and more restrictive over time. Program funding levels may benefit from the recent change to a more temporary focus on administering assistance, but families will benefit more from a long-term plan of savings and asset-accumulation. Colorado recently passed legislation that will raise the asset limits in its TANF program from $2,000 to $15,000. In addition, Colorado will exclude retirement, health, and education savings; EITC refunds; and a car owned by any employed member of the household.

- **Exclude certain asset holdings, such as education, health, and retirement savings, a car, and EITC refunds.** Currently, employer sponsored 401(k) plans as well as IRAs generally are counted towards asset limits. Families needing to go on temporary public assistance therefore may have to spend down these retirement accounts even if they face a penalty in doing so. These families, who likely already lack sufficient retirement savings, will have even less – making it more likely that they will have to rely even more on public assistance once again when they are seniors. This particularly acute for individuals with disabilities or chronic illnesses, who will likely need significant savings to manage their health and other care expenses as they age. In line with excluding retirement accounts, contributions to 529s and other restricted education savings plans should also be excluded from eligibility consideration. As mentioned earlier, Colorado's new law will exclude retirement, health, and education savings accounts. In addition, Pennsylvania and Michigan exclude education savings accounts such as 529s, and Illinois excludes retirement assets in their TANF eligibility criteria.

  Cars are often overlooked as "assets" because they quickly depreciate in value. However, the value of a car should not be measured only by its resale value, but by the utility it provides in giving families access to job opportunities across their region. This is particularly important for families living in rural areas or others working and/or living in areas lacking a convenient public transportation system. Currently, many states do allow at least one car to be excluded per household and states have the ability to make this the standard across all programs.

Finally, low-income workers who receive an EITC refund could be allowed to save their refund for up to a year after receipt to pay for unexpected expenses, debts, and other purposes. This would help families pay for both expected and unexpected expenses throughout the year and offer greater protection from financial emergencies that could cause them to return to public assistance. This one-year time period, which has already been set in the Food Stamp and SSI programs, allows the EITC to be disregarded for nine months; however, many states count EITC refunds for TANF eligibility after just two months. At least 8 states have instituted reforms to exclude EITC refunds entirely in their TANF programs, in addition to Virginia and Ohio, which exclude all assets.

ASSET PROTECTION

The market for providers of unscrupulous loans and financial services is vast, profitable, and poorly regulated. Predatory mortgage lending is responsible for the stripping an estimated $9.1 billion of assets from low-income families and communities each year. While the fast-growing sub-prime mortgage market can provide credit and much needed financial services for individuals who may be greater risks to lenders, sub-prime loans often include predatory features such as unnecessary expenses and provisions that have the potential to strip equity. Likewise, payday lenders may provide needed short-term loans but charge excessive fees—such as annual interest rates up to over 400 percent—which can end up costing low-income families an estimated $4.3 billion a year.[61] In addition, low-income taxpayers receiving EITC refunds are also targeted during the tax filing process through products such as high cost refund anticipation loans.

- **Enact a strong anti-predatory mortgage lending law.** While in the past, individuals living in low-income communities had trouble accessing mortgage credit, the concern today is what kind of loan terms are offered. Several states have enacted strong anti-predatory mortgage lending legislation that regulates loan terms related to excessive fees, prepayment penalties, loan flipping, mandatory arbitration, and other potentially harmful practices. North Carolina's anti-predatory lending law, which serves as a model for other states, was found to reduce the number of loans with abusive terms, while still allowing responsible forms of sub-prime credit to be available for those unable to get a loan under the most favorable terms. Some specific provisions in this law include the prohibitions on (1) prepayment penalties on loans of $150,000 or less; (2) financing upfront single premium insurance; (3) loan flipping. In addition, the law has additional protections for consumers with loans of over $300,000.[62]

- **Restrict abusive payday lending practices.** Payday lenders provide a short-term loan to which is secured by funds from the borrower's next paycheck. Many borrowers, however, cannot repay and instead must renew the loan. Often, a cycle of debt with a high annual interest rate results where the loan balance can be a multiple of the actual amount borrowed. Fourteen states have outlawed payday lending, however, even in these states it may be possible for payday lenders to operate by aligning themselves with an out-of-state financial institution which is located elsewhere. To stem the negative effects of payday lending, states can introduce measures such as setting longer minimum loan

[61] For more information on the costs of predatory mortgage and payday lending, see www.responsiblelending.org.
[62] For more information on the impact of specific state anti-predatory lending laws, see *The Best Value in the Subprime Market: State Predatory Lending Reforms*, by Wei Li and Keith Ernst at the Center for Responsible Lending. Available at www.responsiblelending.org/pdfs/rr010-State_Effects-0206.pdf.

terms (perhaps 90 days), limiting rollovers, and capping interest rates. To some degree, states can also restrict out-of-state partnering of payday lenders that can otherwise allow payday lenders to operate outside of state law. Georgia and Maryland are two examples of leaders in enforcing payday lending laws.

- **Curb abusive tax preparation practices.** Refund Anticipation Loans (RALs) allow tax filers to borrow against their tax refund in order to receive it more quickly—usually either the same or next day. RALs users generally incur high fees, with APRs estimated at between 40-700 percent, just to access money a week or two sooner than they would with direct deposit of the tax refund into a bank account. In 2004, $1.24 billion was spent by primarily low- and moderate-income taxpayers on to take out 12.38 million refund anticipation loans.[63] In addition to the high costs, tax filers incur risk by taking out a RAL, since the loaned money must be paid back even if the IRS determines that the individual's actual refund should be a different amount that the expected refund. Seven states have tried to better inform consumers of the costs of refund anticipation loans through varying degrees of disclosure and Connecticut has imposed a 60 percent cap on the annualized interest that can be charged. In addition, states could regulate check cashing fees for RALs and restrict state tax refunds from being disbursed in this manner.

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[63] See *The National Consumer Law Center/Consumer Federation of America 2006 Refund Anticipation Loan Report*, available at www.consumerfed.org/pdfs/2006_RAL_report.pdf.

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APPENDIX

Table 1: Organizations to contact to learn more about a specific policy option

Youth Financial Education	
Jumpstart for Youth Financial Literacy	Laura Levine (llevine@jumpstart.org) www.jumpstart.org
Junior Achievement	www.ja.org
National Council on Economic Education	www.ncee.net
General/Adult Financial Education	
National Endowment for Financial Education	Ted Beck www.nefe.org
Native Financial Education Coalition	Johanna Donohue (joanna@donohoeconsulting.com) www.nfec.info
Financial Education for TANF Recipients	
Sargent Shriver National Center on Poverty Law	Dory Rand (doryrand@povertylaw.org) www.povertylaw.org
Children's Savings Accounts	
Center for Social Development	Margaret Clancy (mclancy@wustl.edu) http://gwbweb.wustl.edu/csd/
CFED	Carl Rist (rist@cfed.org) www.cfed.org
New America Foundation	Reid Cramer (cramer@newamerica.net) www.newamerica.net
Saving for College in 529s	
Center for Social Development	Margaret Clancy (mclancy@wustl.edu) http://gwbweb.wustl.edu/csd/
New America Foundation	Leslie Parrish (parrish@newamerica.net) www.newamerica.net
Banking the Unbanked	
Center for Financial Services Innovation	Jennifer Tescher (jtescher@cfsinnovation.com) www.cfsinnovation.com
New America Foundation	Anne Stuhldreher (stuhldreher@newamerica.net) www.newamerica.net
Matched Savings Accounts	
Center for Social Development	Karen Edwards (karene@wustl.edu) or Gena Gunn (ggunn@wustl.edu) http://gwbweb.wustl.edu/csd/
CFED	Jennifer Brooks (brooks@cfed.org) www.cfed.org
First Nations Development Institute	Peter Morris (pmorris@firstnations.org) www.firstnations.org

Homeownership	
Center for Housing Policy	Jeff Lubell (jlubell@nhc.org) www.nhc.org
National American Indian Housing Council	www.naihc.net
NeighborWorks	www.nw.org
New America Foundation	Reid Cramer (cramer@newamerica.net) www.newamerica.net
Retirement Savings	
Economic Opportunity Institute	Marilyn Watkins (marilyn@eoionline.org) www.econop.org
Retirement Security Project, Brookings Institution	Peter Orzsag (porzsag@brookings.edu) or Mark Iwry (miwry@retirementsecurityproject.org) www.retirementsecurityproject.org
Entrepreneurship/Business Ownership	
Aspen Institute FIELD (Microenterprise Fund for Innovation, Effectiveness, Learning, and Dissemination) Program	Elaine Edgcomb (elaine.edgcomb@aspeninst.org) www.fieldus.org
Association for Enterprise Opportunity	www.microenterpriseworks.org
CFED	Kim Pate (kim@cfed.org) www.cfed.org
Linking Tax Refunds and Savings	
Center for Economic Progress	Julie Kruse (jkruse@centerforprogress.org) www.centerforprogress.org
Doorways to Dreams Fund	Jeff Zinsmeyer (jzinsmeyer@d2dfund.org) or Tim Flacke (tflacke@d2dfund.org) www.d2dfund.org
New America Foundation	Anne Stuhldreher (stuhldreher@newamerica.net) or Reid Cramer (cramer@newamerica.net) www.newamerica.net
State EITC/CTC and EITC/CTC Outreach	
Center for Economic Progress	Julie Kruse (jkruse@centerforprogress.org) www.centerforprogress.org
Center on Budget and Policy Priorities	www.cbpp.org
Wealth Sharing	
Tanana Chiefs Conference (Alaska)	Don Shirel (dshirel@tananachiefs.com) www.tananachiefs.org

Asset Limit Reform	
Center for Law and Social Policy	Amy Ellen Duke (aduke@clasp.org) www.clasp.org
Center on Budget and Policy Priorities	Zoe Neuberger (neuberger@cbpp.org) www.cbpp.org
New America Foundation	Leslie Parrish (parrish@newamerica.net) www.newamerica.net
World Institute on Disability	Megan O'Neill (megan@wid.org) www.wid.org
Asset Protection	
Center for Responsible Lending	www.responsiblelending.org
Consumer Federation of America	Jean Ann Fox (jafox@erols.com) www.consumerfed.org
Demos Economic Opportunity Program	Tamara Draut (draut@demos.org) www.demos.org
National Consumer Law Center	www.nclc.org

In addition to this list, the National Council of State Legislatures (www.ncsl.org) and National Governor's Association (www.nga.org) are knowledgeable on these and many other proposals related to asset building.

Table 2: Asset Building Policies Adopted by States

Youth Financial Education	• Nine states make personal finance a requirement for high school graduation and at least six additional states passed legislation in 2005 requiring financial education in the K-12 educational system. • States with existing requirement: AL , GA, ID, IL, LA, KY, NY, SC, and UT. • States recently passing legislation to require financial education to be implemented: MO, VA, TX, WA, WV, and WY. • Bank at School programs are operating in CA, DE, IL, and NJ.
Workplace Financial Education	• As part of PA's Working Families initiative, all state employees will receive financial education and best practices will be made available to private sector businesses interested in conducting their own financial education in the workplace.
Financial Education as an Allowable TANF Work Activity	• Several states, including DE, IL, and MO allow financial education courses to count as an allowable work activity for TANF recipients and a bill is currently pending to create this option in CA.
Financial Education Public Awareness Campaigns	• PA has created a centralized financial education resource for its residents, at www.moneysbestfriend.com.
Children's Savings Accounts	• While universal children's savings accounts are not a reality in any state, some organizations, public officials, and/or policymakers in CA, IL, KS, KY, MI, MO, and OK are working on proposals for either stand-alone KIDS Accounts or a system of universal 529s for kids. Candidates for Governor in OH and State Treasurer in AR have also talked about universal kids accounts, through 529 plans.
529s with Inclusive Features	• Morningstar compares the 529 plans of each state and ranks them according to many features including those that help make plans a better investment for low-income families. The direct-sold plans with the highest ratings include AK, MI, and UT.
529s with Matching Grants	• Seven states offer some sort of match to 529 college savings plans, including CO, LA, ME, MI, MN, RI and UT.

Linking Benefits to Bank Accounts	• AK, AZ, IN, MA, and NV link limited-use bank accounts to benefit cards. IL and VA promote the option to directly deposit benefits to a low or no cost bank account to their TANF recipients.
Basic Bank Accounts	• Eight states—including IL, MA, MN, NJ, NY, PA, RI, and VT—have enacted some sort of lifeline banking laws to help low-income residents access bank accounts. • "Get Checking" partnerships exist to some degree in over half of all states. See www.getchecking.org for a complete list of locations.
Financial Services in Distressed Communities	• AZ's Department of Housing is partnering with Native American tribes to develop more accessible financial services through a CDFI.
Matched Savings Accounts	• Over 34 states mention IDAs in their TANF state plans, with 13 actually using TANF funds for their IDA programs. Additionally, four states have an IDA tax credit, and eleven states offer match money and cover all or a portion of administrative costs from general funds.
Demand-Side Homeownership Strategies	• CA supports lease-purchase programs in targeted communities. • CT, IL, MI, ND, NE, and NJ have employer-assisted housing programs. • Over 1,400 Family Self-Sufficiency programs exist, with every state represented. Public housing authorities running FSS Programs in AK; Council Bluffs, IA; Montgomery County, MD; Portland, OR; and Salem, MA are among the most successful. • IL, MA, and NY have state-level CRA legislation.

Supply-Side Homeownership Strategies	• CA has affordable housing construction policies. • CA, MA, MN, and NJ have state inclusionary zoning policies. • VT is a leader in supporting community land trusts. • CA provides technical assistance grants to non-profits who work on self-help housing. • 23 states have enacted nondiscrimination statutes for manufactured housing and 40 states allow the conversion of manufactured homes from personal to real property. See www.ncsl.org for a detailed list.
Housing Trust Funds	• 34 states have some type of housing trust fund; MI and ME have a fund that supports development of both rental and ownership opportunities.
Tax Increment Financing Revenue for Affordable Housing	• 49 states and DC use tax increment financing; FL and CA set aside a portion of the revenues for affordable homeownership purposes.
Voluntary, statewide 401(k) Plans	• WA and PA are considering proposals to create a state-sponsored 401(k) plan.
Microenterprise Assistance	• Some of the states leading the way in the facilitation of microenterprise include CA, DC, KS, MA, NH, NM, NV, NY, UT, and VT.
Women/Minority-Owned Businesses	• VA has established a special offices that works across departments to aid women and minority entrepreneurs.
CDFIs and Revolving Loan Funds	• 38 states have revolving loan funds and at least 12 support CDFIs.
Employee Ownership and Wealth Sharing Programs	• CA, MI, OH, OR, NY, and WA provide support for these centers, with OH in particular supporting the formation of employee stock ownership plans through its center.
State EITC and CTC	• 18 states and DC have some version of a state EITC. Fifteen of these EITCs are refundable tax credits. In addition, 12 states have a refundable child tax credit and an additional 14 and DC have a non-refundable version of this credit. WI has a broad earned income requirement that allows Native Americans who live and work on reservations to access the credit.

EITC Outreach	• EITC outreach campaigns have been created in several states and are led by state agencies, Governors, nonprofits, or a combination of actors. Some states with active campaigns include DE, FL, LA, MI, NC, and WA.
Split Tax Refunds	• The IRS will implement a "split refunds" on federal tax forms in 2007. • CA has a bill pending to allow the splitting of state tax refunds into more than one account.
Wealth Sharing	• AK distributes dividends to every resident through its Alaska Permanent Fund, which manages and invests taxes from oil revenues.
Eliminating Asset Limits	• OH and VA have eliminated their asset limits for TANF; IL came close to eliminating its asset limit in 2005.
Raising Asset Limits	• CO has significantly raised asset limits to $15,000 and excludes almost all forms of restricted savings accounts.
Excluding Certain Assets From Consideration	• CO excludes education, retirement, and health savings accounts; PA and MI exclude education savings accounts such as 529s; IL excludes all retirement savings accounts; and a bill has been proposed in CA exclude all retirement and education savings accounts. • EITC refunds are excluded in at least 8 states, in addition to VA and OH which do not have asset tests in their TANF programs.
Anti-Predatory Mortgage Lending Laws	• While 28 states have some form of anti-predatory lending laws or regulations, the six leaders in this area are MA, NC, NJ, NM, NY, and WV.
Payday Lending Restrictions	• 14 states have outlawed payday lending; GA and MD are working to toughen enforcement measures of their payday lending prohibitions.
Refund Anticipation Loan Curbs	• CT has capped annualized interest rates at 60 percent. CA, IL, MN, NV, NC, OR, WA, and WI require varying degrees of disclosures.

Table 3: Statewide Asset Building Initiatives[64]

Alaska	Spurred by the state's Director of the Division of Public Assistance, Alaska formed a statewide coalition in 2006 called Save! Own! Invest!, which is made up of a variety of public, nonprofit, and private sector partners, including leaders in the Native Alaskan community. The group has launched a website (www.saveowninvest.org), authored a white paper that describes the need for comprehensive asset building policies, and is now conducting outreach to start the momentum of policy and program changes.
California	The Asset Policy Initiative of California (APIC) was launched in early 2003 to frame a long-term assets agenda, including asset accumulation, leverage, preservation, and creation. The California Assembly recognized the initiative and the need for more research and discussion around asset poverty in 2004. APIC and its partners In addition to policy work, APIC has developed a tool that allows local communities to measure the extent of asset poverty in their area and has been successful on placing a number of articles about asset building in major media outlets.
Delaware	Delaware's State Treasurer and Governor launched a Taskforce for Financial Independence in 2001. This task force produced a publication with a set of comprehensive policy proposals related to financial education, matched savings accounts, the EITC, insurance, and predatory lending. Some recent accomplishments resulting from Taskforce include financial education classes for TANF recipients, increased matched savings accounts, a statewide EITC public awareness campaign, and fringe banking regulations.
Hawaii	The Hawaii Alliance for Community-Based Economic Development (HACBED) kicked off a statewide asset building initiative, called the Ho'owaiwai Asset Policy Initiative of Hawaii, at a 2004 conference with attendees from the public and non-profit sectors, grassroots organizations, foundations, academics, among other stakeholders. This initiative, modeled after APIC in California, has identified affordable homeownership, IDAs, financial education, and linkages between asset building and economic development as some of its potential policy priorities moving forward.
Illinois	The Illinois Asset Building Group was initiated in 2003 by the Woods Fund of Chicago and is now led by members of the Heartland Alliance and the Sargent Shriver National Center on Poverty Law. The coalition has developed a comprehensive set of policy proposals related to lifelong learning, housing, small business development, financial services, consumer protection, health insurance, and access to jobs. Some of the group's accomplishments include the expansion of FamilyCare health insurance coverage and exempting retirement savings from public benefit eligibility consideration.

[64] These statewide initiatives vary greatly in their creation, impact, and stage of development, though most are still in their beginning stages. Many of the state initiatives are described in more detail in *Promoting Economic Security for Working Families: State Asset-Building Initiatives*, by Heather McCulloch, published by the Fannie Mae Foundation.

Michigan	The Council of Michigan Foundations and Michigan Department of Human Services formed a statewide effort to expand IDAs throughout the in 2000. A few years later, a more comprehensive effort, the Asset Building Coalition for Michigan evolved from this effort. This new coalition released a document outlining asset building policy proposals related to helping families save, own, leverage their resources, and obtain higher education levels and job skills. Some of their recent accomplishments include excluding 529 college savings plans from public benefit eligibility consideration, expanding the reach of IDAs, and being instrumental in the establishment of a Housing and Community Development Trust Fund.
Pennsylvania	In 2004, Pennsylvania established the Governor's Task Force for Working Families to identify asset building and financial education strategies the state could undertake and determine how to protect families against predatory financial practices. An Office of Financial Education was established in the Department of Banking, which has facilitated financial education teachings throughout the state and provides an online clearinghouse of financial education resources. In addition to financial education, other policy priorities include supporting small business development, creating retirement savings strategies, promoting the EITC and the Family Self-Sufficiency program, and ensuring that financial services firms are undertaking responsible lending and marketing practices.

Several other states, such as Alabama, New Mexico, North Carolina, and Oregon have secured funding from public and private sources to expand current asset-building initiatives—such as IDAs and EITC awareness programs—into larger, more inclusive assets policy agendas.[65]

[65] For more information on the AL, NC, NM, and OR initiatives, contact Karen Edwards at the Center for Social Development at Washington University in St. Louis. In addition, three of these state initiatives have websites describing their activities: NC - www.ncidacollaborative.org/aboutus.htm#vision; NM - www.new-mexico-assets.org/; and OR - www.tnpf.org/programs/assets_idas/.