NEW AMERICA FOUNDATION

ASSET BUILDING PROGRAM

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FEDERAL ASSETS POLICY REPORT AND OUTLOOK 2004

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INTRODUCTION

The purpose of this annual report is to summarize and assess federal assets policy efforts from last year, in the President's new Budget, and for the coming session of Congress.[1] While not intended to be exhaustive, this report identifies almost $320 billion in resources related to asset building included in the Bush Administration's 2005 Budget. The overwhelming majority of these resources, $302 billion, are catalogued as tax expenditures, while almost $17 billion of discretionary spending is proposed.

Overall, this report demonstrates that the asset building framework continues to gain currency among a growing set of policymakers—but also that many policy gains are offset by policy losses. For example, the Administration's commitment to expanding homeownership among low-income and minority persons brings with it a potentially huge reduction in affordable rental housing programs. Significant consumer protections enacted in 2003 and under consideration in 2004 are paired with a pre-emption of potentially stronger state laws. Proposals to expand savings at the low-end may possibly be won only with significant savings and asset sheltering opportunities for those at the high-end. Proposals to expand Pell Grants pale in comparison with the rapid expansion of tax-based and merit-based programs, which largely benefit better-off families who already can afford college. IDAs continue to receive strong support in the Administration and Congress, but even fully funded and well implemented IDAs are likely to reach about two percent of the eligible population by the end of the decade. And perhaps most worrisome is the growing use of the term "the ownership society" by those who advocate policies aimed at increasing ownership for those who already own a lot, while doing virtually nothing for those who have little.

Federal Assets Policy Report and Outlook – 2004 Highlights

I. 2003 Review – Signed into Law

* Creation of the American Dream Downpayment Program.
* Passage of the Fair and Accurate Credit Transaction Act.

II. President's Budget Proposals FY 2005

* Creates three bold new savings proposals: LSAs, RSAs, and ERSAs.
* IDA Tax Credit to create 900,000 accounts over ten years.
* Level funding of $25 million for Assets for Independence Act (AFIA).
* Proposal to allow taxpayers to electronically split refunds into more than one account.
* Potential decrease in funding for the Family Self-Sufficiency (FSS) Program.
* Allows the Savers Credit (which encourages retirement savings by the poor) to expire in 2006.

III. 2004 Preview – What's on the Agenda in Congress This Year

* Possible Congressional action on Administration's savings proposal to create Retirement Savings Accounts, which may include expanded savings opportunities for the poor.
* Senate and House conference on IDA tax credit in the Savings for Working Families Act.
* Likely reauthorization of the AFIA.
* Reauthorization of Higher Education Act.
* Introduction of American Stakeholder Act of 2004 to create a savings account for every child.
* Anti-Predatory Lending bill likely to be considered.

More optimistically, the two remaining viable Democratic candidates for President have each embraced different but ambitious agendas to build savings and assets for low- and moderate-income persons. And, perhaps most significantly, this year will see the introduction of The American Stakeholder Act of 2004, which like its U.K. counterpart would create a savings and investment account for every child born in America. While this legislation is not likely to be considered in 2004, it marks a huge step forward for the asset building field.

The first part of this report is a summary of recently enacted legislation related to asset building; the second is a description and analysis of the President's budget proposals for Fiscal Year 2005 from an assets perspective; and the third is a preview of assets policy issues that may be considered in Congress in 2004. Further details on policies and proposals discussed in this report can be found at www.AssetBuilding.org

I. SIGNED INTO LAW IN 2003

Homeownership

In 2002, President Bush established a goal of increasing the number of minority homeowners by 5.5 million households. To achieve this target, the Administration proposed to create the American Dream Downpayment program, a fund within the existing HOME program designed to provide grants to low-income, first-time homebuyers to help cover downpayment and closing costs. The *American Dream Downpayment Act* (Public Law 108-186) was signed into law in December 2003. The fund will be administered by local and state housing authorities. Before the program was authorized through this legislation, $75 million was appropriated for the program in fiscal year 2003 as a set-aside within the HOME program. This funding, along with the $87.5 million appropriated in fiscal year 2004, is expected to be distributed in the spring of this year. These funding levels were far below the $200 million requested by the Bush Administration in its annual budget.

Consumer and Asset Protection

In preparation for the reauthorization of the Fair Credit Reporting Act (FCRA) there was a significant degree of congressional interest in the issues of financial education, predatory lending, consumer credit, and identity theft. Multiple hearings were held and numerous pieces of legislation were introduced. Ultimately, the *Fair and Accurate Credit Transaction Act* (Public Law 108-159), incorporating many of the financial education and asset protection elements from various pieces of legislation, was signed into law. This update to FCRA creates a variety of new financial education initiatives which will be carried out by a Financial Literacy and Education Commission, housed in the Treasury Department. This commission will focus on identifying strategies to improve financial literacy and will establish a web-based informational clearinghouse. The new law entitles consumers to one free credit report a year and supports asset protection through a range of measures to prevent identity theft. However, these gains for consumers may come at a high cost: the law makes permanent a pre-existing provision that pre-empts states from enacting more extensive consumer protections.

II. DESCRIPTION AND ANALYSIS OF THE BUSH ADMINISTRATION'S FY 2005 BUDGET PROPOSALS

The President's Budget is designed to signal the Administration's public policy priorities. Although it includes an accounting of the nation's finances, at its core it is a set of proposals that reflects an argument for how the government should spend its limited resources. These proposals are sent to Congress for their consideration before funding is appropriated. In accordance with the constitutional distribution of checks and balances, the President proposes and Congress disposes. The main volume of the Budget typically describes the priorities of each executive branch agency in narrative form, with particular attention given to new initiatives, and is augmented by a voluminous Appendix which provides detailed budget requests at the account level.

Since federal policy has many levers, it is important to distinguish between the different types of policies and programs. Accordingly, this analysis will identify (A) new initiatives, (B) funding for existing programs, and (C) tax expenditures as a means of describing the Administration's budget from an assets perspective. The cost estimates and appropriation budget requests are included in accompanying tables.

While this report focuses on programs explicitly related to asset building, the budget proposals of the Bush Administration which may threaten aspects of the social safety net deserve scrutiny as well. The elimination or diminishment of social protections, such as the provision of affordable housing and child care, necessarily weakens asset building prospects.

A. New Initiatives:

Savings Policy

The budget proposes creating two new consolidated savings accounts: *Retirement Savings Accounts (RSAs)* and *Lifetime Savings Accounts (LSAs)*. Both accounts would have contribution limits of $5,000 per year but have no income or age restrictions. These contribution limits were modified from last year's proposal, which had a contribution limit of $7,500. Collectively, these accounts would dramatically alter the tax-treatment of savings because contributions would be after-tax, but earnings and withdrawals would be tax-free. For LSAs, withdrawals could be for any purpose, while with RSAs, withdrawals would be tax-free after age 58. Individuals will be able to convert existing tax-preferred savings into these new accounts in order to consolidate and simplify their savings arrangements, provided applicable taxes are paid. Existing Roth IRAs would be unaffected but renamed RSAs, while traditional IRAs could be converted to an RSA once taxes are paid. RSAs would remove all eligibility rules related to age, pension coverage, or maximum income; eliminate minimum distribution rules while the account owner is alive; and allow conversions of traditional and nondeductible IRAs into the new back-loaded saving vehicles without regard to income.

The budget also proposes to create *Employer Retirement Savings Accounts (ERSAs)* to promote and simplify employer sponsored retirement plans. The proposal would consolidate 401(k), SIMPLE 401(k), 403(b), and 457 employer-based defined contribution accounts into a single type of plan established by any employer. 401(k)s would be unaffected but renamed ERSAs. 403(b)s and other plans (SEP-IRAs, SIMPLE IRAs, 457 plans) would continue, but may not accept any further contributions after 2004. Contributions would be limited to $12,000 per year (rising to $15,000 by 2006) and, like existing employer-based accounts, would be immediately tax deductible.

The budget proposes creating an *Individual Development Account (IDA) Tax Credit* to help lower-income individuals save. This proposal would provide dollar-for-dollar matching contributions of up to $500 targeted to lower-income individuals through a 100 percent credit to sponsoring financial institutions. Taxpayers would be eligible to establish and contribute to an IDA if their modified Adjusted Gross Income in the preceding taxable year did not exceed $20,000 for single, $30,000 for heads of household, and $40,000 for married taxpayers filing jointly. The proposal would be effective for contributions made after December 31, 2004 and before January 1, 2012, to the first 900,000 IDA accounts opened before January 1, 2010.

The IDA Tax Credit proposal appeared in previous Bush Administration budgets, but was presented this year as a progressive companion to the other savings proposals. While it is encouraging that the Administration continues to promote creating an IDA Tax Credit, it is not a new proposal per se, having been included in prior Bush budgets.

The Budget is silent on the *Savers Credit*, which is scheduled to expire in 2006. The Savers Credit is an incentive for lower-income taxpayers to save through a nonrefundable credit of up to 50 percent on IRA contributions. While this credit can certainly be strengthened into a more powerful tool to encourage savings for low-income people, namely by making it refundable, eliminating it takes away a potentially viable platform to create progressive savings incentives.

A political interpretation of these developments is that the Bush Administration intends to prioritize making the changes to the tax code enacted in 2001 and 2003 permanent above enacting the savings policy proposals. Still, LSAs, RSAs, and ERSAs are in the Budget and officially part of the President's agenda. As such, they may be subject to some legislative action this term. However, without the Savers Credit or any other alternative policy to promote progressive savings, on balance, the proposed accounts create incentives that are regressive, could reduce saving among the most vulnerable populations, and would exacerbate the already bleak long-term budget outlook.

Instead of creating a new set of incentives that promote tax sheltering and asset shifting, it would be more effective to target incentives for people who currently don't save enough, especially low-income people shut out of the current system of tax benefits.[2]

Homeownership

The Budget proposes to increase housing opportunities by creating a *Single-Family Homeownership Tax Credit.* This tax credit would have a similar structure to the Low-Income Housing Tax Credit, which allocates tax credit authority to the states on a per capita basis. Under the proposal, states are responsible for awarding credits to single-family housing units or projects located in census tracts with median income equal to 80 percent or less of area median income. The present value of the credits could not exceed 50 percent of the cost of constructing a new home or rehabilitating an existing property. The developer of the property would be eligible to claim the credits over a five year period after selling the property to a qualified buyer. Eligible homebuyers would be required to have incomes equal to 80 percent or less of area median income.

The Budget also proposes two new mortgage programs to support homeownership that will augment existing Federal Housing Administration (FHA) programs (which, because FHA program generate revenue, do not have a net fiscal cost to the federal budget). The *Zero Down Payment* mortgage allows first-time buyers with strong credit records to finance 100 percent of the purchase price and closing costs. For borrowers with limited credit histories, *Payment Rewards* will initially charge a higher insurance premium and then reduce premiums after a period of on-time payments.

Split Refunds
The Administration announced that it will make an administrative change to the tax filing process that will facilitate savings by allowing taxpayers to channel their tax refunds into more than one account. Split refunds represent a significant step in establishing the infrastructure to promote asset building because savings rates are strongly influenced, not just by tax incentives, but by the structural features of savings programs. Split refunds make the process of saving easier and overcomes the reluctance that many families have in directing their entire refund into tax-preferred savings accounts, like IRAs, that are subject to restrictions on withdrawals. While the split refund concept is more of a reform than a program initiative, it holds much promise. For example, it creates an opportunity for tax preparers to suggest to clients that they save a portion of their refund and to educate clients as to the tax benefits of savings.

The budgetary effects of these new programs are summarized in Table 1 below:

Table 1
New Tax-based Programs to Build Assets - Effect of Budget Proposals on Receipts
(in millions of dollars)

	2005	2006	2007	2008	2009	2005-09	2005-14
Expand Tax-Free Savings Opportunities	3,949	8,192	5,488	2,798	685	21,112	5,558
Consolidate Employer-based Savings Accounts	-214	-318	-337	-358	-380	-1,607	-11,763
Establish Individual Development Accounts	-134	-286	-326	-300	-255	-1,301	-1,380
Provide Tax Credit for Developers of Single Family Housing	-7	-81	-327	-776	-1,352	-2,543	-16,409

Source: Office of Management and Budget, Executive Office of the President. Budget of the U.S. Government, Fiscal Year 2005, Analytical Perspectives. Table 16-3.

B. Funding for Existing Programs

Post-Secondary Education
While there are an array of programs that support students pursuing post-secondary education, the largest is the *Pell Grants* program. The Administration proposes $12.8 billion for Pell Grants. The Budget reports that the program also “has a $3.7 billion funding shortfall that requires it to borrow from the subsequent year’s appropriation to pay for program costs.” Last year the Administration requested $12.7 billion for Pell Grants to pay for both student awards and part of the shortfall. Congress increased the cost of the program and provided less for the shortfall, which still needs to be addressed through future appropriations. The funding request for direct student aid, excluding loans, for the remaining post-secondary education programs remains flat from 2004 levels, lagging behind inflation and tuition increases. The Administration also proposes to allocate $33 million to fund *Enhanced Pell Grants* which would go to low-income students completing rigorous coursework in high school.

Housing and Urban Development
In support of the Administration’s goal to increase the rate of minority homeownership, the Budget requests a significant increase in budget for the newly-authorized *American Dream Downpayment* fund. Funding for housing counseling had previously been funded at $45 million as a set aside within the HOME program, but this year it is being proposed as a stand alone account. The Budget also threatens to drastically reduce resources available to support the *Family Self-Sufficiency (FSS)* program, an important asset building vehicle which allows participating families in assisted housing to set aside money into an escrow account that would otherwise go to rent increases. The FSS program receives support as a budget line within the Housing Choice Voucher program, but since the Budget proposes to convert this program into block grant, the FSS program would lose one of its primary funding streams. Public Housing Authorities may choose to spend resources on the

FSS program but they will have to do so from a shrinking base of funds, as the Budget allocates 12 percent less in program funds under the block grant approach.

Table 2
Funding Levels of Selected Discretionary (Spending) Programs to Build Assets
(in millions of dollars)

	Actual 2003	Estimated 2004	Requested 2005
Department of Education			
Pell Grants	12,680	13,042	12,803
Pell Grant enhancement	--	--	33
TRIO	827	833	833
GEAR UP	293	298	298
Federal Work Study	1,202	1,195	1,195
Supplemental Edu Opportunity Grants	962	975	975
Department of Housing and Urban Development			
Self-Help Homeownership program (SHOP)	25	65	65
Housing Counseling	--	--	45
American Dream Downpayment Fund	75	87	200
Family Self-Sufficiency – Voucher Program	46	46	0
Department of Health and Human Services			
Assets for Independence Act	23	25	25
Department of Treasury			
Community Development Financial Institutions	75	61	48
First Accounts	0	0	0
Department of Labor			
Employee Benefits Security Administration	116	124	132
Community College Job Training Grants	--	--	250
Small Business Administration			
Microloan program, lending capital	29	20	0
Microloan program, technical assistance	15	15	0
Program for Investment in Microentrepreneurs (PRIME)	5	0	0
TOTAL	**16,373**	**16,786**	**16,902**

Source: Office of Management and Budget, Executive Office of the President. Budget of the U.S. Government, Fiscal Year 2005.

Health and Human Services
Individual Development Accounts, supported by the *Asset for Independence Act (AFIA)*, were supported by a budget request of $25 million, the same level requested in the 2004 budget.

Treasury
Support for the *Community Development Financial Institutions Fund* continues to wane under the Bush Administration, declining from $75 million in 2003 to $48 million in 2005. As with previous budget proposals of the Bush administration, there is no support for the *First Accounts* program designed to help provide bank services to households outside the financial mainstream.

Labor
As a component of the interagency *Jobs for the 21st Century* Initiative, the Budget requests $250 million for *Community-based Job Training Grants* that would link community and technical colleges to employers in high-demand job sectors in need of skilled workers. The Budget also includes $132 million for the *Employee Benefits Security Administration*, a seven percent increase over 2004. The Budget states that this "increase will provide additional enforcement resources to safeguard

workers' retirement savings and other benefits, and will provide expanded compliance assistance to educate employers, unions, and pension plan administrators on their legal responsibilities."

Small Business Administration
The President's Budget requests no money specifically linked to microlending, once again zeroing out the *Program for Investments in Microentrepreneurs (PRIME*) and this year proposing to terminate with the *Microloan Program*. Though PRIME is anticipated to receive no funding for FY 2004, its reauthorization is being debated in Congress. The President's proposal justifies the termination of the Microloan Program with the claim that it is excessively expensive relative to alternative loan programs, such as a 7(a) program.

The budgetary effects of these spending programs are summarized above in Table 2.

C. Tax Expenditure Programs

Beyond proposals to spend money, the budget includes an analysis of the tax code. Tax expenditures programs in the guise of tax deductions, tax credits, preferential tax rates, tax deferrals, or income exclusions are a primary vehicle for achieving many federal policy objectives. Collectively, they subsidize a broad range of activities, including many asset building investments such as mortgage payments, business investments, retirement savings, and educational expenditures. As calculated by the government, the value of these asset building tax expenditure programs exceeds $300 billion on an annual basis, and thus deserves scrutiny.

There are several methods for estimating the value of tax expenditures; the two most common measures are revenue losses attributed to provisions in the tax code and budget outlay equivalent. The difference between the two is that "revenue losses" count money that would otherwise come in to the Federal Treasury without the change to the tax law and "outlays" are money actually spent by the government. These estimates will vary slightly from one another depending upon the specific activity and tax treatment. In the case of some refundable tax credit programs, such as the Earned Income Tax Credit, outlays and revenue losses are quite different, so it is important to consider both.

The theory behind using tax expenditures as a policy vehicle is that it works best when the benefits or incentives are related to income and are intended to be widely available. While tax expenditure programs may subsidize worthy activities and generate sizeable social and economic returns, they are not accessible to a large number of citizens that would benefit from them the most. Many lower-income households do not have large enough tax liabilities to take advantage of these tax expenditure programs. Not surprisingly, 90 percent of the benefits in the two largest tax expenditure categories (homeownership and retirement) reach households with incomes above $50,000 a year.[3] All told, the federal government offers over $110 billion a year in support of homeownership and over $150 billion to subsidize retirement savings.

Table 3 below identifies the tax expenditures included in the Federal Budget related to asset building. Some are familiar and easy to understand, while others are obscure and more complicated. For the purpose of this presentation, tax advantages that can be claimed by businesses are not included, even if they help subsidize employee training.

Table 3
Value of Select Asset Building Tax Expenditures:
Fiscal Year 2005
(in millions of dollars)

Housing	
Deductibility of Mortgage Interest on Owner Occupied Housing	69,740
Deductibility of Property Tax	19,410
Capital Gains Exclusion on Home Sales	21,490
Subtotal Housing	*110,640*
Investment: Commerce	
Capital Gains	30,190
Capital gains exclusion of Small Corporation Stock	210
Carryover basis of Capital Gains on Gifts	450
Subtotal Commerce	*30,850*
Education	
HOPE Tax Credit	3,510
Lifetime Learning Credit	2,180
Education Individual Retirement Account	140
Deductibility of Student Loan Interest	780
Deductibility of Higher Education Expenses	2,580
State Prepaid Tuition Plans	320
Subtotal Education	*9,510*
Retirement: Income Security	
Net Exclusion of Pension Contributions: Employer Plans	61,740
Net Exclusion of Pension Contributions: 401 (k) Plans	58,910
Net Exclusion of Pension Contributions: IRAs	20,090
Net Exclusion of Pension Contributions: Savers Credit	1,100
Net Exclusion of Pension Contributions: Keough Plans	9,260
Subtotal Income Security	*151,100*
TOTAL	**302,100**

Source: Office of Management and Budget, Executive Office of the President. Budget of the U.S. Government, Fiscal Year 2005, Analytical Perspectives. Table 18-1.

III. 2004 CONGRESSIONAL OUTLOOK

Election year politics are difficult to predict but undoubtedly the dynamics of the presidential campaign leading up to the November elections may have a large impact on the legislative efforts and policy debates. For example, the Budget does not include a specific proposal related to reforming Social Security but does indicate that the Bush Administration remains "committed to strengthening Social Security through the establishment of voluntary personal accounts in which workers would be permitted to save and invest a portion of their payroll tax contributions." If Social Security reform becomes a campaign issue, it may lead to other policy discussions concerning savings policy, retirement, and other account-based mechanisms, or it may restrict the meaningful consideration of related policy issues. Each of the new initiatives included in the Budget should generate some reaction in Congress, and there are several large programs related to asset building that are scheduled to be reauthorized, creating opportunities for legislative changes and program reforms.

Retirement Savings
Although the savings proposals may not be the Administration's top tax policy priority this year, they have generated interest among members of Congress. As such, they may be subject to more consideration than they received a year ago. One likely vehicle to address savings policy is legislation sponsored by the bi-partisan team of Rep. Rob Portman (R-OH) and Rep. Ben Cardin (D-MD), co-authors of two earlier rounds of retirement savings and tax-related measures. This year's version might include some variant on the Administration's Retirement Savings Accounts balanced with a refundable Savers Credit targeting lower-income households and possibly an expansion of support for IDAs.

Children's Savings Accounts

Several politicians, including Rep. Patrick Kennedy (D-RI), Rep. Harold Ford (D-TN), Rep. Tom Petri (R-WI) and Sen. Jon Corzine (D-NJ), intend to soon introduce bi-partisan legislation to create a universal accounts-at-birth program that endows each newborn with a savings account to promote asset building and savings. Discussions are ongoing to develop legislation, the American Stakeholder Accounts Act of 2004, which could be introduced with bipartisan co-sponsors in both the House and the Senate, a combination which would undoubtedly attract attention to this innovative asset building idea. Some of the specific of the proposed legislation are as follows:

* Initial Seed Deposit of $1,000, with a bonus for children in lower -income households.
* Savings Incentives through Matched Deposits.
* Additional Deposits Linked To Community Service.
* Voluntary Contributions Capped On An Annual Basis.
* Withdrawals for Training and Post-Secondary Education at Any Age.
* Withdrawals After Age 21 for First-Time Home Purchase and Retirement.
* Repayment Of Initial Seed Deposit Required After Self-Sufficiency Achieved.
* Accounts Will Be Used To Facilitate Financial Education.

Individual Development Accounts

Two pieces of IDA legislation are currently working their way through Congress; one is a smaller version of the Bush Administration's IDA Tax Credit proposal and the other is the reauthorization of the Assets for Independence Act (AFIA). The IDA Tax Credit is included in the Care, Aid, Recovery and Empowerment (CARE) Act, which passed the Senate in April 2003 (S. 476, Title V). However, the House version of this bill, called the Charitable Giving Act (HR. 7), replaced the IDA Tax Credit section of the CARE Act with language reauthorizing AFIA. These bills must now be reconciled in a conference committee vote. If passed, the IDA Tax Credit would authorize the creation of 300,000 IDAs in which participants could save up to $1,500 a year, with financial institutions receiving a tax credit for each dollar matched, up to $500 a year per account.

The ultimate fate of the IDA Tax Credit will not affect support of the AFIA, which will be reauthorized regardless. The Senate has included AFIA reauthorization in a bill which also deals with the Community Services Block Grant and the Low-Income Home Energy Assistance programs (S. 1786). Some of the expected improvements to AFIA include allowing participants to take up to 6 (House version) or 12 (Senate version) months to make their asset purchase after the end of the grant period, expanding eligibility for participation (both versions), and allowing an IDA to be used for a child's education (Senate version).

Homeownership and Housing

Building on the newly-authorized American Dream Downpayment program, the Administration will continue to emphasize homeownership efforts. The Homeownership Tax Credit included in the Bush Budget for the last two years was introduced in three bills (HR. 839, S. 198, and S. 875) in 2003. It is unclear how much consideration this legislation will receive this year, but it is worth noting that Sen. John Kerry (D-MA) is the lead sponsor of S. 875.

Concerned with the primacy of homeownership, many housing advocates will undoubtedly focus on the provision of affordable rental housing, especially since the Budget proposed converting the $16 billion Housing Choice Voucher Program into a new block grant program. This proposal is likely to receive congressional scrutiny because it has the potential to reduce the number of families receiving rental housing assistance.

In addition to a homeownership tax credit, the Department of Housing and Urban Development and Congress have been looking into the reform of the Real Estate Settlement Procedures Act (RESPA). This reform seeks to streamline the settlement process by allowing homebuyers to more readily compare the total costs--the interest rate and closing costs--between different lenders and loan options. This would be done by requiring more accurate good faith estimates from lenders. Under this proposal, lenders would be encouraged to offer mortgage packages with guaranteed interest rates and closing costs so that homebuyers would know their final costs upfront. Advocates of this proposal contend that homebuyers could expect to save an average of $700 at closing if RESPA reforms were enacted.

Finally, legislation has recently been introduced to adopt the President's proposal for zero-down FHA loans. The Zero Down Payment Act of 2003 (HR. 3755), introduced by Rep. Patrick Tiberi (R-OH), would require homeownership counseling and a slightly higher interest rate, but would allow homebuyers to put nothing down and include closing costs into their loan.

Post-Secondary Education
With the Higher Education Act's loan and grant programs set to expire in 2004 and increased talk about college tuition increases, the House and the Senate proposed a number of bills throughout 2003 to curb cost increases and reauthorize federal funding for post-secondary education. In the House, Rep. Buck McKeon (R-CA) has led the charge to address rising tuition costs with his bill, the Affordability in Higher Education Act. If enacted, this legislation would establish a "College Affordability Index." Using this index as a guide, schools that increased costs more than twice the rate of inflation over a three-year period would be required to take appropriate actions to improve their affordability. If these schools failed to reduce their increases, they may lose their federal support which would make their students ineligible for federal grants, loans and other aid. The House Democrats have responded by proposing an alternative bill to reduce college costs, the College Affordability and Accountability Act. This bill would require states to maintain a sufficient level of funding for public colleges to reduce the pressure to raise tuition and require colleges to employ cost containment strategies. Colleges that keep their tuition increases low would receive "Pell Plus Grants" of additional aid that would be passed along to qualifying students.

To help low-income students prepare for college, a Senate bill sponsored by Sen. Edward Kennedy (D-MA) and a House bill sponsored by Rep. Tom Cole (R-OK) both call for increases to the college-readiness programs TRIO and GEAR UP, which are targeted to low-income students who may be the first generation to attend college. Rep. George Miller (D-CA) and Sen. Kennedy have both proposed increases to the Pell Grant program, which currently provides grants of up to $4,050 a year to low-income students. In addition, Sen. Kennedy and Sen. Graham (D-FL) have both called for making the HOPE Scholarship tax credit refundable so that all families, regardless of their tax liability, could benefit (S. 1793 and S. 2087, respectively). Finally, to encourage low-income families to save for college, Rep. Menendez (D-NJ) has proposed to exclude savings in 529 plans and Coverdell Education Savings Accounts from consideration when calculating financial aid eligiblity in HR 3618. These bills and other higher education proposals will likely be addressed during the spring of 2004.

Predatory Lending
Predatory lending, the practice of targeting credit marketing to individuals on the basis of their race, ethnicity, age or gender without consideration for the individual's creditworthiness, will likely be on the legislative agenda at the local, state, and federal level. Last year, the Responsible Lending Act (HR. 833) was introduced in the House by Rep. Robert Ney (R-OH), with the goal of combating unfair and deceptive practices in the high-cost mortgage market, as well as establishing licensing standards for mortgage brokers and a consumer mortgage protection board. Opposition mounted against the bill's provisions that would limit state and local laws against predatory lending, though support from these groups has grown for Senator Sarbanes bill introduced late last year which proposes to amend the Truth in Lending Act to protect consumers against predatory practices.

Small Business
Given the recent jobless economic recovery, support for small businesses is likely to receive political attention. Congress considered legislation last year to amend the Small Business Administration's authorization. The Small Business Administration 50th Anniversary Reauthorization Act of 2003 passed the Senate last year (S. 1375), providing $108 billion for loan guarantees, venture capital investments and business counseling over three years. This year, the bill will face its test in the House and next in conference committee, where differences between the Senate and House versions of the bill will be reconciled. Such differences include reauthorization of the Program for Investments in Microentrepreneurs (PRIME): though the Senate version has allocated $5 million for program, the program is not reauthorized in the House version of the bill. The debate over the House legislation will likely take place in March, and though the formal reauthorization timeline is currently unclear, the debate over funding for its programs will likely continue to take place in budget discussions later this year.

CONCLUSION

Even as the profile of asset building continues to rise, it is unclear whether or not this recognition will translate into policy or programmatic support. As the political consultants search for a winning rhetoric, auditioning themes of an "Ownership Society" or "Opportunity Society," there are serious policy discussions about how to promote meaningful asset building objectives. The Bush Administration has participated in this process by developing a set of ambitious savings proposals. In their present form, these proposals do more to open up new avenue for wealthier households to shelter income than they do to create meaningful savings incentives. But the Administration has the right idea – to promote savings, asset building, and ownership. The proposals should be seized upon as a vehicle for broader and more inclusive policy deliberations.

In order to promote a real ownership society, policies are needed that enhance savings opportunities and incentives for people that currently don't save enough. The current approach is completely upside-down, providing benefits to higher-income people that don't need them but offering little help to those who could benefit from savings the most. As it is now, low-income families are shut out of many asset building opportunities because benefits are distributed through the tax code. There are alternative means to broaden access to savings and asset building that can be pursued and should be introduced into contemporary policy debates. Among other items, this agenda includes expanding IDAs, creating meaningful savings incentives for lower-income people, developing a universal system of children's savings accounts, improving the savers credit, providing mainstream financial services to the unbanked, ensuring better access to higher education through expanded Pell Grants and other successful programs; and strengthening laws to protect assets. The year ahead will provide numerous opportunities to raise these issues and continue to build a coherent and far-reaching asset building policy agenda.

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www.newamerica.net and www.assetbuilding.org

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[1] For purposes of this report, asset building refers to public policy and private sector efforts to enable persons with limited financial resources to accumulate, preserve, and control long-term, productive assets—savings, investments, a home, post-secondary education and training, a small business, and a nest-egg for retirement.

[2] An alternative set of proposals are described in *Policy Options to Encourage Savings and Asset Building by Low-Income Americans*, Ray Boshara, Reid Cramer, and Leslie Parrish, New America Foundation. http://www.newamerica.net/Download_Docs/pdfs/Pub_File_1464_1.pdf

[3] U.S. Congress Joint Committee on Taxation (2003). Estimate of Federal Tax Expenditures for Fiscal Years 2004-2008.