

Preventing Poverty through Asset Building

Nearly one in three Texas households with children is asset poor, meaning that if they lost their current income, they would become poor within three months. There are many ways to build assets to keep families financially stable and lay a firm foundation for the next generation's success.

Executive Summary

Texas families experience all types of poverty at higher rates than families in nearly every other state. Families who lack assets such as homes, savings accounts, and investments that act as a cushion when job loss or illness disrupts income are particularly vulnerable to falling into poverty. Living from paycheck to paycheck can take its toll: children who grow up in poverty are more likely to encounter learning difficulties, are less likely to attend college, and have a greater chance of remaining poor as adults.

There are many ways to help families build assets, from making homeownership affordable to incentivizing savings for education or business enterprises to offering lower-cost ways to obtain credit. Unfortunately, Texas lacks many of the regulations that protect credit consumers in other states, and its efforts to help families save have not been strategic and do not meet demand.

There are promising programs throughout the state that can help move families toward economic security. In order to help more Texas families achieve and maintain financial stability and reduce the high cost of child poverty, we recommend:

1. Increasing savings for post-secondary education by expanding Children's Savings Accounts and funding the Texas Save and Match program;
2. Regulating payday lending, instituting a rate cap, and extending loan terms;
3. Increasing access to mainstream financial institutions by offering alternative small-dollar loan products; and
4. Raising homeownership rates and affordability through community land trusts.

Research has found that children with a savings or bank account were three to seven times more likely to attend college than those with no account, even when controlling for other variables such as income and academic achievement.

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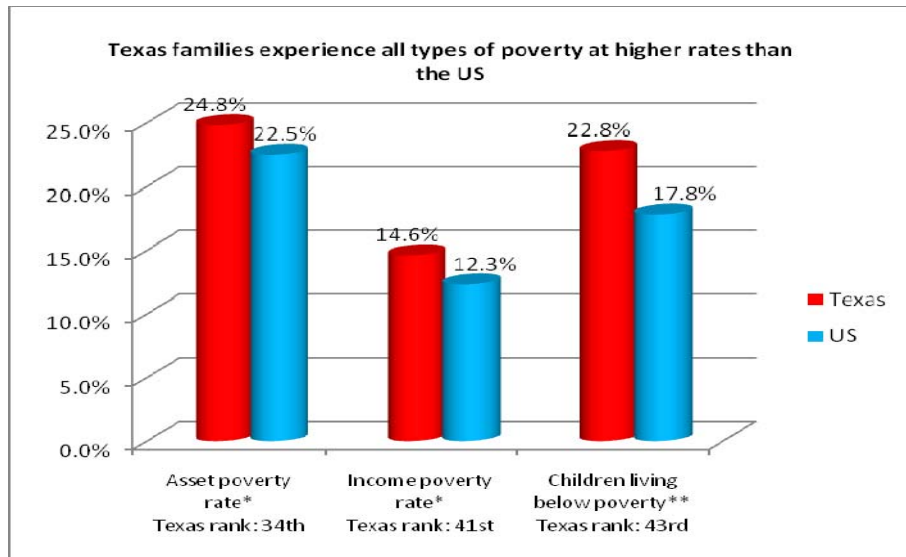
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A family’s ability to save for a “rainy day” can mean the difference between staying afloat and sinking into poverty during downpours like the ongoing economic recession. But many Texas families are left without the shelter of savings or assets when job loss or illness disrupts the flow of income. This type of vulnerability, known as asset poverty, is defined as the inability to live above the federal poverty line for three months if income stops.ⁱ While types vary, all asset-building programs are tools to help families build wealth by providing incentives to save money, invest it wisely, and prevent unnecessary expenditures. This policy brief looks at how asset building can prevent Texas families from falling into—or staying in—poverty.

Asset Poverty in Texas

Overall, Texas children fare worse than children across the country on several key measures of economic stability and opportunity. Texas ranks 48th in the nation for net worth, the total value of an individual’s assets minus any debts. Assets may include bank account balances, stocks and mutual funds, a home or other real estate, businesses, or other investments. Having a high net worth is a better indicator of economic wellbeing than income alone because even high-income families can fall into poverty when income is disrupted.ⁱⁱ



* Corporation for Enterprise Development 2009-2010 Assets & Opportunity Scorecard

** US Census Bureau, “Texas: Selected economic characteristics,” 2006-2008 American Community Survey 3-Year Estimates

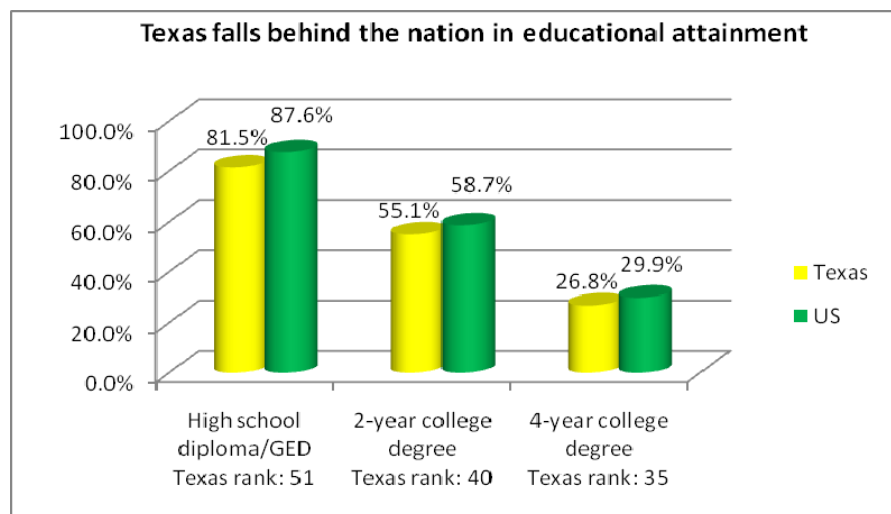
Texas falls behind other states when it comes to accumulating assets through bank accounts and homeownership. And while Texans are less likely to face foreclosure on their homes than Americans in

all but ten other states,ⁱⁱⁱ foreclosure rates in Texas jumped 67% between the third quarter of 2006 and the third quarter of 2009. An additional 349,000 home foreclosures are expected between 2009 and 2012. Foreclosures can impact entire neighborhoods: Declines in home equity wealth due to nearby foreclosures are expected to affect over 6 million Texas homes and reach \$20 million by 2012.^{iv} Texas homeowners as a whole have less equity built up in their homes than in other states.^v

	Texas	US	Texas Rank
Unbanked households	33.1%	26.8%	41
Homeownership	61.9%	64.2%	44
Foreclosure rate	1.4%	3.0%	10
Mortgage debt as % of home value	94.7%	76.9%	48

Corporation for Enterprise Development 2009-2010 Assets & Opportunity Scorecard

High income and wealth are positively associated with educational attainment. Texas falls behind the nation in both K-12 and post-secondary educational completion. Texas ranks 42nd in the nation in education by income level, meaning family income plays a major role in determining whether or not a child goes to college.^{vi} Income inequality in Texas has been growing steadily over the past couple of decades,^{vii} perpetuating cycles of poverty across generations.



Corporation for Enterprise Development 2009-2010 Assets & Opportunity Scorecard

Asset poverty affects people of color, households with children, and female-headed households disproportionately. These groups experience asset poverty at greater rates than white, male-headed households. Historic inequities significantly influence the chances that a household will be asset poor. That is because inheritances and other transfers from prior generations account for roughly four-fifths of all asset wealth in the United States. Because communities of color, women, and others were legally barred from owning property and other assets for decades, the effects of past policies continue today."^{viii} For every \$1 in net worth a white family possesses, a family of color has \$0.13. Similarly, for every \$1 in net worth a male-headed household possesses, a female-headed household has \$0.57.^{ix} Closing these racial and gender disparities will help promote economic equality for all Texans.

Household type:	White	Female-headed	Minority	With children
% Living in asset poverty	16.7%	27%	44%	30%
Zero or negative net worth	11.7%	19%	26%	47%*
Homeownership	72.1%	45.8%	61.2%	n/a

Statistics are for all US households Source 2007-2008 scorecard *Source: Administration for Children and Families "About Assets for Independence" <http://www.acf.hhs.gov/programs/ocs/afi/assets.html> (accessed December 30, 2009)

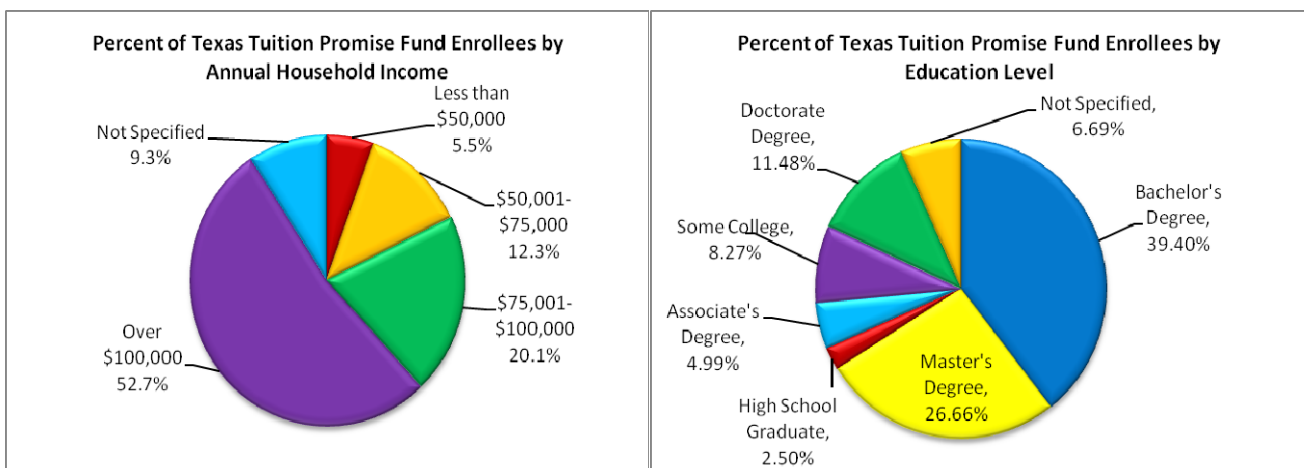
What is Texas currently doing to help families build assets?

Given the prevalence of asset poverty in Texas and its many causes, Texas families need policies that help them save money to meet goals, ensure safe lending practices, promote financial education, and stimulate economic development in depressed communities.

Post-secondary education

Texas helps promote secondary educational attainment through college savings programs such as the Texas Guaranteed Tuition Plan, the Texas Tuition Promise Fund, and the Texas College Savings Plan. The **Texas Guaranteed Tuition Plan**, formerly known as the Texas Tomorrow Fund, was a tax-deferred savings account that allowed families to pre-purchase "tuition units" that would cover specified portions of Texas college tuition and fees, protecting against rising costs.^x This program was not sustainable due to tuition deregulation and closed to new enrollees in 2003.^{xi} New investors are directed to use the **Texas Tuition Promise Fund**, a similar prepaid college tuition plan that offers the same benefits as the Texas Guaranteed Tuition Plan, with the addition of a "pay as you go" option for purchasing credits and an alteration of the tuition unit types available for purchase to reflect changes in tuition costs across the state.^{xii} Unlike the Texas Guaranteed Tuition Plan where benefits were backed by the state, The Texas Tuition Promise Fund is backed by state colleges and universities, meaning schools are responsible for making up the difference between the funds available in the Texas Tuition Promise Fund trust and the actual cost of tuition.^{xiii} The **Texas College Savings Plan** is another option that allows families to place college savings in an investment portfolio similar to an IRA and make tax-free withdrawals for education expenses.^{xiv}

Participant data from the Texas Tuition Promise Fund indicates that it is disproportionately utilized by higher-income, better-educated families,^{xv} pointing to a remaining gap for lower-income families.



Sources: Texas Tuition Promise Fund Weekly Product Update, March 9, 2009; Texas Tuition Promise Fund Monthly Report, March 31, 2010

The **Texas Save and Match Program** offers matching grants to help eligible children save for higher education. Though the program was created, the legislature has not funded it. The 2009 legislation that would have expanded and improved the program^{xvi} passed in both the House and the Senate, but was vetoed by the governor at the request of author Senator Kirk Watson due to an inadvertent drafting error. There are plans to reintroduce the bill in the next session.^{xvii} Another bill that did not pass would have established a reward and incentive program for post-secondary education for certain economically disadvantaged students with high academic achievement.^{xviii} The only Texas Save and Match legislation that passed in the 2009 session was a bill allowing state employees to make payroll deductions into the program and integrate the program into the State Employee Charitable Campaign.^{xix}

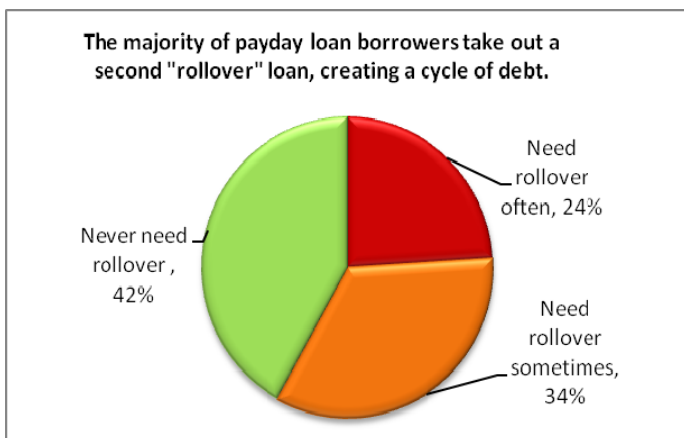
Financial education

Texas requires its high school curricula to include the basics of personal finance.^{xx} However, efforts to extend financial education have largely failed. Bills introduced in the 2009 legislative session that would have quadrupled the number of public schools participating in the financial literacy pilot program to 100 schools,^{xxi} provided training for public school teachers in personal financial literacy instruction,^{xxii} and made instruction in personal finance literacy a requirement for high school graduation^{xxiii} all failed.

Matched Savings Programs

One type of matched savings program, Individual Development Accounts (IDAs), are personal savings accounts designed to help low- and moderate-income individuals save up for certain kinds of assets by matching funds withdrawn for purchases such as a first home, education, or a business loan with contributions from another source like a bank, governmental entity, or community organization.^{xxiv} While Texas has many privately-funded IDAs, state funding for these programs has been marked by a series of false starts.

The first IDA legislation in Texas passed in 1996 as part of the Achieving Change for Texans (ACT) welfare reform, but the program was never implemented. In 1999, Texas passed a bill^{xxv} establishing an IDA pilot program administered by the Texas Workforce Commission (TWC) and implemented by local nonprofits. The pilot used Temporary Assistance to Needy Families (TANF) funds to match savings in eight counties, but it lost funding in 2001 due to a conflict between TANF requirements and the IDA program requirements. Another pilot began in 2003, funding three established IDA sites; however, the pilot expired in 2005 and was not extended.^{xxvi} 2009 legislation would have expanded Individual Development Accounts (IDAs) beyond the pilot phase to be available to all eligible Texans, but did not pass in either chamber.^{xxvii}



Lending regulation

Texas is currently doing very little to halt the predatory lending practices that erode assets among low-income families. Texas has not passed any regulations closing the loophole that allows payday lenders to avoid the controls, oversight, and consumer protections that banks and credit unions are subject to.^{xxviii} The **Credit Services Organizations (CSO) Act**, passed in 1987 in Texas, allows payday lenders to operate as a credit service organization, a company whose purpose is to help individuals

Source: Texas Appleseed, "Short-term Cash, Long-Term Debt: The Impact of Unregulated Lending in Texas," April 2009.

repair their credit histories through extensions of credit and counseling,^{xxxix} and only pay a \$100 annual registration fee to the Secretary of State regardless of how many storefronts they operate. While the interest rate on payday loans is legally capped at 10%, there is no limit to the service fees CSOs can charge.^{xxx} Fees collected by Texas' estimated 2,800 payday lenders^{xxxii} average \$581.9 million annually.^{xxxii} Fees typically range from \$15-25 per \$100 loan,^{xxxiii} a substantial charge given the average payday loan is around \$500.^{xxxiv} These loans must be paid in full after two weeks, a time span that is unrealistic for most borrowers. Many borrowers take out a subsequent loan. A study by the Center for Responsible Lending found that half of all second loans were taken out immediately, and 87% within two weeks, indicating that payday loans only perpetuate or deepen a family's inability to make ends meet. These repeat loans account for 76% of loan volume.^{xxxv} Similarly, Texas Appleseed's survey of payday borrowers found that the majority needed to take out at least one repeat or "rollover" loan,^{xxxvi} making loan fees the equivalent of a 300-500% annual percentage rate (APR).^{xxxvii}

Homeownership promotion

Texas began the **Texas First Time Homebuyers Program** to help eligible Texans finance the purchase of a first home through below-market interest rates, and down payment and closing cost assistance. Since the 1980s, this program has helped roughly 2,000 families a year purchase a home and has been able to serve every eligible family that has applied.^{xxxviii} Eligible participants must have income below 140% of the applicable median family income for a family of three or more, anywhere from \$80,000-\$104,000 depending on county of residence; cannot have owned a home in the past three years; and cannot exceed the home price requirements for their county.^{xxxix}

Federal legislation

Federal legislation also has an impact on asset-building practices in Texas. The United States has a history of impacting how families create wealth. The Homestead Act, passed in 1862, gave government land grants to families who moved west and settled for at least five years. The Federal Housing Administration, established in 1934, also helped families attain housing stability through mortgage insurance and other home finance products. Finally the GI Bill helped returning World War II veterans pay for higher education and acquire loans and mortgages.^{xl} Though these acts helped many families, they also created gaps in asset wealth by helping white families and "red lining" families of color (i.e., refusing to offer mortgages or extend services in certain neighborhoods where minority communities resided). Since land and homes are assets that often stay in families for generations, the racial gaps these bills deepened continue to affect the asset wealth of today's children.

Today, the federal **Community Reinvestment Act**, passed in 1977, prohibits banks from denying credit to an individual or business based on geographic location and demands periodic evaluations to make sure banks are active in low- and moderate-income areas. As a result, banks have opened more branches in these areas, helping once-underserved communities access credit to build assets.^{xli} Another important piece of federal asset-building legislation is the **Assets for Independence Act (AFI)**. AFI offers grants to community organizations to help them establish asset-building programs. Grants average \$350,000 and can go up to \$1,000,000 for a five-year period. Many community organizations use AFI grants to set up IDA programs. AFI will match anywhere from \$1 to \$8 for every \$1 deposited into such accounts. AFI projects also promote savings through financial education, credit counseling, tax guidance, and technical assistance on purchasing assets such as homes, post-secondary education, and starting a business. Those eligible to participate in AFI programs are typically also eligible for TANF and/or the Earned Income Tax Credit (EITC) and have incomes at or below 200% of the federal poverty level. A total of 17 Texas organizations have been recipients of AFI grants to date.^{xlii}

What is the impact of asset poverty?

A failure to build assets makes a family more likely to remain in poverty and experience the destructive social consequences that come with it. The “Three Hs,” hunger, homelessness, and healthcare crises, are just a few hallmarks of chronic, concentrated poverty.^{xliii}

Poverty has long-term effects on children. First, childhood wealth is a strong predictor of adult wealth: 42% of children born to parents in the bottom fifth of income earners stay there, while 39% of children whose parents are in the top fifth stay there.^{xliv} Furthermore, a lack of resources during childhood has life-long effects. Children develop basic language, mathematical, reasoning, and memory skills rapidly before age 10, decreasing sharply thereafter. Studies link poverty to increased stress hormones and decreased blood sugar flow to the brain, impeding learning at a time when children need the most supports.^{xlv} Cognitive aptitude is established early in life (before age 5); therefore, investing in children at this early age offers the greatest returns.^{xlvi} The current economic recession is expected to increase the number of families living in poverty, so more children will potentially face challenges reaching their potential if action is not taken quickly to help these families establish a stable footing.^{xlvii}

One estimate by the Institute for Research on Poverty placed the economic cost of childhood poverty in the United States at approximately \$500 billion per year in lost productivity, increased crime, and poor health.^{xlviii} Based on this data, Washington KIDS COUNT calculated the annual cost of child poverty for Texas to be \$57.5 billion. This is how much money the state would save each year were childhood poverty eliminated.^{xlix}

Promising practices for asset building

Raising Texas children out of poverty and laying the groundwork for an economically prosperous future are inextricably tied to promoting financial security for their families. Other states and countries are adopting several promising asset-building practices that Texas can use as a model.

Post-secondary educational attainment

As the link between post-secondary education and increased lifetime earnings becomes more pronounced, states are actively promoting programs that help young people achieve educational goals. Nine states now have college savings legislation, up from only 5 in 2007.ⁱ **Indiana** awards four years of tuition at a state college or university to low-income junior high school students who fulfill a pledge to remain free from drugs, alcohol, or criminal activity. **Georgia** pays state tuition and fees for students with high school GPAs above 3.0.ⁱⁱ In **Arkansas**, the Aspiring Scholars Matching Grant program has seen positive results after just one year. The program allows state matching grants up to \$500 per account per year for up to five years. Participation of low-income families in the college savings plan has increased by over 300%. Of all account holders, 99% made deposits, and the savings rate remained steady between 2007 and 2008.ⁱⁱⁱ

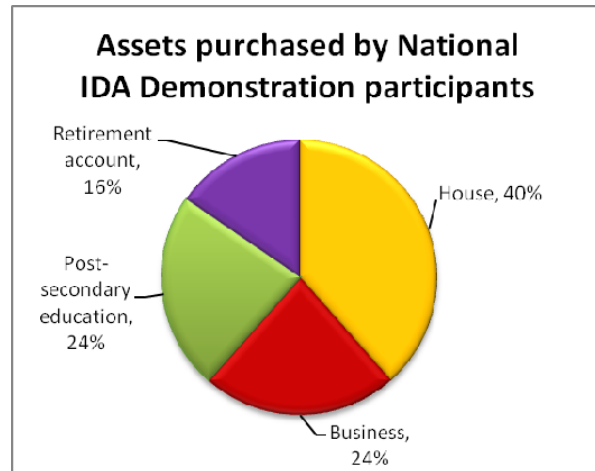
Financial education

Educating young people on the importance of managing their income wisely is one way states can help youth build assets early. The **US Virgin Islands** Department of Labor requires all youth participating in its summer work program to watch a video and receive written materials on the cumulative cost of not having a bank account. The video characters dramatically illustrate the expenses of money orders and check cashing in a way that is specifically geared toward youth. The materials describe the steps of opening a bank account in very simple language.

IDAs

Matched savings accounts such as IDAs are an effective way to encourage families to save for the purchase of assets, even on very limited incomes. Results of the **National IDA Demonstration**, an initiative of the Corporation for Enterprise Development (CFED), found that:

- Account holders whose income was at half the federal poverty limit saved the same amount at 2-3 times the rate of those with incomes at 200% poverty.
- Of the 50% of low-income and very poor families who saved more than \$100, almost all purchased an asset with their savings.
- Among graduates of the IDA program, 95% still had the asset they purchased after 2 years.
- The saving rate was higher even after the IDA was closed (10% savings rate vs. 0.6% average savings rate for the US).^{liii}



CFED, Bank of America, and RAISE Texas all have databases of existing IDA programs searchable by zip code or geographic region.^{liv}

Child Savings Accounts

Child Savings Accounts (CSAs) are a type of IDA designed to maximize return on investment by beginning asset building as soon as a child is born. CSAs are a particularly effective asset-building method because they are shown to promote educational attainment and reduce intergenerational poverty. For example, a study of 60 second-grade students and their parents conducted by the Center for Social Development found that children with college savings report higher expectations for college attendance than those without.^{lv} Typical features of CSAs include:

- An initial government funded deposit of \$500-1000 given at birth
- Open to 3rd party contributors like family, nonprofits, businesses
- Youth can make contributions from their own earnings
- Government-matched contributions for low-income families
- Funds in the account are placed in an investment program
- Withdrawals can be made for homeownership, entrepreneurship, education, or retirement
- Financial education
- "Benchmark incentives" where accounts receive additional deposits to reward positive saving behaviors such as attending financial education class, starting direct deposit, or making good grades.^{lvi}

There are three primary ways of administering CSAs. In the institutional model, a government program oversees the accounts, similar to college savings plans. In the retail model commercial financial institutions oversee accounts, similar to Individual Retirement Accounts or health savings accounts. Finally, in the hybrid model, a government agency oversees the account at first, but private institutions take over once the account reaches a certain size.

One large scale CSA, the **United Kingdom's Child Trust Fund**, established in 2002, has achieved very positive results.^{lvii} Unfortunately, in an effort to reduce the UK's long-term budget deficit, the Child

Trust Fund will end January 1, 2011.^{lviii} Currently, all children born in the UK after September 1, 2002 receive a certificate for £250 (about \$375), and low-income children received twice that. Parents can open accounts at various participating financial institutions. Accounts can receive annual contributions up to £1200 (about \$1800)/year. The government then adds another £250 (\$375) when a child turns 7. No withdrawals are allowed until age 18, but withdrawals are unrestricted thereafter.^{lix} Third parties are also allowed to contribute to accounts.^{lx} As of December 31, 2008, there were 4.5 million accounts in operation, 30% of which had received additional contributions, and private savings already equaled 55% of government contributions.^{lxi} Despite the program coming to a close, the Child Trust Fund and the over £1.9 billion (\$2.8 billion) in assets it has generated for families across the UK^{lxii} remain an example of a successful children's savings initiative and a model for other countries to follow.

Lending regulation

One way to promote sound financial management is to curb predatory lending practices. In 2004, **Georgia** passed one of the nation's strictest laws regulating payday lending. Annual interest rates cannot exceed 16%, and payday lenders cannot pay out-of-state banks to circumvent the 16% cap. The state can impose civil penalties for short-term lenders in violation of the new rate. Another tactic for promoting sound financial management is to encourage the use of regulated, consumer-friendly products at mainstream financial institutions. **New York**, for example, deposits state reserves into banks that open branches in underserved communities in order to offset losses banks may incur.^{lxiii} Evidence suggests that eliminating payday loans has little impact on low-income individuals' overall access to credit: a University of North Carolina study, for example, found the state's 2006 decision to close payday lending stores had no significant impact on credit access. Rather, among the 159 households surveyed that had experienced a recent financial shortfall, the ratio of households positively affected by the absence of payday lending to those negatively affected was more than three to one.^{lxiv}

Increasing homeownership and reducing foreclosures

Housing stability is very important to child wellbeing. One way to help low-income families attain homeownership is to establish housing and land trusts. In these programs, a government agency or community organization develops or purchases a set of properties that are then sold at affordable prices to homeowners who agree to restrictions on the use, occupancy, and resale value of the home so that it remains affordable for years to come. An evaluation of Burlington, **Vermont's** Champlain Housing Trust (CHT) showed that homeownership was expanded and the homes were still affordable after resale. The average initial homeowner in the CHT program earned 69% of area median income and the subsequent owner of the same home earned an average of 68% of area median income. While profits from the sale of these homes are not as great as they would be without restrictions, the average homeowner walked away with \$12,000 after the sale, and 69% of families leaving CHT homes went on to purchase homes on the unrestricted market. Over the course of the program's 25 years and 425 properties, only 2.1% of occupancies ended in foreclosure, lower than the national average of 3%.^{lxv}

Promising asset-building practices in Texas

Communities across Texas are implementing promising practices that have the potential to be expanded to other parts of the state.

Children's Savings Accounts

Texas was one of five states to participate in the **Saving for Education, Entrepreneurship and Downpayment (SEED)** program, a national demonstration of child savings accounts led by the Corporation for Enterprise Development (CFED). The Center for Public Policy Priorities, a nonprofit,

nonpartisan policy institute, was the SEED state policy partner in Texas, and Foundation Communities in Austin was the SEED community partner for the state. The CFED SEED initiative is over after its five-year demonstration period, but has been replaced by the CFED's Asset Building for Children initiative.

As the name suggests, SEED matched funds used to pay for education, establish a business, or purchase a home. SEED based its matching structure on the age of the child, similar to the way a retirement portfolio changes as an adult ages. The program was divided based on four age cohorts: preschool (age 0-5), elementary school (age 6-10), middle school (age 11-13), and high school (age 14-18.) Each of the twelve participating communities worked with a specific age cohort and used a variety of designs for service delivery.

An evaluation of 1,253 SEED participants age 3-18 revealed the following findings:

- 47% of participant families lived below poverty and all had family income below 200% of poverty.
- After 2.5 years, the average account had accumulated \$1,540.
- Savings averaged \$41 per quarter per household.
- Factors that contributed to SEED's success included staff encouragement and support in getting families to participate in program, ease of opening an account and making deposits, availability of direct deposit, incentive funds, and having easy access to the account.^{lxvi}

Families that participated in the SEED program felt this might be their only opportunity to save for their children.^{lxvii} This is important because if parents are able to save for their children's future, they may raise their expectations of what is possible for their children. Studies show that children whose mothers have high expectations of them are more likely to make good grades and are more likely to see college in their own future.^{lxviii} Similarly, a study by the Center for Social Development of 453 youth found that those who had a savings or bank account were three to seven times more likely to attend college than those with no account, even when controlling for other variables such as family income, race, and academic achievement.^{lxix} Parents of SEED participants also reported more planning for the future, better financial behaviors, improved security, and higher self esteem.^{lxx}

IDAs

The **City of San Antonio** began a matched savings IDA program in 2000 for low-income, working families. The city offers a \$4 match for every \$1 saved up to \$1,000, meaning participants can receive as much as \$4,000 toward the purchase of a home or higher education.^{lxxi} Since 2000, 502 San Antonio families have purchased an asset through this program, and an additional 146 are currently saving.^{lxxii}

Payday Lending Alternatives

In 2007, the Federal Deposit Insurance Corporation (FDIC) began a two-year **small-dollar loan pilot** program in 31 financial institutions across the country. Three Texas banks, Amarillo National Bank, Main Street Bank in Kingwood, and Liberty National Bank in Paris are participating in the program. The pilot allows these banks to make loans up to \$2,500 at a capped annual percentage rate of 36%. There are no prepayment penalties, the payment terms are longer than those of most payday loans, and the loans are paired with an automatic savings program and financial education. Through the pilot, Texas banks have made over 500 loans averaging \$750 each for a total of \$400,000. The average APR is 16% over an 8-month average term. Delinquency rates have been very low and payoffs high.^{lxxiii}

Community tax centers

Austin's **Community Tax Centers**, a free income tax assistance program at Foundation Communities, returned \$25 million in tax refunds and credits to over 17,000 low-income families in the Austin area in 2009. This is a 25% increase in returns and a 10% increase in EITC funds delivered to families over last year. Community Tax Centers also offer small business classes throughout the year.^{lxxiv} There are similar programs in other communities throughout Texas.

Homeownership promotion and foreclosure prevention

Texas is 44th in the nation when it comes to homeownership, but programs such as **People Trust** in Austin are working to make homeownership affordable for moderate- and low-income Texas families. Through shared appreciation loans, loans that do not bear interest but require a payment of part of the equity gained upon the sale of the home, and down payment assistance, People Trust has helped 132 families achieve homeownership since its founding in 2005. The program is available only to those whose income does not exceed 80% of median family income for Austin.^{lxxv}

The Rio Grande Valley Multibank **Rural and Colonia Loan Program** has also been successful in increasing the affordable housing options in South Texas. This group of financial institutions contributes investment money into a loan pool used to provide home loans to low- and middle-income citizens of the Rio Grande Valley. The average median family income of participants is \$11,000, and families receive loans ranging between \$28,000 and \$36,000.^{lxxvi}

Two recent waves of federal funds have become available to help with home ownership in Texas. The Housing and Economic Recovery Act of 2008 is distributing \$178 million in Texas through the Neighborhood Stabilization Program (NSP). Subsequently, the American Recovery and Reinvestment Act of 2009 (ARRA) included a smaller pool of funds available to Texas communities through a grant process. Of the 14 local governments in Texas that received funds in the first wave, 9 are using part of the funding for helping families with down payment assistance and closing costs.^{lxxvii}

Recommendations

1. Increase savings for post-secondary education

One strategy for increasing assets for post-secondary education is to expand Children's Savings Accounts. Expanding the SEED program model statewide and extending it beyond elementary school to include a preschool age cohort would help families accumulate more wealth by starting savings earlier. Many CSA proponents recommend using the retail model. Existing private sector financial institutions would benefit from administering CSAs and college savings accounts because they represent a new market and may increase previously unbanked families' use of additional financial services.^{lxxviii} Administering CSAs through the private sector is efficient because it uses existing financial infrastructure and marketing techniques, helping increase account contributions.^{lxxix} Private sector financial institutions are already selling one type of savings account, Coverdell Education Savings Accounts (ESAs). These accounts work similarly to a Roth IRA in which contributions are taxable but qualifying withdrawals are not.^{lxxx} Coverdell ESAs offer one model for private sector institutions to follow in expanding savings for post secondary education.

Funding the Texas Save and Match Program is a second important strategy towards making post-secondary education more affordable for low-income families and helping all Texas children extend their education past high school. The success of college matched savings programs like Arkansas' Aspiring Scholars Matching Grant Program indicates that funding Texas Save and Match is a wise investment.

Furthermore, low-income families' disproportionately low participation rates in the Texas Tuition Promise Fund indicate that its program structure is not reaching the segment of families most in need.

2. Regulate payday lending

According to the Federal Reserve's 2007 survey of consumer finances, over a quarter of families in the lowest income quintile paid over 40% of their income in debt payments.^{lxxxix} Regulating lending practices and creating viable alternative loan products offer great potential to help families maintain financial stability. In alignment with the *500% Interest is Wrong* campaign, we recommend that Texas close the loophole in state law that allows some short-term lenders to avoid regulation. They should be prevented from charging exorbitant interest rates. Legislators should also provide a level playing field by requiring consumer lenders and loan arrangers to comply with existing licensing and consumer protection laws under Chapter 342 of the Texas Finance Code. We recommend that state policymakers uphold and enforce the long Texas tradition of protecting against usury and increase transparency within the consumer lending industry by creating a system to collect consumer loan data on all consumer loans.

3. Increase access to mainstream financial institutions

One way to help families get the most out of their income is by increasing access to mainstream financial institutions, where account holders typically have no or nominal fees for check cashing and money orders, and the money they save can be held in an interest bearing account. A California study of the unbanked found that the primary reasons for not having a bank account included a lack of understanding about banking. Texas can help more families connect to banks and credit unions by expanding the size and scope of the Bank On campaign, a public-private partnership that facilitates the opening of low-cost starter bank accounts for previously unbanked populations.^{lxxxii}

4. Increase homeownership rates and affordability

Increasing the number of homes that are bought and sold using a housing trust model will raise homeownership rates among low- and middle-income families and help maintain affordable housing in Texas communities. This will require an infusion of resources into existing financial institutions that operate housing trusts as well as an expansion of housing trust operators in areas where this model is not available. Replicating successful housing trust models such as Vermont's Champlain Housing Trust and increasing the capacity of local organizations like People Trust to offer shared appreciation loans will allow more Texas families to increase their net worth through homeownership.

Costs & Return on Investment

Historically, the return on investment for asset-building programs has been high. For example, economic return on the GI Bill has been estimated at \$7 for every \$1 invested.^{lxxxiii} Asset-building programs can help create a savings- and investment-oriented economy, promoting economic stability for the entire country. One study found that family access to just \$500 to cover unexpected expenses due to illness, job loss, or other emergencies could have the effect of tripling income because the family can avoid costly credit card and payday lending debt.^{lxxxiv} The section below describes the potential fiscal return for Texas if the state implements the four recommendations above.

Increasing savings for post-secondary education

Children's Savings Accounts yield a considerable return on investment. A thousand dollars invested for 18 years at 6% interest yields \$3000. Add \$100 per year and the return is \$5,000; add \$50 per month and the return is \$22,000.^{lxxxv} These types of earnings can mean the difference between a low-wage job

and a college education for many young people who would not be able to afford post-secondary education otherwise. In Texas, high school graduates earn approximately 41% more than those without a high school diploma or equivalency, and employees with bachelor's degrees earn an average of 84% more than high school graduates.^{lxxxvi} Because of increased lifetime earnings, the state can expect a high return on programs that support educational attainment due to decreased use of public services and increased tax revenues from families' increased purchasing power. Texas IDA participants saved over \$3.6 million between 2000 and 2006 and received \$6.4 million in matched funds, aiding the purchase of over \$57 million in assets.^{lxxxvii}

Regulating payday lending

The staff time and resources needed to monitor and enforce payday lending regulations would be the primary cost to the state, but this could be offset through a meaningful operating fee for lenders. Imposing an annual interest rate cap on payday lending would also save Texas money. In the twelve states that enforce rate caps, savings to their citizens total an estimated \$1.5 billion annually.^{lxxxviii}

Increasing access to mainstream financial institutions

Connecting more families to mainstream financial institutions is one of the most cost-effective ways to help families build assets. Costs would mainly be incurred through education and outreach programs, and helping maintain low-cost financial products. Fortunately, a study by the Brookings Institution found that 90% of alternative financial institutions are located within 1 mile of a bank or credit union, indicating the greatest need lies in outreach and education, not costly relocation.^{lxxxix} Increased participation in mainstream financial institutions can also save states money by increasing the purchasing power of its citizens. The Brookings Institution estimates that the average American worker could save \$40,000 over the course of his or her career by using a bank or credit union instead of costly check cashing and money orders. If invested wisely, this \$40,000 could grow into \$360,000 by the end of a 40-year career,^{xc} with potential economic benefit to the entire state.

Increasing homeownership rates and affordability

Homeownership is one of the most popular and most effective ways for a family to create wealth. The average first-time homebuyer makes a down payment of \$19,000, but the return on this investment is long-lasting given that most homeowners have a net worth of over \$130,000, while the average renter has a net worth of only \$4,000.^{xcii} Home-buying assistance programs also demonstrate a high return. In Vermont's Champlain Housing Trust program, an initial community investment of \$2,172,207 allowed 375 low-income families to become homeowners through the sale and resale of 250 homes over 25 years. Had a housing trust model not been adopted, the community investment needed to make homeownership affordable for these families would have been five times as much.^{xciii} In addition to the benefits that families reap from appreciating home values, homeownership also helps build community wealth.^{xciii} The average homebuyer makes significant additional expenditures related to home buying—furniture, repairs, appliances—that positively impact businesses and professionals in the community.^{xciv} Home ownership also has a stabilizing effect on neighborhoods, either through perception of the value of home ownership or because homeowners have a greater incentive to maintain their property compared to a renter or landlord.

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