cfed

expanding economic opportunity

ASSETS & OPPORTUNITY SCORECARD

ASSETS & OPPORTUNITY SPECIAL REPORT

NET WORTH, WEALTH INEQUALITY AND HOMEOWNERSHIP DURING THE BUBBLE YEARS

ASSETS & OPPORTUNITY SCORECARD

NET WORTH, WEALTH INEQUALITY AND HOMEOWNERSHIP DURING THE BUBBLE YEARS

AN ASSETS & OPPORTUNITY SCORECARD SPECIAL REPORT

This paper was prepared for CFED's 2008 Assets Learning Conference, September 11-13, 2008, in Washington, DC.

ACKNOWLEDGEMENTS

CFED would like to thank Chase and NeighborWorks America for the generous support that made this Special Report possible.

Special thanks to Lindley Higgins of NeighborWorks America for his invaluable input and to Jon Haveman and Michael Futch of Beacon Economics for generating the data for this analysis.

INTRODUCTION

Between 1995 and 2005, 12.5 million people became new homeowners in the United States, marking the largest expansion since the period following World War II.[1] Homeownership rates reached a record high that included every income bracket and minority group. This increase is only the latest chapter in our country's long history of expanding access to the American Dream, a chapter that is still being written. Current circumstances, and a focus upon the conditions under which recent homeownership growth occurred, have called into question the likelihood that these gains will endure. While low interest rates and loan product innovations allowed many more Americans to enter the housing market than ever before, the relaxed regulatory atmosphere and escalating housing prices also fueled a wave of cash-out refinances among existing homeowners. In many instances, unscrupulous lenders targeted vulnerable low-income and minority communities. In the rapidly cascading fallout from the credit crisis, millions of homeowners and thousands of communities now find themselves faced with foreclosure and financial distress at a historic scale.

The focus of this special report is on the national picture, but CFED also generated data on wealth and home equity at the state level. In the fall of 2008, we will be releasing the state-level data on home equity by race and income on our website. For more information, visit www.cfed.org/specialreport.

In the 2007-2008 edition of the *Assets & Opportunity Scorecard*, CFED reported substantial increases in net worth across all spectrums of society. The latest data on net worth available at the *Scorecard*'s September 2007 publication was from 2004, and even as we reported the trends we recognized that our data told a story that lagged the current reality of rising foreclosures and falling home values. The swiftness and severity of the housing crisis that has continued unfolding in the year since we released the *Scorecard* compels a deeper investigation to understand how the gains in net worth that we reported in the 2007-2008 *Scorecard* have been affected, especially among minority and low-income households.

In June of 2008 a new wave of data was released that extends the time horizon for which we have solid information about household net worth through early 2006, a time frame that roughly parallels the start of the foreclosure crisis. Our analysis of this data updates knowledge about what has been happening to net worth, wealth inequality, home equity and homeownership among a large sample of U.S. households.

The findings in this report tell a story of uneven and inequitable changes in financial security, with low- and moderate-income households being hit the hardest. While we document evidence that net worth and financial security in low-income households have been adversely impacted in recent years, we do not view the evidence as an indictment of homeownership as an effective strategy for helping low-income populations build wealth. To the contrary, we find compelling evidence that suggests that homeownership can be an effective asset-building strategy, even in tumultuous markets – but success depends greatly on how the opportunity is structured.

The report concludes with specific policy recommendations that can help promote successful, sustainable homeownership outcomes for low- and moderate-income Americans. Failed homeownership – especially for low-income families – has serious and lasting consequences for the financial security and stability of families and communities. But when home ownership is done right – with counseling, fixed-rate non-predatory financing and personal

1 Joint Center for Housing Studies. (2006). America's rental housing: Homes for a diverse nation. Cambridge, MA: Harvard University.

savings that create equity and leverage debt – it continues to be one of the most powerful asset-building opportunities available to help low-income and minority families stabilize and strengthen the odds of building a brighter economic future.

KEY FINDINGS FOR NET WORTH, WEALTH INEQUALITY, HOMEOWNERSHIP AND HOME EQUITY

This report uses 2004, 2005 and 2006 data from the U.S. Census Bureau's Survey of Income and Program Participation (SIPP), a national sample of more than 40,000 households.[2] We analyzed data on net worth and its components by racial groups and income quintiles for the total sample as well as for homeowners only. As the most recently released SIPP data was collected in January 2006, we also use the S&P/Case-Shiller® Home Price Index and the most recent foreclosure data from the Mortgage Bankers Association to examine more recent changes in the housing market and the likely effect these changes have on net worth and home equity.

The key findings from this analysis are as follows:

1. Net worth grew for the top 60% of households by income, but fell for the bottom 40%.
2. The racial wealth gap closed slightly, but wide disparities endure, and wealth inequality grew between the richest and poorest households.
3. Home equity remains by far the largest component of net worth, especially for low-income and minority populations.
4. Between 2004 and 2006, median home equity increased overall by 20%, but households in the second income quintile experienced a 31% loss in home equity.
5. Since 2006 falling home values and rising foreclosures have eroded recent gains in home equity, with the biggest losses recorded for minority households.

Finding #1: Net worth grew for the top 60% of households by income, but fell for the bottom 40%.

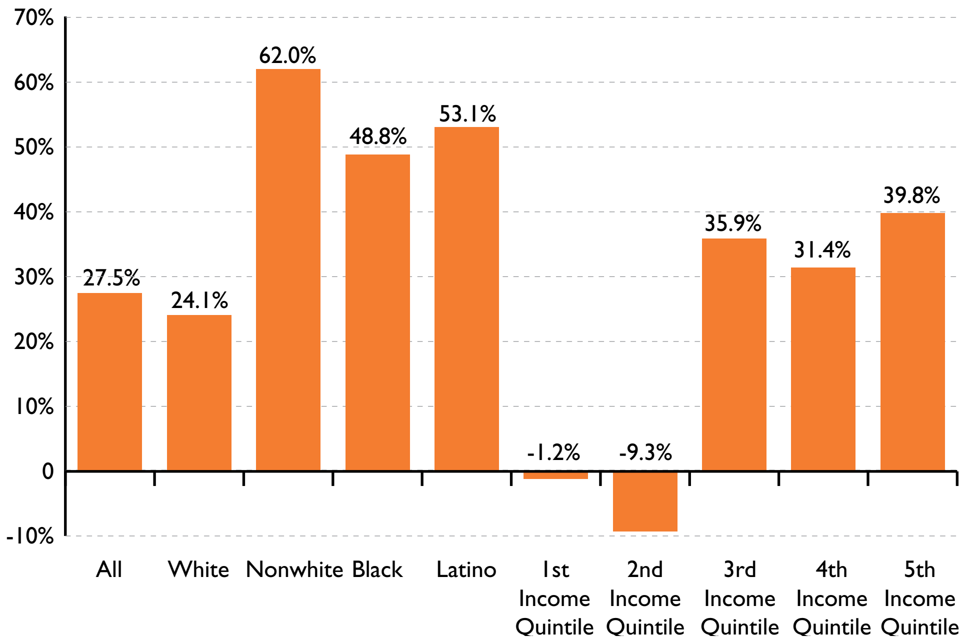
In the *2007-2008 Scorecard*, we found that between 2002 and 2004, median net worth rose 20% overall. That trend continued through 2006 as median household net worth increased 27.5% over 2004 levels. A closer look reveals that net worth did not rise for all groups equally, however. Minority-headed households and the top 60% of households by income recorded a surge in net worth. At the same time, median net worth among the bottom 40% of American households by income (households with income below approximately $37,000 in 2006) fell during this period.

- Minority-headed households recorded a surge in net worth, rising 62% from $12,426 to $20,132.
- Net worth increased 53% for Latinos, from $11,735 to $17,968.
- Net worth increased 49% for African Americans, from $8,013 to $11,925.
- The top 20% of households by income increased their net worth nearly 40%, from $215,247 to $301,000.

2 The SIPP data used in this report was prepared for CFED by Beacon Economics, San Rafael, CA.

- Households in the second lowest income quintile lost more than 9% of their net worth, from $34,258 to $31,078.
- Lowest income quintile households lost about 1% of their net worth ($6,777 to $6,697)

PERCENT CHANGE IN MEDIAN NET WORTH, 2004-2006



Source: U.S. Census Bureau, Survey of Income and Program Participation. Calculations by Beacon Economics.

Finding #2: The racial wealth gap closed slightly, but wide disparities endure. Wealth inequality grew between the richest 20% and poorest 20% of households.

Wealth inequality between minority- and white-headed households narrowed slightly between 2004 and 2006, with minorities adding an additional 3 cents to the wealth they hold for every dollar held by a white-headed household. The disparities among the races were still extreme, however, with minorities owning just 16 cents for every dollar held by a white-headed household.

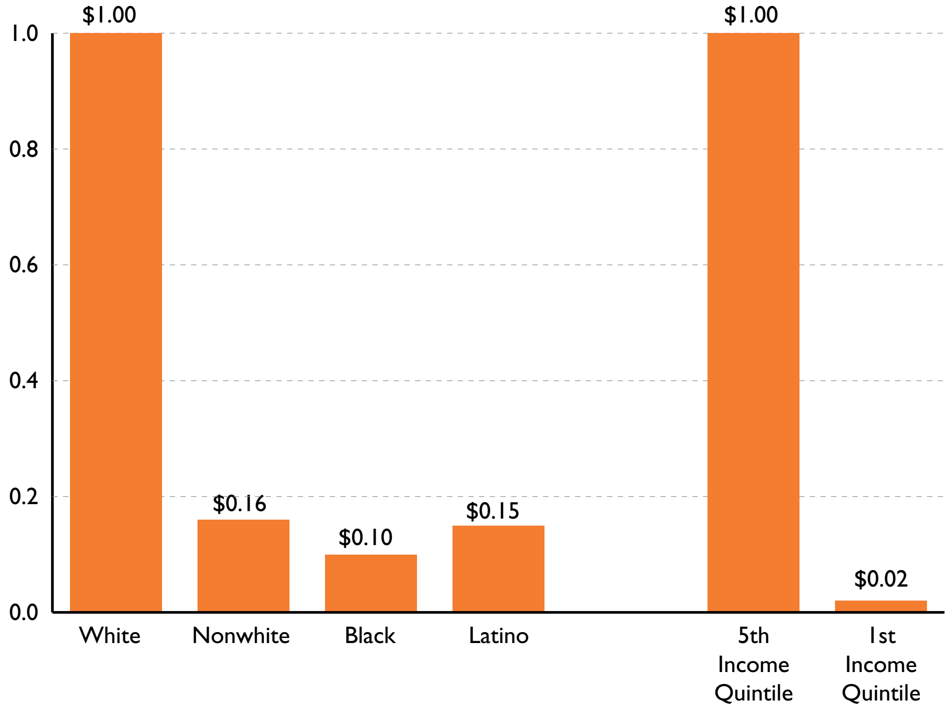
However, households in the lowest income quintile (those with incomes below $20,000 in 2006) fell even further behind those households in the highest income quintile (those with incomes above $97,000).[3] Lowest income households moved from having 3 cents in 2004 to 2 cents for every dollar held by highest income households in 2006.[4]

- Highest income households had 45 times the net worth of the lowest, which means that for every dollar owned by a high-income household, a low-income household had just 2 cents (down from 3 cents in 2004).
- For every $1 in wealth held by households headed by white adults, households headed by minorities had 16 cents.
- African Americans had 10 cents and Latinos had 15 cents in wealth for every $1 for whites.

3 U.S. Census Bureau. (n.d.). Table H-1. Income limits for each fifth and top 5 percent of households.All races: 1967 to 2007. Available at http://www.census.gov/hhes/www/income/histinc/h01AR.html.

4 It should also be noted that the SIPP's sample methodology oversamples low-income households, excludes families with the very highest incomes from the survey sample, and does not capture several categories of financial assets that are much more common in high-income households, so this estimate of wealth disparityis likely to be very conservative.

WEALTH INEQUALITY BY RACE AND INCOME, 2006



Source: U.S. Census Bureau, Survey of Income and Program Participation. Calculations by Beacon Economics. Wealth Inequality is defined as the ratio of median net worth of white households and households in the 5th income quintile divided by median net worth for nonwhite, Black and Latino households and households in the 1st income quintile, respectively.

When we focus just on the homeowners in the sample, we see that the wealth gap narrows considerably, revealing the importance of homeownership as an asset-building strategy:

- Minority homeowners have 65 cents for every $1 of net worth for white homeowners.
- African American homeowners have about 50% of the wealth of white homeowners, up from 10% for all African Americans (homeowners and non-homeowners).
- Wealth inequality is still greatest between the poorest and richest 20%, but homeowners in the lowest income quintile have 32 cents for every $1 of wealth of homeowners in the highest income quintile, an amount 16 times greater than the 2 cents for each $1 held by the total population in that quintile (homeowners and non-homeowners).

Finding #3 – Home equity is by far the largest component of net worth, especially for low- income and minority populations.

Home equity is the most significant component of net worth overall, accounting for approximately half of all wealth. As evidenced in the following chart,[5] lower-income and minority populations have far more of their wealth concentrated in home equity than other populations. It bears special mention that the wealth concentrations calculated in the chart reflect the fact that fewer than 50% of low-income and minority households are homeowners.

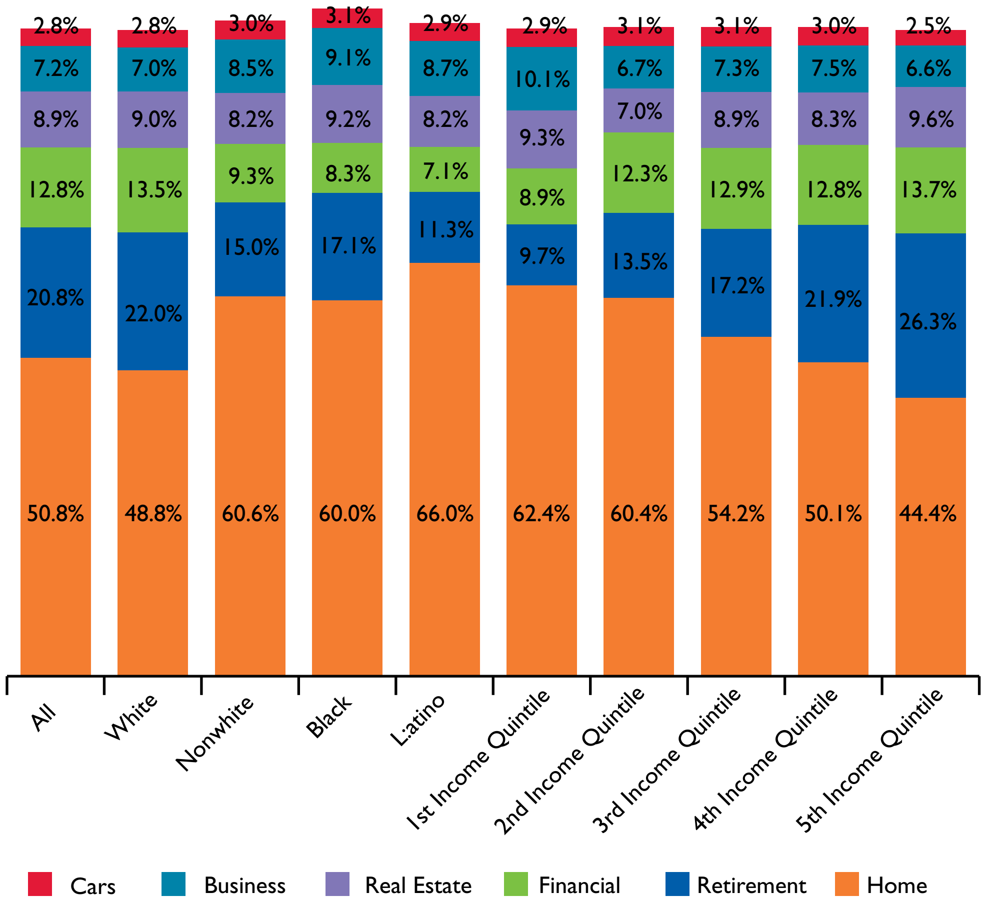
- Mean wealth is more concentrated in homeownership for minority households (60.6%) – particularly Latino households (66.0%) — than it

5 It was necessary to use mean (average) calculations to analyze components of net worth for the full sample because for many types of assets, the ownership rates among minority and low-income populations were so low that the median value was zero or negative, meaning that more than 50% of the population did not possess the asset. For minorities and the lowest income quintile, median home equity and retirement savings were zero. In the chart, columns sum to greater than 100% because percentages were calculated for the mean value of each component as a percentage of mean net worth.

is for white households (48.8%).

- The bottom income quintile had 62.4% of its mean net worth in home equity, whereas the top income quintile had only 44.4%,[6] an 18 percentage point difference.
- For the populations in which home equity plays a less significant role in the overall composition of wealth, retirement and other financial assets represent a larger percentage of net worth: 36% for white households and 40% for the households in the highest income quintile compared to 24% and 19% for minorities and the lowest income quintile, respectively.

COMPONENTS OF MEAN NET WORTH, 2006



Source: U.S. Census Bureau, Survey of Income and Program Participation. Calculations by Beacon Economics.

Finding #4 – Between 2004 and 2006, median home equity increased overall by 20%, but households in the second income quintile experienced a 31% loss in home equity.

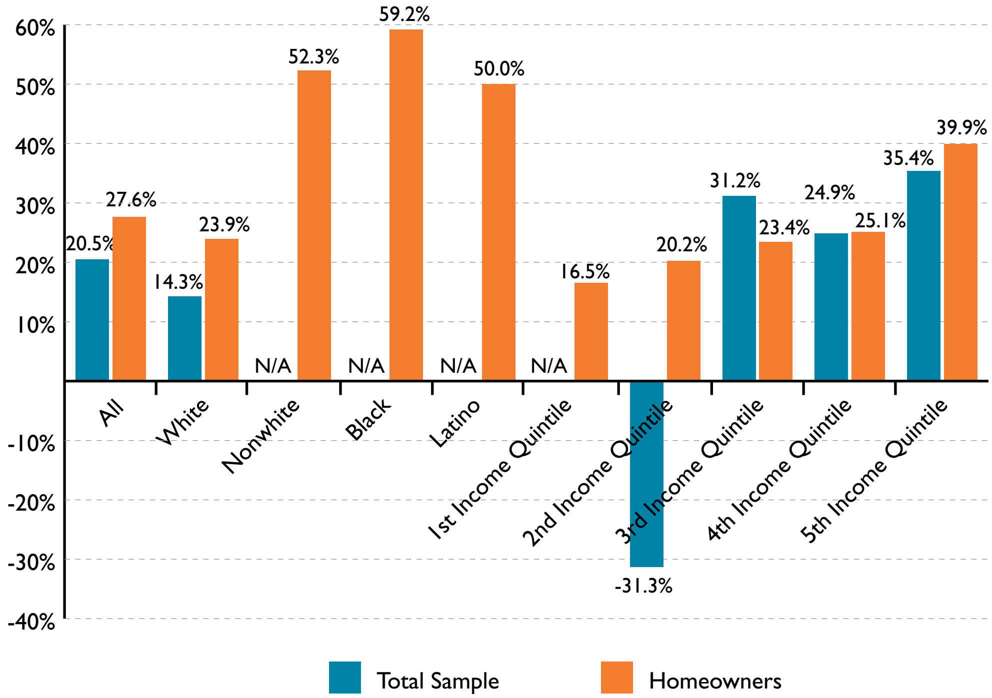
Median home equity increased 20.5% from $37,350 to $45,000 between 2004 and 2006, but that aggregate picture again masks large differences in outcomes among groups.

- Households in the highest income quintile experienced a 35% increase in median home equity, from $96,000 to $130,000.
- Households in the second income quintile – income between $20,000 and $37,000 a year in 2006 – saw median home equity fall more than 31%, from $16,000 to $11,000.[7]

6 As noted previously, the SIPP data do not record several types of financial assets that are much more common in high-income households, and the data omit highest-income households from the sample, therefore the percentage of net worth that is home equity is likely overstated for high-income households in this data as compared with other sources of wealth data, such as the Federal Reserve System's Survey of Consumer Finances.

7 Unfortunately, homeownership rates below 50% among minority- and lowest-income quintile households in the sample create data limitations that prevent us from measuring whether these groups have a similar magnitude changes in median home equity over this time period. The sizeable drops in homeownership among African Americans and lowest-income households, however, suggests that these groups are experiencing significant losses.

PERCENT CHANGE IN MEDIAN HOME EQUITY, 2004-2006, TOTAL SAMPLE AND HOMEOWNERS



Source: U.S. Census Bureau, Survey of Income and Program Participation. Calculations by Beacon Economics.

The measurable loss in home equity for households in the second lowest income quintile can be seen as a bellwether of the onset of the credit and housing crisis that has now spread throughout the population. It may well reflect both the onset of rising foreclosure rates among homeowners in this income range and the increasing number of cash-out refinance transactions that eroded home equity. Researchers have documented how low-income and minority homeowners were targeted during this time period for refinancing packages and variable rate mortgages that eroded home equity through high cost fees and, ultimately, through foreclosures when costs became unmanageable.[8]

One indication that foreclosures were already hitting low-income and minority populations during 2004-2006 can be seen in falling homeownership rates among certain populations in the SIPP sample. The data show that homeownership rates among low-income and some minority populations were already beginning to fall, even while homeownership rates stayed steady and actually increased slightly for the overall sample.[9]

- Homeownership fell among the lowest income households by 3.6%, increasing the homeownership gap between the richest (88.2%) and poorest (44.8%) households by 5%.
- African American-headed households experienced a nearly 2% loss in homeownership.
- Latino-headed households, on the other hand, showed gains in homeownership with a 5.5% increase.

8 Santiago, A.M., & Galster, G.C. (2008, April.) [Compendium of Preliminary Results from the "Not Just Buying a Home" Research Project].

9 Similar trends in homeownership loss during this time period are also seen in the U.S. Census Bureau's Housing Vacancy Survey.

TRENDS IN HOMEOWNERSHIP RATES, 2004-2006

	2004	2005	2006	% Change 2004-2006
All	67.5%	67.5%	67.7%	0.2%
White	74.3%	74.1%	74.1%	-0.3%
Nonwhite	49.7%	50.0%	50.9%	2.6%
Black	48.0%	47.2%	47.1%	-1.8%
Latino	48.3%	49.3%	50.9%	5.5%
1st Income Quintile	46.5%	44.9%	44.8%	-3.6%
5th Income Quintile	87.1%	87.8%	88.2%	1.3%

– Source: U.S. Census Bureau, Survey of Income and Program Participation. Calculations by Beacon Economics.

Notable in the discussion of home equity, is that when we look only at the portion of the survey sample that are homeowners, we see that home equity continued to grow for all groups between 2004 and 2006, and those who experienced the largest gains in home equity also experienced the largest gains in net worth. Overall, homeowners saw a 28% increase in equity in their homes over this time period.

- Median home equity for African American homeowners increased nearly 60%.
- Median home equity for Latinos increased 50%.
- While the lowest and second lowest income quintile homeowners experienced a gain in home equity – 17% and 20%, respectively, they were the smallest gains of all groups.

Finding #5: Since 2006, falling home values and foreclosures have eroded recent gains in home equity across all populations, especially among low-income and minority households.

The fall in housing prices since the beginning of 2006, when the newest SIPP data was last collected, is well documented. Since then, foreclosures rates have skyrocketed, and credit markets have tightened. While it is beyond the scope of this analysis to make a comprehensive assessment of how these continuing trends have collectively eroded the wealth and stability of America's households, we are able to offer a conservative estimate of the likely losses in home equity that have accrued since early 2006. We use the S&P/Case-Shiller® Home Price Index – a price index that measures the residential housing market – to answer the following question: If homeowners in 2006 made no additional principal payments on their mortgages, did not refinance their loans, and did not lose their homes, what affect would changes in home prices have on home equity? Findings show that falling home prices in 2006 and 2007 have negatively affected home equity overall, with a loss of 13% for homeowners in general. That rate varies, however, among different minority and income groups.

- Minority homeowners experienced a greater loss in home equity (15%) than did white homeowners (11%).

- Latino homeowners had the greatest drop in home equity, losing 18% of the wealth in their homes.
- Higher income homeowners were more affected by falling home values than were the lowest income homeowners.
- Lowest-income homeowners and white homeowners show the smallest amounts of equity loss (8.7% and 11.4% respectively)

MEDIAN HOME EQUITY FOR HOMEOWNERS, S&P/CASE-SHILLER® HOME PRICE INDEX ESTIMATES

	Jan. 2006 Actual	Dec. 2006 Case-Shiller Estimates	Dec. 2007 Case-Shiller Estimates	% Change Jan. 2006 to Dec. 2007
All	$100,000	$100,273	$87,095	-12.9%
White	$103,000	$103,300	$91,266	-11.4%
Nonwhite	$85,000	$85,590	$72,365	-14.9%
Black	$70,000	$70,182	$59,323	-15.3%
Latino	$92,000	$92,546	$75,545	-17.9%
1st Income Quintile	$80,000	$80,145	$73,013	-8.7%
2nd Income Quintile	$89,000	$89,162	$77,576	-12.8%
3rd Income Quintile	$85,000	$85,155	$73,013	-14.1%
4th Income Quintile	$93,999	$94,195	$77,576	-17.5%
5th Income Quintile	$157,000	$157,532	$132,532	-15.6%

– Source: U.S. Census Bureau, Survey of Income and Program Participation and Fiserv, Inc. Calculations by Beacon Economics.

These estimates do not factor in loss in home equity from foreclosures, and therefore do not reflect the full extent of the challenges facing American households. A falling housing market also accelerates foreclosures because homeowners cannot sell or refinance their homes to avoid foreclosure.

A recent report by the congressional Joint Economic Committee provides some insight into the relative impact that foreclosures and falling home values will have on overall housing wealth. The report projects that between 1.3 and 2 million foreclosures will take place by the end of 2009, precipitating over $103 billion in lost housing wealth. Of that $103 billion, $71 billion or 69% of the total loss in housing wealth was attributed directly to foreclosure. The additional $32 billion or 31% of the loss was associated with spillover effects and indirect losses for households who keep their homes but see home values fall.[10]

The data in this report aligns with other research that shows that the households that are bearing the brunt of the economic losses in housing wealth due to foreclosure are primarily minority and low- to moderate-income households. Not coincidently, these are also the populations that had disproportionately high exposure to subprime and high cost mortgages, both for mortgage originations and refinance. In six major metropolitan areas in 2005, African American borrowers were 3.8 times more likely, and Latino borrowers 3.6 times more likely, to receive a higher-cost mortgage than white borrowers.[11] And in 2006 over 40% of high-cost loans originated in low-income

10 The subprime lending crisis: The economic impact on wealth, property values and tax revenues, and how we got here. (2007). Washington, DC: Joint Economic Committee.

11 Paying more for the American dream: A multi-state analysis of higher cost home purchase lending. (2007). Issued jointly by California Reinvestment Coalition, Community Reinvestment Association of North Carolina, Empire Justice Center, Massachusetts Affordable Housing Alliance, Neighborhood Economic Development Advocacy Project, & Woodstock Institute.

12 The state of the nation's housing. (2008). Cambridge, MA: Joint Center for Housing Studies, Harvard University.

census tracts, and 45% of high cost loans originated in low-income minority communities.[12]

The Quarter 1, 2008 data from the Mortgage Bankers Association shows that while subprime loans account for slightly over 12% of total loans, they account for 53% of all foreclosures. Moreover, while subprime adjustable rate mortgages (ARMs) represent less than 6% of all loans, they account for 40% of all loans in foreclosure.

RECOMMENDATIONS TO HELP PROTECT, BUILD AND DIVERSIFY ASSETS

The data in this report paint a sobering picture of rapidly eroding financial security among low- and moderate-income and minority households. The unregulated and oftentimes unscrupulous subprime lending environment that grew up during the last five years created conditions where many financially vulnerable households were encouraged to take on more debt and more risk than they could sustain. The ensuing foreclosures, coupled with spillover effects and falling home values sum up to what will likely be the largest loss in housing wealth since the Great Depression. Current trends suggest the largest loss in wealth for African American and Latino populations in the country's history.

Despite this loss, the data also reveal that homeownership remains an important and effective strategy for helping low-income populations build wealth. Homeownership *can* be an effective long term asset-building strategy, but much depends on how the opportunity is structured. Foreclosure rates are at historic highs – for subprime loans taken out in 2005 and 2006, one out of five is predicted to end in foreclosure.[13] But that statistic also indicates that the majority of subprime borrowers will retain their homes, and home equity will appreciate over time. A growing body of research indicates that when homeownership is done right – with financial education and counseling, fixed-rate non-predatory financing and personal savings that help create equity and leverage debt – it continues to be one of the most powerful asset-building opportunities available to help low-income and minority families stabilize and strengthen the odds of building a brighter economic future.

There are a number of policies at the federal and state level that can help support more sustainable and successful homeownership outcomes. Five of these are briefly described below, along with a summary of the research findings that support the strategy.

Recommendation #1: Protect Consumers from Predatory Mortgage Lending

Predatory or abusive mortgage lending refers to a range of practices, including deception, fraud or manipulation, that a mortgage broker or lender may use to make a loan with terms that are disadvantageous to the borrower.[14] Predatory lending occurs primarily in the subprime market. About 50% of subprime loans in 2005 were originated by federally supervised banks and thrifts and their affiliates, but the other 50% were made by independent mortgage companies that are chartered by individual states and are not subject to federal supervision or required to comply with federal consumer protection laws.[15]

13 Schloemer, E., Li, W., Ernst, K., & Keest K. (2006). Losing ground: Foreclosures in the subprime market and their cost to homeowners. Washington, DC: Center for Responsible Lending.

14 U.S. General Accounting Office. (2004, January). Consumer protection: Federal and state agencies face challenges in combating predatory lending [GAO-04-280]. Washington, DC: Author. Available at www.gao.gov/new.items/d04280.pdf.

15 Gramlich, E M. (2007). Booms and busts: The case of subprime mortgages. Kansas City: Kansas City Federal Reserve. Available at http://www.kansascityfed.org/Publicat/ECONREV/PDF/4q07Gramlich.pdf.

To curb predatory lending practices, it will be necessary to close legislative loopholes and ensure that all subprime lenders are required to comply with the same set of rules regarding terms or provisions for high-cost loans, regulation and licensing, and requirements to ensure that the borrower is able to repay the loan before approving a borrower for credit. The federal government recently passed the American Housing Rescue and Foreclosure Prevention Act of 2008, which goes some way toward addressing the problem. States can also take advantage of their authority to protect families from predatory mortgage lending. They can restrict the terms or provisions of certain high-cost home loans, strengthen regulation and licensing of mortgage lenders and brokers, and require lenders and brokers to ensure that the borrower is able to repay the loan before approving a borrower for credit.

Recommendation #2: Support pre- and post-purchase homeownership education and counseling.

We know that pre-purchase counseling can help homeowners make better financial decisions with regard to their mortgages, and that post-purchase counseling can increase the likelihood of bringing mortgages in default back to current status.

Specifically, research on pre-purchase homebuyer education suggests that graduates are more successful at accessing 30-year fixed rate mortgage terms and lower interest rates than non-graduates. They also have greater home equity at the time of purchase.[16] Other research finds that pre-purchase counseling improves ability to evaluate mortgage products and terms, and to lower interest rates by an average of 150 to 200 basis points in subsequent mortgage negotiations.[17]

Post-purchase counseling for homeowners with mortgages in default can be effective, even over the phone, if it is provided at the right time. Research using data from Self-Help Venture Fund's Community Advantage Program found that receiving counseling *during the spell of delinquency* increased the odds of bringing the loan current by 50%, relative to foreclosure.[18]

At the federal level, the recently passed American Housing Rescue and Foreclosure Prevention Act of 2008 includes $180 million for foreclosure counseling that will be awarded by NeighborWorks America through the National Foreclosure Mitigation Counseling program. It is estimated that more than 350,000 families facing the threat of foreclosure will be directly assisted by counseling with this new funding.[19] While this is a good start, much more could be done to support pre- and post-purchase homeownership counseling at both the state and federal level.

Recommendation #3: Expand access to Individual Development Accounts (IDAs) and other savings platforms that help low-income households save and build assets.

Saving enough money for a down payment can be a daunting challenge for low-income households, but even small amounts of savings can put families on a path to homeownership. A recent study found that households with just $1,000 in savings are 41% more likely than those without savings to transition

16 Santiago, A.M., & Galster, G.C. (2008, April.) [Compendium of Preliminary Results from the "Not Just Buying a Home" Research Project].

17 Spader, J.S., & Quercia, R.G. (2008). Does homeownership counseling affect the prepayment and default behavior of affordable mortgage borrowers? Chapel Hill, NC: University of North Carolina Center for Community Capital. Available at http://www.ccc.unc.edu/documents/HomeOwnershipCounseling_final.pdf.

18 Ding, L., Quercia, R.G., & Ratcliffe, J. (2007.) Post-purchase counseling and default resolutions among low- and moderate-income borrowers. Chapel Hill, NC: University of North Carolina Center for Community Capital.

19 NeighborWorks America. (2008, July 30). NeighborWorks America supports sweeping housing legislation. Washington, DC: Author.

20 Herbert, C.E., & Tsen, W. (2007). The potential of down payment assistance for increasing homeownership among minority and low-income households. Cityscape, 9, 153–183.

from renting to homeownership.[20] This finding strongly supports the logic behind matched savings accounts such as IDAs, where the deposits of low-income savers working toward the purchase of an appreciable asset, such as a home, are matched dollar-for-dollar by a private or public funding source.

Earlier this year CFED surveyed a cross-section of IDA program operators to learn more about the homeownership outcomes of program participants who had purchased homes in the past five years. Key among the findings was the low incidence of foreclosure and default: Among 18 programs and 1,212 homeowners, there were only four documented cases of foreclosure and three defaults. Program managers credited three things for the low foreclosure, default and delinquency rates: restrictions on the loan terms accountholders were allowed to accept, financial education, and the actual savings and investable assets the new homeowners were able to acquire before their purchases.[21]

There are several existing federal programs and a number of legislative proposals currently circulating in Congress to provide funding for IDAs.[22] Chief among them is the Savings for Working Families Act (S. 871/H.R. 1514), which would offer a one-to-one tax credit for 900,000 new IDAs. This IDA tax credit would encourage savers to deposit up to $500 per year for four years. The Savings for Working Families Act has more cosponsors than any other savings or asset building legislation.

In addition to IDAs, there are a number of other ways to incentivize savings in low-income households. For example, both IRAs and 401(k)s have legitimate uses extending beyond retirement that can help build assets. But whereas IRA funds can be used to support college education and up to $10,000 can be used for first-time home-ownership without penalty, such uses are currently restricted in 401(k)s and only available as loans. The government could encourage much more aggressive savings by 401(k) participants if the regulations on these accounts were changed to align with those of IRAs.

Recommendation #4: Support Community Development Lenders

Community Development Financial Institutions (CDFIs) play an important role in promoting sustainable homeownership opportunities for borrowers and communities that have been historically denied access to mainstream sources of credit – those that have increasingly been targeted by high-priced or predatory loans.[23] CDFIs provide mortgages and other forms of credit to populations who have faced significant systemic obstacles and provide an alternative source of financing for borrowers who would otherwise turn to subprime mortgages. Perhaps even more significantly, many CDFIs provide, or partner with, mortgage and financial counseling and savings programs that can help strengthen financial choices.

The recent passage of the Capital Magnet Fund for CDFIs, as a part of the American Housing Rescue and Foreclosure Prevention Act of 2008 (H.R.3221), holds the promise of significantly expanding this work, and industry associations, like the Opportunity Finance Network, are working on initiatives that increase the capacity of CDFIs to originate mortgages and partner with mainstream lenders. As leaders and "laboratories" of financial innovation,

21 CFED. (2008). IDA program survey on homeownership and foreclosure. http://www.cfed.org/focus.m?parentid=31&siteid=374&id=2663.

22 See CFED's 2008 Policy Agenda to Promote Asset Building and the New America Foundation's 2008 Assets Agenda for examples.

23 Wolff, et al. (2008). The role of CDFIs in home ownership finance. Chapel Hill, NC: Self-Help and the Center for Community Capital Working Paper.

CDFIs are well positioned to lead the way back into the hardest hit communities and populations while prudently managing risks. Through administrative and legislative action, states also have the ability to provide investment capital and operating funds for CDFIs.

Recommendation #5: Diversify the Asset Portfolios of Low-Income Families

The wealth of low-income and minority households is overwhelmingly concentrated in the home and, as is evident in the current volatile housing market, the practice of leveraging home equity through cash-out refinancing can expose families to huge financial risks and economic insecurity. Many of the reasons that households tap home equity are legitimate and important – financing a child's college education, covering medical emergencies, even supporting oneself in retirement. But too many families rely exclusively upon homeownership to fill those needs. Also, for the majority of low-income families who are *not* homeowners, too many of those needs and opportunities go unfulfilled.

By expanding financial education, incentivizing savings, and improving the accessibility and utility of IRAs, 401(k)s and other investment tools, families are empowered with an array of options to draw from when it is time to purchase a home, pay for the kids' college and retire. A more diversified set of assets would also prevent families from over-utilizing the equity in their home, which diminishes homeownership as the powerful asset-building strategy it is. For minority and low-income families, homeownership should remain an important *part* of a continuum of asset- building tools and activities – not the sole answer.

cfed
expanding economic opportunity

ABOUT CFED

The Corporation for Enterprise Development is a national private nonprofit organization with a mission to expand economic opportunity. Part of this mission has been to expand how people think about policy and its impact on their lives and opportunities. The *2007-2008 Assets & Opportunity Scorecard* takes a comprehensive look at wealth and poverty across America, bringing together various data on financial security, homeownership, business development, health care and education. The *Scorecard* provides an overall look at the elements that lead to widely shared economic success.

www.cfed.org/go/scorecard

1200 G Street, NW
Suite 400
Washington, DC 20005
ph: 202.408.9788
fx: 202.408.9793
www.cfed.org

September 2008