

# weathering the recession



**The Financial Crisis and Family Wealth  
Changes in Low-Income Neighborhoods**

The Annie E. Casey Foundation

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# Weathering the Recession: The Financial Crisis and Family Wealth Changes in Low-Income Neighborhoods

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# contents

Introduction p2

Background p4

Data and Methods p7

Results p9

Conclusion and Policy Implications p20

References p22

Appendix p24

# introduction

Assets help families meet short-term needs and attain long-term goals. In the short run, assets help families weather financial crises such as job loss or an unexpected medical or car repair bill. In the long run, assets help families realize goals such as owning a home, financing retirement, or investing in higher education or a small business. The recent financial crisis has shown both the importance of asset building and that it is by no means a risk-free proposition.

New studies have begun to shed light nationally on how families have fared during the financial crisis. Among recessions, the Great Recession stands out for its large drop in home prices. Wealth decreased for most families, with declining home equity accounting for the largest decreases (Bricker et al. 2011, Taylor et al. 2011). This report adds to the literature by looking more closely at families living in low-income neighborhoods. These families and neighborhoods may see disproportionate effects from the crisis due to targeted subprime lending, less access to traditional credit sources, and higher unemployment rates. To provide a local view of the financial crisis, this study addresses the following questions:

1. What has happened to the asset and debts of families in low-income neighborhoods since the financial crisis began?
2. How do asset and debt levels differ across families living in low-income neighborhoods? Which household characteristics matter? Which place characteristics?
3. How do changes in assets and debts differ across families living in low-income neighborhoods? Which household and place characteristics are related to these changes?

This report answers these questions using the unique longitudinal *Making Connections* cross-site survey data on the assets and debts of 2,500 families living in low-income neighborhoods in seven cities: Denver, Des Moines, Indianapolis, Louisville, San Antonio, Providence, and White Center.<sup>1</sup> These neighborhoods and cities offer a rare and valuable local view of changes in wealth associated with the recent financial crisis. A key advantage of the *Making Connections* data is that they predate the Great Recession and follow families over time.

Our report contributes to the broad understanding of the financial crisis by examining not just the overall local view of changes in wealth, but by using the variation in household and neighborhood characteristics within and across these low-income neighborhoods to identify the families most affected by the crisis. It examines the relationship between household and place characteristics and changes in wealth, while holding constant related characteristics in a regression framework.

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<sup>1</sup> White Center is located outside Seattle in King County, Wash.

Key findings include:

- The most common assets for *Making Connections* families are bank accounts and cars; home equity is the largest single source of wealth.
- Both average savings and debt amounts increased for families living in the seven *Making Connections* sites between 2005/06 and 2008/09.
- Household characteristics matter: Even within these low-income neighborhoods, levels of assets and debts in 2008/09 were lower for low-income, low-education, and minority families, than for higher-income, higher-education, and non-Hispanic white families. Low-income families disproportionately lost equity during the financial crisis (relative to families who were better off).
- Place matters: Residents' perceptions of the neighborhood, access to credit, and market conditions are all related to wealth holdings.
  - Families who perceived their neighborhood as having high collective efficacy — that is, high levels of shared values and trust, as well as the belief that neighborhood residents would do something about common concerns such as graffiti, fights, and children skipping school — increased their home equity and debt, while families who thought their neighborhood had high crime saved and borrowed less.
  - High rates of high-cost lending in a neighborhood were associated with a decrease in saving and borrowing, perhaps signaling less access to credit, particularly from traditional sources.

The report concludes with suggestions for policies to target those most affected and to enable them to benefit from asset policies that are more inclusive of low-income and minority families.

## background

**LOW-INCOME AND MINORITY FAMILIES HAVE FEW ASSETS.** Even before the Great Recession, low-income families had few assets, as suggested by the nationally representative Survey of Consumer Finances (SCF) (McKernan and Ratcliffe 2009, Figure 1).<sup>2</sup> What wealth they did have was often tied up in their home and car. The 75 percent of low-income families with a car had median car equity worth \$7,100. Housing wealth was important for low-income households who owned a home; the 48 percent who owned a home had median home equity worth \$81,000. The 23 percent of low-income families with a retirement account had a median value of \$10,000 in the account. And the 83 percent of low-income families with a bank account had a median balance of \$1,100 in their account. More than 57 percent of low-income families were “asset poor” in 2007, without enough liquid (financial) assets to finance consumption for three months at the federal poverty level (McKernan and Ratcliffe 2009). This offered families little insulation from income decreases or unexpected expenses.

The wealth picture is even worse for families of color and families with children, especially single-parent families. Based on data from the nationally representative Panel Study of Income Dynamics for 2001 through 2007, more than half of American families with children are asset poor, and in particular, more than two-thirds of African-American families and female-headed families are asset poor (Aratani and Chau 2010, p.8). Data from the Survey of Income and Program Participation (SIPP) also confirm that minority families hold less wealth. More than 30 percent of Hispanic and black households reported negative or zero net worth compared with only 15 percent of white households (Taylor et al. 2011, p.16). Less than half of poor families with children own a bank account, and approximately half or more are experiencing debt hardship (Aratani and Chau).

Empirical evidence suggests that assets can improve the lives of families (Lerman and McKernan 2008). For families able to ride out housing market downturns, the returns of homeownership can be large. Research finds that homeownership is associated with better results for children of homeowners — such as higher educational attainment and lower teen-pregnancy rates (even after controlling for self-selection) — likely because of homeownership’s role in increased residential stability. Beyond homeownership, car ownership is associated with success in employment, and asset holding in general is associated with better health and psychological well-being.

Holding assets can decrease material hardship and expand opportunity through access to credit. Perhaps the best case for holding assets can be made by research that shows what happens when families do not hold assets: They experience greater material hardship. In fact, assets are at least as powerful as income in reducing material hardship after an involuntary job loss or other negative event (McKernan, Ratcliffe, and Vinopal 2009). Assets help families expand opportunity through debt (more favorably known as credit).

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<sup>2</sup> Low-income families are those with incomes below 200 percent of the federal poverty level — about \$35,000 for a family of three.

The ability to borrow \$500 in an emergency does as much to reduce hardship as tripling family income (Mayer and Jencks 1989). And having assets determines whether, how much, and where you can borrow.

Housing wealth is important for low-income and minority households. In 2007, working-age, bottom-income quintile families held 60 percent of their wealth in housing, while middle- and top-income quintile families held 47 and 22 percent, respectively (Soto 2010). Owned housing is an important means of wealth accumulation, particularly for minority and low-income households (Boehm and Schlottmann 2008, Taylor et al. 2011). Although the returns of homeownership are smaller for low-income and minority homeowners, the gains are still positive and nontrivial. The implicit movement of households up the housing hierarchy (from renting to owning to owning higher-valued housing) only adds to the positive magnitude of these effects (Boehm and Schlottmann). As Herbert and Belsky (2008) explain, “not only is homeownership an important means of wealth accumulation for low-income families but, for most of these households, it is the only form of wealth accumulation” (p.40).

**GOVERNMENT PLAYS A ROLE IN ASSET BUILDING.** The low level of asset holdings by low-income and minority families likely result in part because of government policy. The asset-building policies that went furthest in expanding wealth over the last two centuries were not universally available; African-Americans were often excluded. The Homestead Act of 1862 — which gave homesteaders 160 acres of land for a nominal fee — excluded slaves. By 1934, 1.6 million homestead claims had been processed. They covered 10 percent of U.S. lands, approximately 270 million acres.<sup>3</sup> The GI Bill of 1944, which provided loans for purchasing a home or starting a business as well as college or vocational training, covered WWII veterans who were typically white. Nearly 2.5 million veterans used the program between 1944 and 1952.<sup>4</sup> And the Federal Housing Administration denied loan guarantees to African-American borrowers until it was illegal to do so in 1968, thereby limiting access to credit (Hyra, Squires, Renner, and Kirk 2011).

Today, the majority of federal policies that encourage asset-building behavior are embedded in the tax code and still offer little incentive to families in the lower 80 percent of the income distribution. In fiscal year 2009, families with \$50,000 in income received \$500 in federal asset-building benefits; families with \$100,000 in income received \$2,000 in asset-building benefits; and families with incomes greater than \$1 million received more than \$98,000 in asset-building benefits. This skewed subsidy distribution exacerbates the disparity in wealth holdings (Woo, Rademacher, and Meier 2010).

Not only do low-income families receive fewer subsidies and thus incentives to build wealth, they also receive disincentives to save. Asset tests in safety net programs can discourage savings. For example, families can only hold \$2,000 in liquid assets and be eligible for food stamps. Prior to the financial crisis (and the resulting new Consumer Financial Protection Bureau), low-income families also received fewer financial protections. Because low-income families pose greater credit risks than do higher-income families (e.g., as a result of less stable employment or little credit history), they were more likely to finance their mortgages outside of traditional banks. Most of the subprime loans originated with the non-bank lenders,

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<sup>3</sup> <http://www.archives.gov/education/lessons/homestead-act/> accessed 12/16/11

<sup>4</sup> [http://www.gibill.va.gov/benefits/history\\_timeline/index.html](http://www.gibill.va.gov/benefits/history_timeline/index.html) accessed 12/16/11

who received less federal oversight and supervision than banks (e.g., no bank examinations or enforcement of the Community Reinvestment Act) — perhaps one reason the current credit crisis started in the subprime market (Gramlich 2007, McKernan and Ratcliffe 2009).

**THE FINANCIAL CRISIS LED TO DECREASES IN WEALTH FOR MOST FAMILIES.** More than 60 percent of U.S. families saw their wealth decline between 2007 and 2009 (Bricker et al. 2011 analysis of the SCF panel data). Median net worth fell from \$125,400 in 2007 to \$96,000 in 2009, for a change in medians of -\$29,400. Using the panel nature of the 2007-2009 SCF data to calculate the change in wealth for each family and then taking the median of that change (rather than the cross-sectional difference between the two medians) shows a median loss of \$11,400 or 18 percent (Bricker et al. Appendix Table 1). Declining home values account for the greatest dollar losses (Bricker et al. Table 5). Based on cross-sectional comparisons of the 2004 and 2008 SIPP data, the net worth of the median U.S. household fell about \$27,000 between 2005 and 2009 (from about \$97,000 to \$70,000), again with declining home equity accounting for the greatest losses (Taylor et al. 2011).

These wealth losses were reflective of other forms of hardship. In November 2008, about one-third of respondents to the American Life Panel reported at least one of the following sources of financial distress: self or spouse unemployed, negative equity in home, or a loss of more than 30 percent in retirement savings (Chakrabarti et al. 2011, p.8). Among those who lost their jobs, many exhausted their savings and stopped contributing to their retirement accounts, some even making premature withdrawals to cover current expenses (Chakrabarti et al.). In addition to decreased income and wealth, family finances are increasingly burdened with debt (Aratani and Chau 2010).

The foreclosure crisis contributed to the widening racial wealth gap. Because the family home represents such a large share of the household wealth of African-American and Hispanic families, the foreclosure crisis and housing downturn have led to large losses among those segments of the population. “Hispanics and Asians were further affected [by decreasing property values in the aftermath of the foreclosure crisis] because they are disproportionately likely to reside in states that have been hardest hit by the housing crisis...” (Taylor et al., p.13). Further, the concentration of subprime lending to African-American and Hispanic borrowers means that a higher number of those mortgages are likely to result in defaults and foreclosures with the longer term implications of diminished access to credit and lower homeownership rates (Jourdain-Earl 2008, p.9). Haurin and Rosenthal, as cited by Herbert and Belsky, “find that a 1-percentage-point higher initial mortgage interest rate increases the risk of leaving homeownership by 16 percent” (2008, p.21). The estimated wealth losses from the spillover effects of foreclosure (falling house values from nearby foreclosures, increased vandalism and crime, etc.) between 2009 and 2012 are \$194 billion for African-American communities and \$177 billion for Hispanic communities (Bocian, Li, Ernst 2010, p.11). Research on the size of the racial wealth gap suggests that the median wealth of white households is at least 6.4 times that of non-white families (Bricker 2011, Appendix 1) and could be as high as 20 times that of black households (Taylor et al. 2011, p.14).

The literature provides a good sense of overall changes in wealth since the start of the financial crisis, but says little about the patterns of asset and debt holdings for low-income and minority families (and in particular families with children) in low-income neighborhoods. Available research generally uses national survey data, which rarely provide detail on low-income and poor families, or families with children, and cannot evaluate the importance of the neighborhood context in asset building. This report fills this void using a unique longitudinal survey of low-income neighborhoods in seven cities.

# data and methods

Funded by the Annie E. Casey Foundation to provide data and information about the neighborhoods invested in as part of the *Making Connections* initiative (2000-2010), the *Making Connections* cross-site survey is a unique household-level survey of low-income neighborhoods that has rich information on household characteristics, assets and debts, and neighborhood conditions.<sup>5</sup>

This report uses the *Making Connections* longitudinal panel of households living in low-income neighborhoods in Denver, Des Moines, Indianapolis, Louisville, San Antonio, Providence, and White Center. Households were randomly sampled by neighborhoods, interviewed in 2005-2007 and again in 2008-2011.<sup>6</sup> This panel includes about 2,500 households, who were interviewed in *Making Connections* neighborhoods at the first survey point and re-interviewed in the same housing unit or, if the household moved and children were present in the household, followed and interviewed in a new unit (regardless of whether it was in the neighborhood).<sup>7</sup> We explore the assets and debts of these households using four dependent variables: total savings amount, total debt amount, total non-mortgage debt amount, and total home equity.<sup>8</sup>

Our explanatory variables from the *Making Connections* survey include race, ethnicity, and nativity; household poverty status; respondent education and age; family type; housing tenure; and individual perceptions of the neighborhood (collective efficacy, crime). To obtain information on local access to credit for low-income borrowers, we match indicators from the Home Mortgage Disclosure Act

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<sup>5</sup> The Making Connections initiative was intended to foster community-wide results in tough neighborhoods over the long-term, particularly with regard to improving young children's health and success in school, and in increasing families' earnings, income, and asset levels. However, in the individual sites, the Making Connections strategies had not been operational for long enough or achieved sufficient saturation for there to be a reasonable expectation that such community-wide changes would be evident by 2008/09. The longitudinal survey data on the Making Connections sites provide useful information on the dynamics occurring in the target neighborhoods but were not designed to provide reliable information on the effects of the initiative.

<sup>6</sup> The first survey wave in all sites was fielded in 2005 or 2006, except for Louisville, which was fielded in 2007. In the second survey wave, all sites were fielded in 2008 or 2009, except for Providence (2010) and Louisville (2011). Throughout this report, the first wave will be referred to as 2005/06 and the second as 2008/09. The regression models include a control variable for the year of the survey.

<sup>7</sup> If children are present in the household, a child is randomly selected as the focus child for the survey, and the adult most knowledgeable about the child is selected as the survey respondent; otherwise, in households without children, the survey respondent is randomly selected.

<sup>8</sup> Savings is calculated for only those who responded that they were saving for something in particular: a house, school, car, retirement, emergencies or other purpose. Households that did not report having any type of debt (see the appendix for the survey question) are coded as having \$0 debt. See appendix for relevant survey questions. All dollar amounts have been adjusted for inflation and are in 2010 dollars.

(HMDA) data at the census-tract level to each household observation in the *Making Connections* survey. These indicators include the percent of conventional first-lien purchase or refinance mortgages (1-4 units) that were high-cost between 2004 and 2006 and the denial rate of conventional home purchase loans in 2005. We also factor in the local economic context of the seven sites by including the county or city unemployment rate from the Bureau of Labor Statistics' Local Area Unemployment Statistics program and the Federal Housing Finance Agency's metropolitan area housing price index. In addition, to control for differences in when the survey was fielded, we include the survey year in the models.

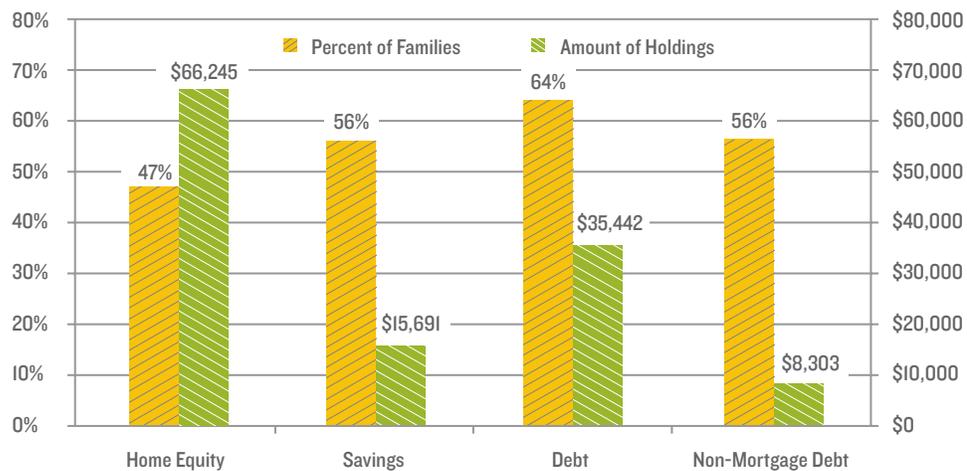
We use descriptive statistics showing the levels of asset, debt, and home equity holdings in both periods (2005/06, 2008/09) and the change in these levels between periods to answer our first research question: "What has happened to assets and debts of low-income families since the financial crisis began?" We estimate pooled OLS regression models across the seven *Making Connections* sites to answer our second and third research questions on how the levels and changes in assets vary for different kinds of low-income families living in low-income neighborhoods. All analyses of change, whether in the descriptive or regression framework, use the panel nature of the data to calculate the change for each family. Thus the analysis provides a better measure of how individual families were affected by the crisis than provided by cross-sectional comparisons.

# results

To set the stage for answering our research questions, we start with a description of how *Making Connections* families hold assets. The most common assets held are bank accounts and vehicles; 78 percent of families had a checking or savings account, as compared with more than 90 percent nationally, and 73 percent of *Making Connections* families reported having a dependable vehicle. More than half (56 percent) of families were saving for something. These families prioritized saving for an emergency, retirement, education, and a home. Just less than half owned a home, a rate considerably lower than the national homeownership rate of 70 percent, but not especially low as compared with low-income (roughly 50 percent) and minority (54 percent) families nationally (Bricker et al. 2011).

For the 47 percent of *Making Connections* families who were homeowners, home equity was substantial and an important component of their wealth (Figure 1). Families that owned a home had \$66,000 in equity, more than four times as much as the wealth families had in savings.<sup>9</sup> The 56 percent of families saving for something had saved an average \$16,000. That home equity is an important component of wealth for *Making Connections* families is not surprising; it is important for poor families nationally, comprising 60 percent of their total wealth (Soto 2010).

FIGURE 1: WEALTH AND DEBT FOR MAKING CONNECTIONS FAMILIES, 2008/09



Source: Making Connections Cross-Site Survey, 2005/06 and 2008/09 Panel, The Annie E. Casey Foundation.

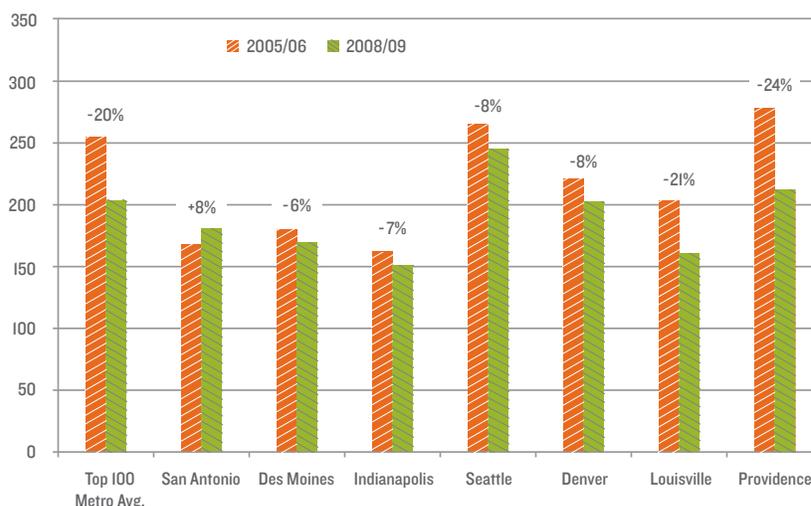
<sup>9</sup> By way of comparison, low-income families in the SCF had an average home equity of \$117,000 in 2007 (McKernan and Ratcliffe 2009). The higher SCF value likely reflects a more heterogeneous population in the SCF, which is nationally representative, not representative of low-income neighborhoods. The SCF likely includes more families that are temporarily low-income or low-income with high wealth (such as some elderly) and thus not likely to be living in low-income neighborhoods. By survey design, all families in the Making Connections survey resided in low-income neighborhoods in 2005/06. Both the SCF and the Making Connections survey assess home value by asking the survey respondent to estimate the value of their home and mortgage.

On the other half of the balance sheet, 64 percent of families were carrying debt, with an average value of \$35,000. This means that more than one in three *Making Connections* families did not have any debt, compared with one in five families nationally (Bricker et al. 2011). The majority of the debt carried by *Making Connections* families is mortgage debt. On average, less than a quarter of total debt remained after accounting for mortgage debt.

### WHAT HAS HAPPENED TO ASSETS AND DEBTS OF FAMILIES IN LOW-INCOME NEIGHBORHOODS SINCE THE FINANCIAL CRISIS BEGAN?

Both average savings and debt amounts increased between 2005/06 and 2008/09 for families living in the seven *Making Connections* neighborhoods in 2005/06 (Table 1). On average, households saving for something reported a statistically significant increase of about \$5,200 in savings between 2005/06 and 2008/09. Average household debt and non-mortgage debt increased significantly, by \$3,500 and \$970, respectively. These findings are consistent with national trends: According to the 2007-2009 Survey of Consumer Finances panel, bottom-income quintile families increased savings in transaction accounts and total financial assets, and increased total debts (Bricker et al. 2011).

FIGURE 2: AVERAGE METROPOLITAN AREA HOME PRICE INDEX, 2005/06 AND 2008/09



Source: Federal Housing Finance Agency's Housing Price Index (adjusted for inflation).

Homeowners in *Making Connections* neighborhoods lost about \$4,600 in equity between 2005/06 and 2008/09, though this difference was not statistically significant. But there is important heterogeneity even within the low-income neighborhoods. For example, families in White Center and Denver had higher values of home equity than the average *Making Connections* site, while families in Indianapolis, Louisville, San Antonio, and Des Moines had lower-than-average values in 2008/09. And San Antonio and Des Moines, for example, showed increases of about \$4,400 and \$3,900, respectively, in home equity between 2005/06 and 2008/09, while Providence showed a \$44,200 decrease.

The *Making Connections* site differences reflect, in part, the larger macroeconomic conditions to which neighborhoods in the seven sites were exposed. Between the two survey periods, metropolitan area housing price changes ranged from an increase of 8 percent in San Antonio to a decrease of 24 percent in Providence

TABLE I: AVERAGE VALUES FOR ASSETS, DEBTS AND HOME EQUITY

LEVEL 2008/09	TOTAL SAVINGS		TOTAL DEBT		TOTAL NON-MORTGAGE DEBT		TOTAL HOME EQUITY	
	N	\$	N	\$	N	\$	N	\$
All Sites	1,134	15,691	2,537	35,442	2,366	8,303	877	66,245
Denver	184	26,231 **	379	53,745 ***	363	11,076 *	97	95,048 ***
Des Moines	190	13,682	386	37,798	351	11,437 ***	201	40,952 ***
Indianapolis	147	10,388 *	360	21,87 ***	330	7,711	120	38,083 ***
Louisville	127	6,771 ***	288	17,438 ***	272	5,527 ***	74	41,308 ***
Providence	113	7,987 ***	335	25,779 ***	318	5,284 ***	58	82,155
San Antonio	181	10,044 **	423	19,132 ***	386	7,809	180	40,540 ***
White Center	192	25,734 ***	366	68,893 ***	346	8,432	147	139,601 ***

CHANGE 2005/06 - 2008/09	TOTAL SAVINGS		TOTAL DEBT		TOTAL NON-MORTGAGE DEBT		TOTAL HOME EQUITY	
	N	\$	N	\$	N	\$	N	\$
All Sites	628	5,173 ***	2,270	3,483 ***	2,011	967 **	569	-4,569
Denver	98	10,043 ***	319	8,780 **	297	2,882 **	61	-3,547
Des Moines	114	344	345	795	296	1,668	138	3,933 *
Indianapolis	66	7,945	308	6,258 **	257	1,501	64	3,963
Louisville	65	3,858	274	2,913	249	851	54	-1,446
Providence	71	671	305	-1,433	286	-607	38	-44,265 ***
San Antonio	80	1,692	381	5,297 ***	327	278	104	4,446 *
White Center	134	8,216 **	338	1,523	299	332	110	-19,236

Source: Making Connections Cross-Site Survey, 2005/06-2008/09 Panel, The Annie E. Casey Foundation.

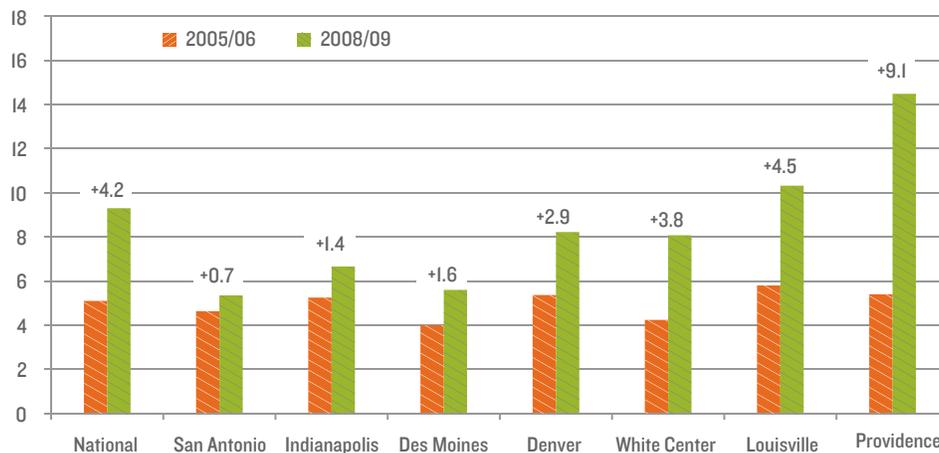
Note: Weighted means. Dollar amounts adjusted to 2010 dollars. Significance tests are reported for differences between each site average level and the all-site average level 2008/09, and for changes in average levels 2005/06-2008/09 that are different from zero.

\*\*\* p < 0.01, \*\* p < 0.05, \* p < 0.1

(Figure 2).<sup>10</sup> In the 100 most populous metropolitan areas, housing prices fell 20 percent between 2005 and 2009. At the neighborhood level, evidence of market decline was also clear: Home purchase origination rates dropped sharply between 2005 and 2008 in *Making Connections* neighborhoods, ranging from 29 percent in Denver to 74 percent in Indianapolis (Pettit 2010). Generally, the local housing market in these neighborhoods suffered more relative to the metropolitan area.

County or city unemployment rate increases between the two survey periods also varied greatly across sites. Unemployment rate increases ranged from an increase of 0.7 percentage points in San Antonio to 9.1 percentage points in Providence. The national average unemployment rate increased 4.2 percentage points (Figure 3). Given the variability in the macroeconomic context during the financial crisis that was found across *Making Connections* sites, we control for average metropolitan home prices and local unemployment rates in our regression models. The local context enriches our results and broadens their generalizability.

FIGURE 3: AVERAGE CITY/COUNTY MONTHLY UNEMPLOYMENT RATE, 2005/06 AND 2008/09



U.S. Bureau of Labor Statistics (Local Area Unemployment Statistics).

### HOW DO THE LEVELS OF ASSETS AND DEBTS VARY FOR DIFFERENT KINDS OF LOW-INCOME FAMILIES LIVING IN LOW-INCOME NEIGHBORHOODS?

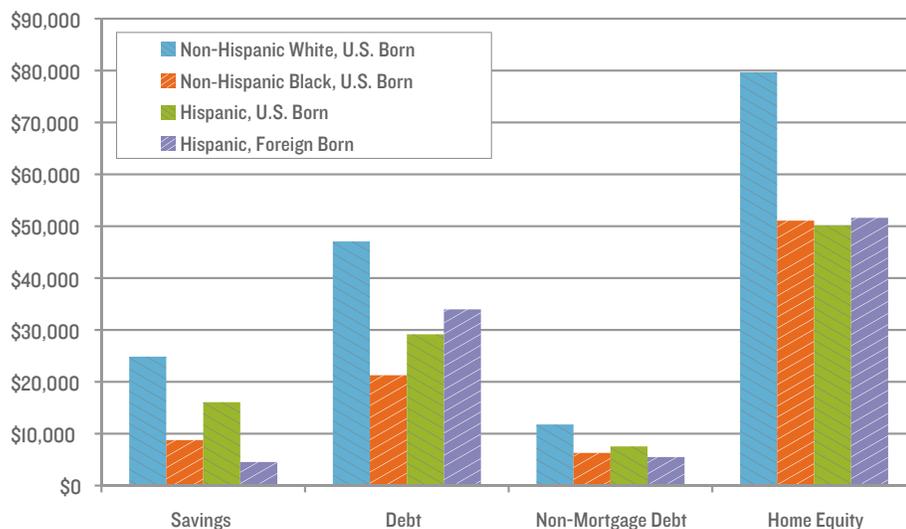
Poverty status, education, stage in life cycle, family structure, housing tenure, metropolitan housing prices, and to a lesser extent, race, individual perceptions of the neighborhood, and local access to credit, have important relationships to wealth holdings in 2008/09 for households in the seven sites.

A descriptive look at our dependent variables on race, ethnicity and nativity reveals strong differences in savings and debt holdings for households in the *Making Connections* neighborhoods (Figure 4). For all four dependent variables, non-Hispanic white, U.S.-born respondents had statistically higher holdings compared with native-born black respondents, and both native and immigrant Hispanic respondents.

<sup>10</sup> The metropolitan housing price index values used for all sites are for the actual quarters the survey was fielded in each site.

Differences by race diminish and, in many cases, are no longer statistically significant for savings and debt, once household characteristics (poverty status, respondent education and age, family structure); place characteristics (individual perceptions of the neighborhood, access to credit, and the economic context); and survey year are controlled for (Table 2). Hispanic foreign-born households have significantly less in savings (\$6,400 on average) than non-Hispanic white, U.S.-born households holding all else equal. Compared with whites, on average, non-Hispanic black households have about \$2,400 less in non-mortgage debt. Hispanic native-born and foreign-born families have less home equity than whites (-\$25,800 and -\$23,300, respectively).

**FIGURE 4: AVERAGE ASSETS AND DEBT HOLDINGS BY RESPONDENTS' RACE/ETHNICITY, 2008/09**



Source: Making Connections Cross-Site Survey, 2005/06 and 2008/09 Panel, The Annie E. Casey Foundation.

Low-income households tend to have less total savings and debt (Table 2). Households under 100 percent of the federal poverty level (FPL) have, on average, about \$9,300 less in savings and \$20,600 less in total debt than higher-income households (above 200 percent of FPL), while households between 100-200 percent of FPL have about \$10,200 less in savings and \$14,700 less in debt than higher income households.

Households with a respondent who has at least some college generally have more savings, total debt, non-mortgage debt, and home equity than those with only a high school degree and even greater differences compared to those with no high school degree (Table 2).

Life cycle factors are most important for debt and home equity and follow expected patterns. Households with a younger survey respondent have more debt and less home equity on average than households with a respondent in midlife cycle (aged 45-54). Households with a respondent age 65 or older have less debt and more home equity than those in the midlife cycle. Families with children, whether they have one adult or multiple adults, on average, have less savings, more debt and less home equity than families without children. Homeowners have more savings (\$8,800) and more debt (\$66,400), including non-mortgage debt (\$4,400), than renters (Table 2).

TABLE 2: LEVELS OF ASSETS, DEBTS AND HOME EQUITY, 2008/09

EXPLANATORY VARIABLES 2008/09	TOTAL SAVINGS (\$ - EXCLUDES NONSAVERS)	TOTAL DEBT (\$)	TOTAL NON- MORTGAGE DEBT (\$)	TOTAL HOME EQUITY (\$)
<b>Respondent Race &amp; Ethnicity (Omitted: Non-Hispanic White, U.S.-Born)</b>				
Non-Hispanic Black, U.S.-Born	-2094 (2750)	1400 (4428)	-2359 *** (1121)	-3871 (6580)
Hispanic, U.S.-Born	1028 (3071)	-81.57 (4229)	-1386 (1545)	-25804 *** (8857)
Hispanic, Foreign-Born	-6412 *** (1960)	2278 (6067)	-1281 (1312)	-23288 *** (9923)
Other	-9534 *** (2468)	1310 (5939)	-966.2 (1448)	-16643 ** (7798)
<b>Household Poverty Status (Omitted: above 200% federal poverty level)</b>				
Below 100% federal poverty level	-9284 *** (3315)	-20648 *** (4141)	-7664 *** (1508)	7546 (4619)
100-200% federal poverty level	-10160 *** (2045)	-14665 *** (3468)	-4861 *** (1235)	-4524 (3412)
<b>Respondent Education (Omitted: at least some college)</b>				
Less than high school	-9007 ** (3444)	-12313 *** (2952)	-6143 *** (805.8)	-15253 ** (7007)
High school graduate	-8437 ** (3056)	-11189 *** (3833)	-5609 *** (932.0)	-11881 ** (4598)
<b>Respondent Age (Omitted: 45-54)</b>				
18-34	-7820* (4343)	12135 ** (4907)	1523 (1590)	-29149 ** (10788)
35-44	-1937 (4598)	21685 ** (8007)	1787 (1119)	-28204 ** (10501)
55-64	4883 (8287)	-527.1 (4176)	-2482 (1788)	-8601 (8775)
65 and over	-6326 (6390)	-19056 *** (3903)	-3071 ** (1220)	19024 * (10660)
<b>Family Type (Omitted: adults without children)</b>				
Single adult with children	-5437 * (2696)	13147 *** (3824)	3401 ** (1295)	-15665 * (7543)
Multiple adults with children	-3931 ** (1744)	17555 *** (3986)	3456 *** (687.6)	-15348 ** (5712)
<b>Homeowner</b>				
	8806 * (4403)	66398 *** (10278)	4391 *** (868.6)	

EXPLANATORY VARIABLES 2008/09	TOTAL SAVINGS (\$ - EXCLUDES NONSAVERS)	TOTAL DEBT (\$)	TOTAL NON- MORTGAGE DEBT (\$)	TOTAL HOME EQUITY (\$)
<b>Individual Perceptions of the Neighborhood</b>				
High collective efficacy	313.3 (2985)	1400 (2622)	1490 * (789.1)	10337 (7065)
High crime (drugs, gangs or prostitution)	-3557 ** (1663)	-1062 (2113)	1455 (1131)	7630 (4778)
<b>Local Access to Credit for Low-Income Residents</b>				
Pct. of conventional first-lien purchase or refinance mortgages that are high-cost (1-4 units, 2004-2006)	-248.6 ** (93.96)	-744.9 *** (146.7)	-54.61 (39.90)	-189.9 (373.2)
Denial rate of conventional home purchase loans (2005)	35.73 (128.7)	-83.28 (144.3)	-10.18 (27.21)	-179.5 (236.9)
<b>County/City or Metropolitan Economic Context</b>				
City/county unemployment rate	658.2 (609.4)	2542 ** (977.9)	406.5 (256.4)	2254 (2308)
Metropolitan housing price index	35.13 (41.00)	102.2 * (57.58)	-57.90 *** (19.73)	1129 *** (149.5)
<b>Year of Survey Interview</b>				
	-3005 (1884)	-6094 ** (2481)	-1689 ** (786.2)	-6069 (6150)
<b>Constant</b>	6063622 (3785278)	12246730** (4986755)	3416527** (1580075)	12070092 (12360957)
<b>Observations</b>	1134	2537	2366	877
<b>R-squared</b>	.207	0.438	0.168	0.399
<b>P-value for F-test of joint significance neighborhood variables</b>	0.000	0.000	0.024	0.000

Source: Making Connections Cross-Site Survey, 2005/06-2008/09 Panel, The Annie E. Casey Foundation.

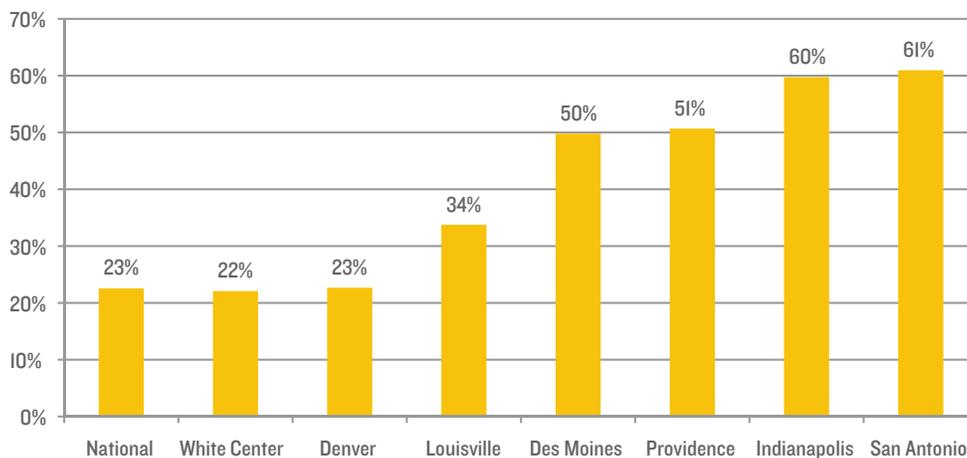
Note: Weighted OLS estimates with standard errors clustered by neighborhood as defined in the Making Connections Survey. Dollar amounts have been adjusted to 2010 dollars. Only respondents who reported saving for something are included in this analysis. The "other race" category contains the following non-Hispanic groups for race and nativity: foreign-born white, foreign-born black, U.S.- and foreign-born Asian, Native American, and U.S.- and foreign-born other or multiple race.

\*\*\* p < 0.01, \*\* p < 0.05, \* p < 0.1

Even after controlling for family demographic characteristics, residents' perceptions of place and market conditions matter in asset and debt patterns in these low-income neighborhoods. Holding all else equal, individuals who perceive their neighborhood as having high collective efficacy have higher non-mortgage debt (\$1,500). Having a more positive outlook on the neighborhood may indicate a greater willingness to take out debt to invest in human capital, either for education loans for the respondents or their children, as well as in small businesses. In fact, *Making Connections* families who believe their neighborhood has high collective efficacy have higher rates of saving for education and holding student loans. On the other hand, individuals who perceive their neighborhood more negatively because they think that crimes involving drugs, gangs or prostitution often occur have fewer savings (\$3,600) than those who have a less negative perception of their neighborhoods, but there are no significant differences in terms of debt or home equity for these residents.

Access to traditional credit also matters for asset and debt holdings. Most *Making Connections* neighborhoods had substantially higher rates of subprime mortgage lending compared to the nation (Figure 5). Nationally, 23 percent of mortgages from 2004 to 2006 were high-cost, while more than half of mortgages were high-cost in four of the *Making Connections* neighborhoods. Our regression results reveal that, holding all else equal, an increase in the share of high-cost mortgages reduces the amount families are saving as well as the amount of total debt they hold. High-cost mortgages are often found outside traditional lending institutions (Gramlich 2007); their presence may signal a lack of access to and/or crowding out of mainstream credit, or targeted subprime lending in these neighborhoods. Previous analysis of the *Making Connections* data suggests that many families were borrowing at higher interest rates, and that reducing their rates to 5 percent would enable them to save about \$276 per month in mortgage payments, helping them build equity and wealth faster (Lerman and Hendey 2011).

**FIGURE 5: PERCENT OF FIRST-LIEN MORTGAGES THAT ARE HIGH-COST IN MAKING CONNECTIONS NEIGHBORHOODS, 2004-2006**



Source: Home Mortgage Disclosure Act (HMDA).

As might be expected, macroeconomic conditions are related to the assets and debts of households in low-income neighborhoods. Higher city or county unemployment rates are associated with higher levels of total debt for families, as are higher metropolitan area housing prices. Higher metropolitan area housing prices are also associated with more home equity and less non-mortgage debt, possibly as households take advantage of greater equity to use mortgage debt in place of non-mortgage debt, or because higher housing debt reduces the ability to take on debt from other sources.

Levels of assets and debts in 2008/09 were lower for low-income, low-education and minority families living in low-income neighborhoods than for higher-income, higher-education and non-Hispanic white families. Younger families and those with children have less wealth (less savings, more debt, less home equity) than older families. These findings are consistent with national descriptive statistics and thus expected. But what is interesting is that they hold up even within low-income neighborhoods and in a regression framework that controls for other household and place characteristics.

#### **HOW DO CHANGES IN ASSETS AND DEBTS DIFFER FOR DIFFERENT KINDS OF LOW-INCOME FAMILIES LIVING IN LOW-INCOME NEIGHBORHOODS?**

Only in a few cases is race/ethnicity a significant explanatory factor in the change in assets or debts: Hispanic foreign-born households decreased their savings by about \$5,300 relative to white ones (Table 3). And Hispanic U.S.-born households decreased non-mortgage debt by about \$2,600 relative to that of white households, which could be a reflection of the tightening in the credit markets since the financial crisis began, particularly for African-Americans and Hispanic borrowers (Cooper 2011).

Household poverty status is important to changes in wealth components. Poor families increased total debt by \$6,000 on average (and non-mortgage debt by \$3,400 for families 100-200 percent of FPL) relative to higher-income families, and both groups decreased home equity by \$13,800 for those below 100 percent of FPL and by \$13,000 for those between 100-200 percent of FPL.

Changes in housing tenure were associated with changes in total debt, as expected. Homeowners who became renters decreased their total debt by about \$54,900, and renters who became homeowners increased their total debt by about \$68,900. Interestingly, homeowners who became renters also decreased their non-mortgage debt by \$4,600 on average, relative to homeowners in both periods.

Turning to neighborhood characteristics, households who perceived the neighborhood as having high collective efficacy increased their total debt and equity, while households who thought their neighborhood had high crime decreased total debt and their non-mortgage debt. These findings suggest that households that perceived their neighborhoods as good places to live were more likely to borrow, perhaps to invest in homes and human capital. High rates of high-cost lending in a neighborhood were associated with a decrease in total debt and non-mortgage debt relative to neighborhoods with lower rates of high-cost lending, perhaps signaling less access to credit from traditional sources and, in the wake of the financial crisis, from reductions in subprime lending. Families in metropolitan areas with higher housing prices in 2005/06 saw a decrease in equity by 2008/09, which is not surprising, as there was more room for high-priced areas to fall.

TABLE 3: CHANGES IN ASSETS, DEBTS AND HOME EQUITY, 2005/06-2008/09

EXPLANATORY VARIABLES 2005/06	CHANGE IN TOTAL SAVINGS (\$)	CHANGE IN TOTAL DEBT (\$)	CHANGE IN TOTAL NON- MORTGAGE DEBT (\$)	CHANGE IN TOTAL HOME EQUITY (\$)
<b>Respondent Race &amp; Ethnicity (Omitted: Non-Hispanic White, U.S.-Born)</b>				
Non-Hispanic Black, U.S.-Born	-974.4 (3652)	1184 (2263)	-11.70 (1139)	-6860 (9697)
Hispanic, U.S.-Born	-3566 (4261)	2891 (2422)	-2624 ** (1001)	-8448 (6837)
Hispanic, Foreign-Born	-5275 * (3033)	-48.01 (2258)	-1847 (1466)	-3798 (7146)
Other	-2182 (4607)	-6329 * (3161)	-1461 (1364)	-19911 (20607)
<b>Household Poverty Status (Omitted: above 200% federal poverty level)</b>				
Below 100% federal poverty level	-1018 (2254)	6005 * (3240)	2072 (1309)	-13803 * (7629)
100-200% federal poverty level	-757.1 (2531)	4730 * (2430)	3393 ** (1283)	-13035 * (6855)
<b>Respondent Education (Omitted: at least some college)</b>				
Less than high school	-3551 (2726)	-5456 ** (2538)	-799.2 (910.6)	10882 (8636)
High school graduate	1131 (2819)	562.2 (1861)	-1907 * (1044)	1154 (9317)
<b>Respondent Age (Omitted: 45-54)</b>				
18-34	-4589 (4466)	842.5 (2454)	1028 (1001)	24195 ** (10615)
35-44	-2964 (4735)	2438 (3534)	1112 (1267)	14257 (12265)
55-64	-13545 ** (5315)	4314 (3954)	-400.0 (1673)	6444 (11180)
65 and over	-5211 (3456)	1751 (2400)	-1480 (1097)	-720.1 (11246)
<b>Family Type (Omitted: adults without children)</b>				
Single adult with children	131.1 (4741)	5515 ** (2556)	802.9 (1104)	6047 (10429)
Multiple adults with children	3263 (4101)	4891 ** (2244)	783.3 (979.4)	-10696 ** (4599)

EXPLANATORY VARIABLES 2005/06	CHANGE IN TOTAL SAVINGS (\$)	CHANGE IN TOTAL DEBT (\$)	CHANGE IN TOTAL NON- MORTGAGE DEBT (\$)	CHANGE IN TOTAL HOME EQUITY (\$)
<b>Housing Tenure (Omitted: owner both waves)</b>				
Owner then renter	-6488 (4234)	-54891 *** (10253)	-4640 ** (2193)	
Renter then owner	5184 (4941)	68895 *** (10777)	1257 (1828)	
Renter both waves	-3140 (2655)	-2000 (2361)	-1571 (1131)	
<b>Individual Perceptions of the Neighborhood</b>				
High collective efficacy	2330 (4042)	4088 * (2284)	19.67 (853.8)	14405 * (8067)
High crime (drugs, gangs or prostitution)	2873 (1647)	-1989 ** (940.4)	-1488 ** (654.7)	-2209 (4264)
<b>Local Access to Credit for Low-Income Residents</b>				
Pct. of conventional first-lien purchase or refinance mortgages that are high-cost (1-4 units, 2004-2006)	-218.4 (138.4)	-105.9 * (60.09)	-59.99 ** (26.89)	23.47 (389.4)
Denial rate of conventional home purchase loans (2005)	115.3 (195.1)	-47.36 (135.7)	37.12 (48.00)	150.9 (260.1)
<b>County/City or Metropolitan Economic Context</b>				
City/county unemployment rate	2294 (2968)	1568 (1812)	695.7 (767.0)	-2174 (5691)
Metropolitan housing price index	14.12 (32.72)	1.902 (20.77)	-4.197 (11.64)	-322.9 ** (149.7)
<b>Year of Survey Interview</b>				
	-3223 (2623)	-2178 (1405)	-1684 ** (674.4)	2827 (6394)
<b>Constant</b>	6465673 (5258425)	4361129 (2812723)	3377543** (1350916)	-5601105 (12802002)
<b>Observations</b>	628	2270	2011	569
<b>R-squared</b>	0.044	0.255	0.025	0.119
<b>P-value for F-test of joint significance neighborhood variables</b>	0.559	0.015	0.034	0.000

Source: Making Connections Cross-Site Survey, 2005/06-2008/09 Panel, The Annie E. Casey Foundation.

Note: Weighted OLS estimates with standard errors clustered by neighborhood as defined in the Making Connections Survey. Dollar amounts have been adjusted to 2010 dollars. Only respondents who reported saving for something are included in this analysis. The "other race" category contains the following non-Hispanic groups for race and nativity: foreign-born white, foreign-born black, U.S.- and foreign-born Asian, Native American, and U.S.- and foreign-born other or multiple race.

\*\*\* p < 0.01, \*\* p < 0.05, \* p < 0.1

## conclusion and policy implications

Both average savings and debt amounts increased for families living in the seven *Making Connections* sites between 2005/06 and 2008/09. That families in these low-income neighborhoods were able to increase savings is impressive and consistent with national trends for low-income families reported in the 2007-2009 Survey of Consumer Finances panel. It is noteworthy that nationally, only low-income families (not higher-income families) increased their financial assets between 2007 and 2009 (Bricker et al. 2011). Low-income families likely had the greatest concerns about future income and employment and so the greatest need for increased savings to buffer their households from financial shifts. Emergency savings are important; empirical research confirms that families with savings are less likely to experience material hardship after a negative event such as an involuntary job loss (McKernan, Ratcliffe, and Vinopal 2009, Mills and Amick 2010).

Even with these relative increases, levels of assets and debts in 2008/09 remained lower for low-income, low-education and minority families living in these low-income neighborhoods than for higher-income, higher-education and non-Hispanic white families. Younger families and those with children also have less wealth (less savings, more debt, less home equity) than older families. For households in these low-income neighborhoods, our findings of lower debt for particular groups may reflect a lack of access to credit and less ability to make investments in human capital (such as student loans) and small businesses. These findings highlight vulnerable populations that currently miss out on the benefits of asset building.

Hispanics had substantially less equity in 2008/09 than whites, and low-income families disproportionately lost equity during the financial crisis (relative to families who were better off), even though the *Making Connections* neighborhoods were very low-income overall. In addition to losses in equity, another analysis of the data reveals significant differences in the characteristics of families moving in and out of homeownership, with poor families more likely to leave homeownership (Hendey and Steuerle 2011). With homeownership as the major asset-building vehicle for these households, could solid underwriting (i.e., assessing borrowers' ability to repay a mortgage based on income and debts) and improved access to good mortgages change these outcomes?

Our findings suggest that place characteristics, such as perceptions of the neighborhood and access to credit from traditional sources, matter. Analysis of trends in the HMDA data from Pettit (2010) highlights the importance of continuing to improve access to credit in *Making Connections* sites. During the housing boom from 2000 to 2006, the share of minority owner-occupied home purchase loans in these metropolitan areas increased in every site except Denver, ranging from less than 1 percentage point in Des Moines to nearly 10 percentage points in Providence. However, between 2006 and 2008, this indicator dropped in every metropolitan area — again, from a small change in Des Moines to more than 5 percentage points in Providence. The *Making Connections* data illustrate the tremendous variations in local contexts that help (or hinder) asset building for the families who live in those places and are exceptional as one of the only data sources on assets that allows for incorporating local context in analyses. That these place characteristics were significant explanatory factors for levels of and changes in assets and

debts suggests it is risky to assume that national or even average *Making Connections* conditions apply in a neighborhood and that data on and knowledge of the local context is important for driving place-based initiatives.

In the wake of the financial crisis, credit and documentation requirements for home purchase mortgages have tightened considerably. While there was a need to address the lack of underwriting and documentation that supported many of the loans during the housing boom, the swift policy shift in the opposite direction, including calls by some policymakers for a mandatory 20 percent down payment, may create impossible barriers to homeownership for many low-income or minority borrowers. Given the fact that many housing markets are now more affordable than before, homeownership, even if subsidized, could be cheaper — and present an opportunity to build assets — relative to renting (Lerman 2009). Who will take advantage of this opportunity? Two-parent and Hispanic families in *Making Connections* neighborhoods appear relatively more likely, and blacks and single-parent families relatively less likely, to take advantage of these new chances for homeownership (Hendey and Steuerle 2011).

How can policies target those most affected and enable them to benefit from asset policies that are more inclusive of low-income and minority families? Matched savings programs, which provide a match for every dollar saved, are one way. Participation in a matched savings program, such as an Individual Development Account (IDA), can improve homeownership outcomes for low-income and minority households. Participation increases the savings available for a down payment and reduces the time needed to build those savings. The financial education and support offered with an IDA help participants who are ready for homeownership qualify for affordable loans and avoid foreclosure. Rademacher et al. (2010) finds that foreclosure rates for IDA homebuyers were one-half to one-third the rate for other low-income homeowners in the same communities.

Historically, homeownership has provided modest, but steady, returns to the owner while reducing fluctuations in housing costs and ensuring shelter. It is only in the run-up to the recent housing crisis that expectations of double-digit appreciation made the family home a speculative venture. Given a recalibrated housing market and sufficient access to fairly priced credit, homeownership is an appropriate aspiration for many families, including those with low incomes.

Broadly, evaluations of matched savings programs show that low-income families can and do save when provided with a convenient savings vehicle and financial incentives (McKernan, Ratcliffe, and Shanks 2011). But low-income savings programs have been demonstrations and pilots to date. The work now needs to focus on how to bring asset-building programs to scale by making them available to the broader low-income population. One way to do that is to extend financial matches at tax time to all low-income families. Others are to make the home mortgage interest income tax deduction refundable, reform the Community Reinvestment Act to expand the availability of mainstream credit to more borrowers, and reform asset limits for means-tested benefits. The U.S. government has a long history of encouraging families to build assets and could do so in an inclusive way by targeting more incentives to those with few or no assets.

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# appendix

## Survey Questions on Assets, Debts and Home Equity from the Making Connections Cross-site Survey

### SAVINGS

**6.43** People sometimes save money for the future. Right now, are you (and/or your spouse/partner) saving for any of the following things:

*Response Choices: Yes/No/Don't Know/Refused*

- 6.43a To buy a house?
- 6.43b For school or college?
- 6.43c For a car?
- 6.43d For retirement?
- 6.43e For emergencies?
- 6.43f Other savings? (*specify*)

**SKIP: IF ALL RESPONSES IN 6.43 SERIES ABOVE (6.43A – 6.43F) = 2 (NO), GO TO 6.45; OTHERWISE, CONTINUE.**

**6.44** Thinking of all these things and anything else you may be saving for, how much money have you saved all together? \$ \_\_\_\_\_ (*or Don't Know/Refused*)

### DEBT

**6.40** People sometimes borrow money or take out loans. Right now, are you (and/or your spouse/partner) paying back any of the following loans?

*Response Choices: Yes/No/Don't Know/Refused*

- 6.40a Home mortgage?
- 6.40b Home improvement loan?
- 6.40c Home equity loan?
- 6.40d Car loan?
- 6.40e Student loan?

6.40f Hospital or medical bill?

6.40g Credit card balance?

6.40h Furniture or appliances?

6.40i Other loan? (*specify*)

**SKIP: IF ALL RESPONSES IN 6.40 SERIES ABOVE (6.40a – 6.40i) = 2 (NO), GO TO 6.43; OTHERWISE, CONTINUE.**

6.41 When you think of (that loan/all of those loans), what is the total amount you (and your spouse/partner) owe? \$ \_\_\_\_\_

(*If the respondent doesn't know – move to loan ladder, e.g. "Does it amount to less than \$10,000, more than \$10,000 or what?", etc.*)

#### HOME EQUITY

6.30 Is this house, apartment, or mobile home?

Owned by you or someone in this household with a mortgage or loan?

Owned by you or someone in this household free and clear (without a mortgage or loan)?

Rented for cash rent?

Occupied without payment of cash rent?

(*or Don't Know/Refused*)

6.31 What do you think the value of your house is? \$ \_\_\_\_\_

(*or Don't Know/Refused*)

6.42 How much do you owe on your mortgage? \$ \_\_\_\_\_

(*or Don't Know/Refused*)

Equity Calculation: Home Value – Mortgage Debt = \_\_\_\_\_

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