Federal Reserve Bank of Boston
2009 Issue 2

New England Community Developments

Emerging Issues in Community Development and Consumer Affairs

Asset Building for Today's Stability and Tomorrow's Security

by Signe-Mary McKernan and Caroline Ratcliffe

Savings and assets can play an important role in low-income families' short-term needs and long-term development. In the short-term, savings can help families weather unexpected employment gaps or pay unexpected medical and car repair bills. In the long term, families can realize goals such as owning a home or financing a secure retirement. A key concern is that low-wage jobs can be unstable, leaving families struggling to cope with employment gaps and financial emergencies that can arise without warning. Today's weak economy, highlighted by job layoffs, high unemployment rates, and limited lines of credit, underscores the need for families to have savings to draw on during an emegency. Means-tested and social insurance programs can help families weather hard times, but not all families are eligible for these benefits. For example, only 22 percent of low-income families with an unemployed worker for some part of 2006 received one potential solution to this problem. This article discusses low-income families' asset holdings and promising policies aimed at addressing their short- and long-term needs.

Today's weak economy underscores the need for families to have savings to draw on during an emergency.

Asset Holdings of Low-Income Families

Most low-income families have trouble weathering emergencies. Many low-income families are "asset poor"—without enough assets to finance consumption for three months at the federal poverty level. Yet unemployment spells averaged two to four months even before the current recession (Caner and Wolff 2004; Vroman 2007). If only financial (i.e., liquid) assets are considered (e.g., savings, 401(k)s, bonds), then more than 57

Inside

The Long-Term Economic (In) Security of Seniors 10

percent of low-income families are asset poor.[1] This is a concern because unexpected gaps in employment can leave families unable to pay bills and can lead to serious consequences, such as eviction. The asset picture improves if net worth (excluding home equity) is considered, but it is still tenuous. In this case, nearly 40 percent of low-income families are asset poor. Further, one in five low-income families has zero or negative net worth (excluding home equity) and median net worth is $7,200 (See Figure 1).

Many low-income families are "asset poor"—without enough assets to finance consumption for three months at the federal poverty level.

A closer look at low-income families' asset holdings reveals that the typical (median) family has limited savings and does not own a home or have a retirement account. Many such families have no car. Most low-income families (83 percent) have a bank account, but often the balance is too small—$1,100 is the median—to see a family through even a short employment gap or other financial emergency.

Few in this population save for retirement. Only 23 percent of low-income families report any type of retirement savings. Families headed by older adults are more likely to have retirement accounts, although the differences are somewhat small (17 percent versus 26 percent). Among families that do have a retirement account, the median value is $10,000. While modest when spread out over an individual's expected retired lifetime, it does represent nontrivial savings for these families. Homeownership is more prevalent than retirement savings among low-income families. In 2007, nearly half (48 percent) owned a home, and the median value of home equity for these homeowners was $81,000. For the U.S. population, homeownership rates increased steadily between 1994 and 2004, but have decreased with the housing crisis. In the first quarter of 2009, homeownership rates fell below 2001 rates.[2]

Most (75 percent) low-income families own a car, with a median value of $7,100. While only a minority of families do not have a vehicle, a vehicle can be necessary to get and keep jobs. This need has become more pronounced as many jobs have moved from cities to suburbs, where public transportation is more limited and less reliable.

The Government's Role in Asset Building

Federal and state government programs and policies can both promote and discourage families' asset building. Means-tested transfer programs such as TANF (Temporary Assistance for Needy Families) and food stamps (now called SNAP, the Supplemental Nutrition Assistance Program) can discourage precautionary savings by providing families with benefits—basically, a consumption floor

Figure 1. **Asset Holdings for Low-Income Families**

	Ownership Percent	Mean	Median Holdings by Income Percentile		
			25th	50th	75th
Net worth minus home equity	78.6%*	$63,699	$300	$7,200	$33,400
Bank accounts	82.6%	$7,012	$300	$1,100	$4,650
Retirement accounts	23.1%	$31,883	$3,000	$10,000	$30,000
Home equity	48.4%	$116,679	$31,000	$81,000	$150,000
Car equity	75.2%	$10,817	$3,900	$7,100	$14,000

Source: Author tabulations from the 2007 Survey of Consumer Finances.
Note: Low-income families are in the bottom two-income quintiles (income less than $36,500), which is roughly equal to families with income below 200 percent of the federal poverty threshold for a family of three ($34,340).
* "Ownership percent" for net worth is the percent of low-income families with positive net worth.

during economic emergencies. Asset tests can also discourage asset building because families may spend down or keep financial assets below the asset limit in order to retain program eligibility.[3] The federal government historically set strict asset limits for means-tested program eligibility but relaxed them somewhat over the last decade, in part due to concerns that they discouraged savings.

While liberalizing asset tests, federal and state governments also started promoting asset building among low-income families by supporting Individual Development Account (IDA) programs. Targeted at low-income families, these accounts allow participants to save for specific approved purposes, such as higher education, homeownership, and business start-ups. IDA programs provide matching funds when families' savings are withdrawn to spend on one of these preset goals. These programs have demonstrated that low-income families can and will save when provided with financial literacy and given financial incentives (see McKernan, Ratcliffe, and Nam 2007; Mills et al. 2006; Schreiner and Sherraden 2007a; and Stegman and Faris 2005, among others). However, it is unclear whether this is new savings, as the few studies that have examined net worth have not found a significant relationship between IDA program participation and net worth (Mills, Gale, et al. 2008; Mills, Lam, et al. 2008; Schreiner and Sherraden 2007b). The literature does, however, provide some evidence that participating in an IDA program increases the likelihood an individual becomes a homeowner (Mills, Gale, et al. 2008; Mills, Lam, et al. 2008) and starts or expands a business (Mills, Lam, et al. 2008; Moore et al. 2001). Spending on IDA programs represents less than 1 percent of federal spending aimed at promoting savings.

The federal government subsidizes asset building mainly through the tax code. Taxpayers can deduct interest paid on mortgages and can shelter significant amounts of savings for retirement. Almost all of the roughly $400 billion spent on asset building takes the form of tax breaks. This subsidy structure primarily benefits high-income families since they have higher income-tax liabilities. Many low-income families are left out of asset-building policies because they generally have low or zero tax liability, and tax

benefits are related to the taxpayer's tax rate. In fiscal year 2005, for example, less than 3 percent of the benefits from federal asset-building programs went to the bottom 60 percent of income households. The top 20 percent, in contrast, received nearly 90 percent of the benefits (Woo and Buchholz 2007).

Homeownership has a long tradition of support from the federal government and largely benefits middle- and upper-income homeowners. The major subsidies are the mortgage interest tax deduction, the property tax deduction, the exclusion of the net rental value due to equity, and the capital gains tax exclusion. However, some policies expand access to credit for low- and moderate-income families. The

Individual development account (IDA) programs have demonstrated that low-income families can and will save when provided with financial literacy and given financial incentives.

Community Reinvestment Act gives banks and thrifts responsibility for helping meet the credit needs of low- and moderate-income borrowers in their business areas. The Depository Institutions Deregulatory and Monetary Control Act of 1980 effectively abolished usury laws (restrictions on interest rates) on first-lien mortgages. Along with technological advances, such as credit scoring and the influence of capital markets, these policies opened up the subprime market and provided mortgage credit

Less than 3 percent of the benefits from federal asset-building programs went to the bottom 60 percent of income households. The top 20 percent received nearly 90 percent of the benefits.

to higher-risk low- and moderate-income borrowers (Gramlich 2007). Between 1994 and 2005, homeownership rates for African American and Latino homebuyers rose impressively—from 42 percent to 48 percent for blacks and from 41 percent to 50 percent for Hispanics. But with falling home prices and a slower economy, these gains are now being eroded by forced home sales and foreclosures.

The Consequences of Low-Asset Holdings

Low-asset holdings translate into difficulty meeting basic needs, lost opportunities for economic mobility, and missed chances to invest in human capital and children's development. Low assets can also mean financial shortfalls that can destabilize or delay retirement.

Without assets to draw on during emergencies, families must rely more on public supports and other outside help and must struggle to meet basic needs. Many low-asset families resort to expensive short-term loans to survive a financial emergency. Once a vicious cycle of indebtedness takes hold, long-term asset goals evaporate. Conversely, with an asset cushion, families can enter into a virtuous circle of asset accumulation—paying down debts, saving more, earning a credit rating, and, as but one example, afford a down payment on a home (Nam, Huang, and Sherraden 2008).

Having fewer assets also means missing out on the many benefits that come with long-term asset development, whether from owning a home or a small business or from education and retirement. Homeownership and a good education can be springboards into the middle class and better child outcomes. For example, the empirical literature suggests that children in families who own their own homes reach higher educational levels and are less likely to become pregnant as teenagers (Lerman and McKernan 2008), most likely because homeownership increases residential stability. As for shorter-term benefits, retirement savings or a home can provide families with leverage to borrow during emergencies by tapping into home equity lines of credit or retirement funds. Asset holding and the increased job stability that goes hand in hand with a better education can boost credit ratings, which in turn can open up additional options for borrowing in an emergency and at lower interest rates.

The Most Promising Policy Options

Which asset-related policies would help low-income families the most? First, families with few assets need access to small loans, preferably with a savings component, to help them weather bad patches. Then, they need to get a financial toehold to build the savings needed to avoid expensive short-term loans and to purchase a reliable car if one is needed to get to work. With emergency savings secured, families can move on to building assets for longer-term development, such as homeownership. Many asset policy proposals focus solely on longer-term development, pitting it against shorter-term financial goals, such as weathering a financial emergency. Our package of proposals addresses the needs of families over the life course and considers the tension inherent in meeting families' short- and long-term asset-building goals.

Increase Competition for and Regulation of Small Loans

If low-income families have too few assets to weather emergencies, where do they turn for help? One-third of low-income families without savings accounts report that they would use a payday lender or pawn something to pay a large bill in an emergency.[4] Occasional use of such short-term loans can help families repair a car or pay for an unexpected medical need, but habitual use or reliance on short-term loans can trigger a spiral of debt that hinders future asset building.

To better protect families using small loans, we recommend regulating standard, clear, and timely disclosures of the total cost of small loans more strictly. For example, the total cost of lending should be disclosed as one or two numbers, in a standardized form, totaling all fees for a loan of the stated duration. One total cost could be stated for a set loan amount of two-week duration, another for the same loan amount for a one-month duration, and so on. Stating the fee as a dollar amount instead of or in addition to the annual percentage rate (APR) may be easier for consumers to understand on short-term loans. Standard and improved disclosures for consumers will increase competition within the alternative financial sector.[5] And full disclosures,

along with licensing, reporting, and examination requirements, could enhance the industry's image and make the small loan business more appealing to both mainstream and alternative entrants.[6] In testimony to a congressional committee, Michael Barr suggested that the Obama administration's proposed Consumer Financial Protection Agency could establish consistent disclosure requirements and adopt standards for licensing and monitoring short-term loan providers (Barr 2009).

We also recommend encouraging the mainstream financial sector to offer small loans with a savings component. Financial institutions may shy away from the research and product development needed to provide small loans, especially given the alternative financial sector's negative image. The Federal Deposit Insurance Corporation's (FDIC's) Pilot Project for Affordable Small-Dollar Loans is examining how small loans, some with a saving component, can increase the business of banks that reach out to underserved communities and develop new customers for mainstream banking services. In one bank, for example, the saving component Less than 3 percent of the benefits from federal asset-building programs went to the bottom 60 percent of income households. The top 20 percent received nearly 90 percent of the benefits. is such that 10 percent of the loan is added to the principal and deposited in a savings account (Burhouse, Miller, and Sampson 2008). For banks participating in the pilot, the average loan amount was $667 with an interest rate of 17.1 percent (Bradley, Burhouse, and Gratton 2009). Some of these small loan customers are migrating to other products, which contributes to profitable relationships over the long term. Rebecca Blank's 2008 article in this publication highlights ways to promote low-income households' use of banks.

Incentivize Savings for Low-Income Families

Incentivized savings (first proposed by Sherraden 1991) can help low-income families get a toehold in the financial world and increase financial literacy. Incentivized savings accounts—such as children's savings accounts and IDAs—could bank low-income families who would not otherwise have accounts, enhance financial literacy, and encourage asset building.

Children's accounts are subsidized savings accounts given to children at birth, typically with an initial deposit from the government, and with a government match on funds saved by low-income families. Children's accounts have been proposed in the United States and implemented in the United Kingdom, Singapore, and South Korea. Legislation to create children's accounts in the United States was introduced in the last three sessions of Congress, and given current political support, legislation is expected to be introduced in the current session (the 111th Congress).[7] Such matched savings may be an important way to redirect some of the substantial savings-promoting tax subsidies that currently go mostly to high-income families.

Full disclosures, along with licensing, reporting, and examination requirements, could enhance the image of the small loan industry and attract new entrants.

How can the benefits of incentivized savings accounts be extended beyond families with newborn children, and what is the best way to scale up current IDA programs? We recommend matching federal earned income tax credit (EITC) dollars that are deposited into longer-term savings accounts or used to buy U.S. savings bonds.[8] In this proposal, the federal government match would go directly

into the same longer-term savings product as the initial deposit and could not take the form of a higher tax refund that could be spent. Legislation to create such a Federal match was introduced in the 110th Congress (Saver's Bonus Act) and is likely to be introduced in the 111th Congress. The EITC refund provides an important opportunity for low-income families to save. As a refundable income tax credit, it both reduces a person's tax liability and allows refunds larger than the income tax liability. Expanding incentivized savings accounts through universal children's accounts and a matched EITC refund would bring the benefits of these accounts to more low-income families and reduce the cost of the accounts.

Research suggests that car ownership may lead to increased employment and earnings.

Support Car Ownership

Access to a reliable automobile can be important for obtaining and retaining employment, as many employers are located outside city centers where public transportation may be either difficult to access or simply unavailable. Indeed, two-thirds of new jobs are located in the suburbs (Waller 2005a). Although most low-income families (75 percent) own a car, many do not. Cars can make it easier for low-income families to cope with emergencies, access more employers (to, say, fill out more applications), consider employers not located near public transportation, and work late-night shifts. Research suggests that car ownership may lead to increased employment and earnings (Lucas and Nicholson 2003 and Ong 2002 as cited in Waller 2005b). While access to a reliable vehicle may improve a families' economic situation and prospects, new cars quickly depreciate and older cars can be costly to maintain. Once a family owns the car, costs such as gas, insurance, and repairs could put strain on a family's finances. However, given the difficulties low-income families can have with transportation to a job, the benefits can far outweigh the costs.

Many low-income families consider a car a necessity not only to get to work but to go to medical appointments or to buy groceries. Some turn to subprime auto loans to finance a purchase. These loans can have annual interest rates of 25 percent to 30 percent, and more than half of borrowers default (Adams, Einav, and Levin 2007). Providing low-income families with less burdensome auto-financing alternatives and helping them avoid the subprime loan market can lead to better credit scores and increase the likelihood that low-income families become integrated into the formal financial sector.

We recommend two proposals to support car ownership: (1) allowing IDAs and other incentivized accounts to be used for vehicle purchase and upkeep and (2) setting up a national grants program to help low-income families purchase and maintain vehicles. IDA programs funded through the Assets for Independence Act support long-term asset development, such as homeownership, business start-ups, and higher education. But in today's economy and work environment, vehicle ownership and maintenance belong on this list too. The proposed national grants program would provide federal funds to create or enlarge car-ownership programs designed to help low-income families (below 200 percent of the poverty line) purchase and repair cars. In the 110th Congress, the House of Representatives introduced a bill (Creating Access to Rides Act) that includes similar provisions. Corresponding legislation has not been introduced in the current session of Congress. These proposals can be implemented separately or together, and both channel benefits directly to low-income families, instead of spreading them out across families in all income brackets.

Incentivize and Protect Homeownership

Make Homeownership Tax Subsidies More Progressive

Federal spending on homeownership programs was $110.7 billion in 2008, and most was in the form of tax subsidies (Joint Committee on Taxation 2008). These homeownership subsidies have traditionally gone to high-income families. In 2005, roughly 60 percent of the two largest homeownership expenditures—the mortgage interest deduction and deductions for property taxes—went to households in the top 10 percent by income, while the bottom 50 percent of households got less than 3 percent (Woo and Buchholz 2007).

The mortgage interest deduction is by far the largest single component of homeownership expenditures, comprising about 60 percent of federal spending on homeownership subsidies ($67 billion in 2008). Interest paid on mortgages up to $1 million can be deducted from taxable income, if tax filers itemize their deductions. This tax benefit has been found to have little effect on homeownership

rates but to lead to the purchase of bigger and more expensive homes, in part because it subsidizes debt, not assets (Gale, Gruber, and Stephens-Davidowitz 2007). Low- and moderate-income families benefit less from the mortgage interest deduction because they tend to purchase less expensive homes and are less likely to itemize their deductions (Carasso 2005).

Owning a home is often considered the "American dream," and monthly mortgage payments are a key way families build home equity and increase their wealth. A newly created benefit —a *refundable* tax credit up to $8,000 for first-time homebuyers— is helping families with homeownership. Although originally only available in the calendar year 2009, as of this writing, Congress is poised to extend it to April 30, 2010.[9] Making the mortgage interest deduction more progressive could also promote homeownership among low- and moderate-income families. However, any restructuring must carefully consider the economic consequences on the real estate market (e.g., housing prices) and the ability of current homeowners to meet their payments. There are clear tensions in any proposal that redirects homeownership subsidies away from upper-income families toward low- and moderate-income families, and any redirection should be phased in over time.

Increase Oversight of Nonbank Lenders

Low- and moderate-income families trying to buy homes need better protections than they now receive. These families typically pose greater credit risks than higher-income families do (for example, because of less stable employment) and so are more likely to finance their home mortgages outside of banks. The alternative lenders that they use originated most of the subprime loans but received less federal oversight and supervision than banks (e.g., no bank examinations)—perhaps one reason the current credit crisis originated in the subprime market. To protect families using alternative lenders, we recommend that alternative "nonbank" lenders be required to follow the same regulations as banks do and submit to regular examinations. The Obama administration's recently proposed Consumer Financial Protection Agency and other proposals to strengthen current consumer protection oversight aim to provide more uniform regulation and enforcement, particularly as it applies to products that low- and moderate-income families are more likely to purchase.

Promote Retirement Savings through Automatic Individual Retirement Accounts (IRAs)

Nearly half of U.S. workers do not have an employer-sponsored savings plans, such as 401(k) plans. Employer-sponsored savings plans provide a mechanism that allows workers to easily save for retirement. Without such plans, workers may find it harder to maneuver the system (say, figure out how to open an individual retirement account). Easy access to a retirement savings plan could help workers save for retirement. This is particularly relevant for low-wage workers because they are less likely than higher-wage workers to have an employer-sponsored retirement plan.

Automatic enrollment in IRAs could help low-wage workers increase their savings for retirement and improve their credit scores.

We recommend that the federal government enact legislation to create automatic IRAs. Automatic IRAs, which are included in the president's 2010 budget and were previously introduced in Congress, could greatly help low-wage workers save for retirement.[10] With this program, employers that do not offer an employer-provided savings plan would use their payroll system to automatically deposit a portion of employees' earnings into an IRA. Any employee who did not want to participate in the program would have to take steps to opt out. This is an important design feature, as automatic enrollment in 401(k) programs has been found to substantially increase 401(k) participation (Choi et al. 2004; Madrian and Shea 2006).

Research suggests that after 30 years of contributing 3 percent of earnings to one of these accounts, a low-income person might have $20,000 dollars for retirement (Schmitt and Xanthopoulos 2007). Additional benefits include improved credit scores and better odds of qualifying for a loan (e.g., a car loan or home mortgage). Although designed for other purposes, these accounts could also help low-income families weather emergencies. While there is a 10-percent penalty on early withdrawals from IRAs, and early withdrawals should be discouraged,

these accounts could provide a necessary cushion in an economic crisis. There are, however, potential drawbacks. A low-income family might increase its credit card debt to purchase necessities while saving in an IRA—a net loss given high interest rates on credit card debt. On balance, however, automatic IRAs have promise to improve the asset position, credit scores, and long-term economic well-being of low-income families.

Conclusion

These proposed policies aimed at asset building have both short-term and long-term benefits. The policies that focus on weathering emergencies (such as those for small loans and automobiles) help tide families over when they need a short-term loan to pay for an unexpected medical bill or car repair, but also help families in the long run by improving financial security, improving credit history, moving families into the mainstream financial market, and improving long-term job stability and success. The policies designed to promote longer-term financial security—mainly through homeownership and retirement savings—could be springboards into the middle class and better child outcomes. In addition, these assets provide low-income families with additional options to borrow in emergencies—whether from home equity lines of credit, from retirement funds or from lenders who prefer the good credit ratings that are associated with assets. By focusing on both families' short-term needs and long-term development, these policies could improve low-income families' immediate prospects and long-term well-being.

By focusing on both families' short-term needs and long-term development, these policies could improve low-income families' immediate prospects and long-term well-being.

Signe-Mary McKernan *and* **Caroline Ratcliffe** *are senior research associates and economists at the Urban Institute.*

Sources

Adams, William, Liran Einav, and Jonathan D. Levin. 2007. "Liquidity Constraints and Imperfect Information in Subprime Lending." *Working Paper 13067*. Cambridge, MA: National Bureau of Economic Research.

Barr, Michael. 2009. "Opening Statement – As Prepared for Delivery House Committee on Energy and Commerce Subcommittee on Commerce, Trade, and Consumer Protection." *U.S. Department of Treasury Press Release,* July 8. http://financialstability.gov/latest/tg_sp07072009.html

Blank, Rebecca M. "Promoting Banking Services among Low-Income Customers." *New England Community Developments*. Federal Reserve Bank of Boston. 2008, Issue 3.

Boshara, Ray, Reid Cramer, and Rourke O'Brien. 2007. "The Asset Agenda 2007: Policy Options to Promote Savings and Asset Ownership by Low- and Moderate-Income Americans." Washington, DC: New America Foundation.

Boshara, Ray, Reid Cramer, Leslie Parrish, and Anne Stuhldreher. 2006. "The Asset Agenda 2006: Policy Options to Broaden Savings and Asset Ownership by Low- and Moderate-Income Americans." Washington, DC: New America Foundation.

Bradley, Christine, Susan Burhouse, and Heather Gratton. 2009. "Alternative Financial Services: A Primer." *FDIC Quarterly* 3(1). http://www.fdic.gov/bank/analytical/quarterly/2009_vol3_1/AltFinServicesprimer.html

Burhouse, Susan, Rae-Ann Miller, and Aileen G. Sampson. 2008. "An Introduction to the FDIC's Small-Dollar Loan Pilot Program." *FDIC Quarterly* 2(3): 23-30.

Caner, Asena, and Edward N. Wolff. 2004. "Asset Poverty in the United States, 1984–99: Evidence from the Panel Study of Income Dynamics." *Review of Income and Wealth* 50(4): 493–518.

Carasso, Adam. 2005. "Who Receives Homeownership Tax Deductions and How Much?" *Tax Notes* (August 1): 591.

Choi, James J., David Laibson, Brigitte C. Madrian, and Andrew Metrick. 2004. "For Better or For Worse: Default Effects and 401(k) Savings Behavior." In *Perspectives in the Economics of Aging*, edited by David Wise (81–126). Chicago, IL: University of Chicago Press.

Gale, William G., Jonathan Gruber, and Seth Stephens-Davidowitz. 2007. "Encouraging Homeownership through the Tax Code." *Tax Notes* (June 18): 1171–89.

Gramlich, Edward M. 2007. *Subprime Mortgages, America's Latest Boom and Bust*. Washington, DC: Urban Institute Press.

Joint Committee on Taxation. 2008. Prepared for the House Committee on Ways and Means and the Senate Committee on Finance. *Estimates of Federal Tax Expenditures for Fiscal Years* 2008-2012. Oct. 31. http://www.jct.gov/s-2-08.pdf.

Lacko, James M., and Janis K. Pappalardo. 2007. "Improving Consumer Mortgage Disclosures." *Bureau of Economics staff report.* Washington, DC: Federal Trade Commission.

Lerman, Robert, and Signe-Mary McKernan. 2008. "Benefits and Consequences of Holding Assets." In *Asset Building and Low-Income Families*, edited by Signe-Mary McKernan and Michael Sherraden. Washington, DC: Urban Institute Press.

Madrian, Brigitte C., and Dennis F. Shea. 2006. "The Power of Suggestion: Inertia in 401(k) Participation and Savings Behavior." *The Quarterly Journal of Economics* 116(4): 1149–87.

McKernan, Signe-Mary, James M. Lacko, and Manoj Hastak. 2003. "Empirical Evidence on the Determinants of Rent-to-Own Use and Purchase Behavior." *Economic Development Quart*erly 17(1): 33–52.

McKernan, Signe-Mary, Caroline Ratcliffe, and Yunju Nam. 2007. "The Effects of Welfare and IDA Program Rules on the Asset Holdings of Low-Income Families." A Report in the Series *Poor Finances: Assets and Low-Income Households*. Washington, DC: The Urban Institute. http://www.urban.org/UploadedPDF/411558_ida_program.pdf.

Mills, Gregory, William G. Gale, Rhiannon Patterson, and Emil Apostolov. 2006. *What Do Individual Development Accounts Do? Evidence from a Controlled Experiment*. Washington, DC: The Brookings Institution.

Mills, Gregory, William G. Gale, Rhiannon Patterson, Gary V. Engelhardt, Michael D. Eriksen, and Emil Apostolov. 2008. "Affects of Individual Development Accounts on Asset Purchases and Savings Behavior: Evidence from a Controlled Experiment." *Journal of Public Economics* 92(5–6): 1509–30.

Mills, Gregory, Ken Lam, Donna DeMarco, Christopher Rodger, and Bulbul Kaul. 2008. *Assets for Independence Act Evaluation, Impact Study Final Report*. Cambridge, MA: Abt Associates.

Moore, Amanda. Sondra Beverly, Mark Schreiner, Michael Sherraden, Margaret Lombe, Esther Y. N. Cho, Lissa Johnson, and Rebecca Voncerlack. 2001. *Saving, IDA Programs, and Effects of IDAs: A Survey of Participants*. St. Louis, MO: Washington University in St. Louis, Center for Social Development.

Nam, Yunju, Jin Huang, and Michael Sherraden. 2008. "Asset Definitions." In *Asset Building and Low-Income Families*, edited by Signe-Mary McKernan and Michael Sherraden. Washington, DC: Urban Institute Press.

New America Foundation. 2007. "The America Saving for Personal Investment, Retirement, and Education Act ('The ASPIRE Act of 2007'): Summary of the Proposed Bill." Washington, DC: New America Foundation Asset Building Program.

O'Brien, Rourke. 2008. "Ineligible to Save? Asset Limits and the Savings Behavior of Welfare Recipients." *Journal of Community Practice* 16(2).

Schmitt, Mary M., and Judy Xanthopoulos. 2007. "Automatic IRAs: Are They Administratively Feasible, What Are the Costs to Employers and the Federal Government, and Will They Increase Retirement Savings?" Washington, DC: AARP.

Schreiner, Mark, and Michael Sherraden. 2007a. *Can the Poor Save? Saving and Asset Building in Individual Development Accounts*. New Brunswick, NJ: Transaction Publishers.

———. 2007b. *Detecting Effects on Net Worth Is Nettlesome Work: Evidence from a Randomized Experiment with Individual Development Accounts in Tulsa*. Washington, D.C.: Association for Public Policy Analysis and Management.

Sherraden, Michael. 1991. *Assets and the Poor*. New York: M.E. Sharpe, Inc.

Stegman, Michael, and Robert Faris. 2005. "Welfare, Work, and Banking: The Use of Consumer Credit by Current and Former TANF Recipients in Charlotte, North Carolina." *Journal of Urban Affairs* 27(4): 379–402.

Vroman, Wayne. 2007. "Strengthening Unemployment Insurance. A Critique of Individual Accounts and Wage-Loss Insurance." *Briefing Paper #202*. Washington, DC: The Economic Policy Institute.

Waller, Margy. 2005a. "Auto-Mobility: Subsidizing America's Commute Would Reward Work, Boost the Economy, and Transform Lives." *Washington Monthly*, October/November.

———. 2005b. "High Cost or High Opportunity Cost? Transportation and Family Economic Success." *Center on Children and Families Policy Brief 35*. Washington, DC: The Brookings Institution.

Woo, Lillian, and David Buchholz. 2007. "Subsidies for Assets: A New Look at the Federal Budget." Washington, DC: CFED.

Endnotes

This research was funded by the Annie E. Casey Foundation and builds on *Enabling Families to Weather Emergencies and Develop: The Role of Assets*, which was funded by the Charles Stewart Mott Foundation and the Annie E. Casey Foundation. We thank them for their support but acknowledge that the findings and conclusions presented are those of the authors alone, and do not necessarily reflect the opinions of these foundations, the Urban Institute, its board of trustees, or its sponsors. We also thank Katie Vinopal for excellent research assistance.

1 Unless otherwise noted, the data presented in this section capture assets held in 2007 and are based on the authors' tabulations of the 2007 Survey of Consumer Finances (SCF). The numbers reported are for families in the bottom two income quintiles (income less than $36,500), which is roughly equal to families with income below 200 percent of the federal poverty threshold for a family of three ($34,340).

2 U.S. Census Bureau, Current Population Survey/Housing Vacancy Survey, Series H-111 Reports, Table 14, Bureau of the Census, Washington, DC 20233. http://www.census.gov/hhes/www/housing/hvs/historic/files/histtab14.xls.

3 See O'Brien (2008) for a qualitative analysis of asset limits and welfare recipients' savings behavior.

4 Urban Institute tabulations of families earning less than $30,000 from the Making Connections Survey. The Making Connections Cross-Site Survey is a product of the Annie E. Casey Foundation. For more information, see Making Connections Cross-Site Survey: Focus on Household Assets and Debts at: http://www.aecf.org/~/media/PublicationFiles/Assets%20and%20Debts%2W1%20%20Ferryman%200805.pdf.

5 Research suggests that disclosure laws can improve outcomes. McKernan, Lacko, and Hastak (2003) find that disclosing the total cost of rent-to-own transactions makes consumers less likely to purchase through rent-to-own, and Lacko and Pappalardo (2007) demonstrate that disclosures can significantly improve consumer understanding of loan terms.

6 The Federal Deposit Insurance Corporation (FDIC) provides guidelines for payday lending examination requirements. See FDIC, "Guidelines for Payday Lending," http://www.fdic.gov/news/news/financial/2005/fil1405a.html.

7 For more information on this legislation see the America Saving for Personal Investment, Retirement, and Education Act (ASPIRE Act) and its summary by the New America Foundation (2007).

8 The New America Foundation formally proposed an EITC savers bonus in 2006 (Boshara et al. 2006; Boshara, Cramer, and O'Brien 2007).

9 The first-time home buyer tax credit is included in the American Recovery and Reinvestment Act of 2009.

10 Automatic IRAs were first proposed by Mark Iwry (Retirement Security Project) and David John (Heritage Foundation).