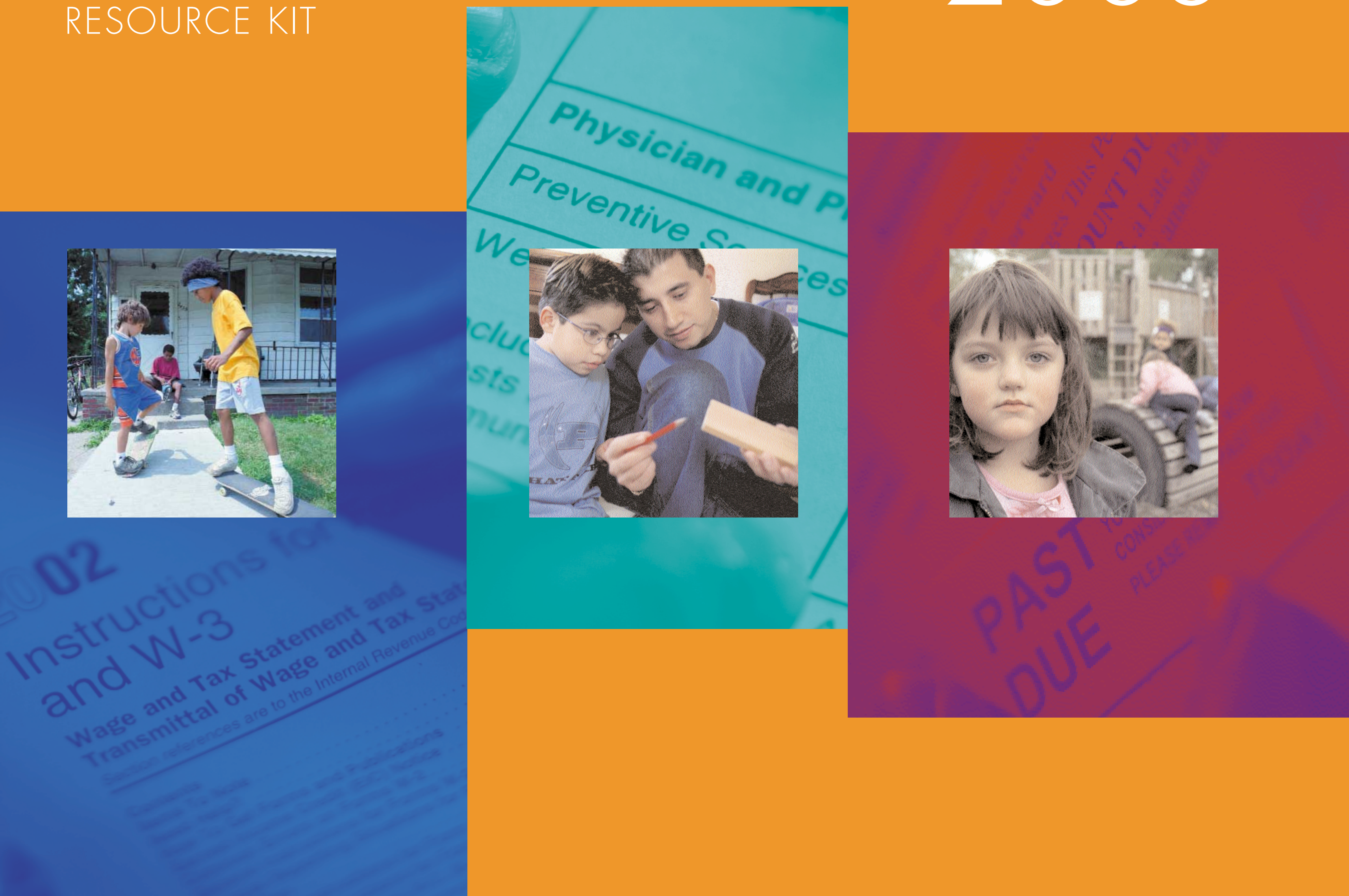
# 2003

RESOURCE KIT

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## COUNTERING THE COSTS OF BEING POOR

The Annie E. Casey Foundation

## Problem Statement

**Low-income working families are increasingly disconnected from "mainstream" financial services that are affordable and appropriate. Today, many working families take care of their financial business (paying bills, cashing checks, wiring money) through alternative financial services providers such as check-cashing outlets, payday lenders, pawn shops, and money transfer offices. When they need tax preparation, they turn to large national tax preparation chains. For small, short-term loans, they visit payday lenders. For debt reduction and credit clean up, they look to companies that flood the media with promises to alleviate consumer debt, but utilize questionable tactics. In almost all cases, the prices that low-income families pay to access financial products and services are higher than they would pay if they had access to better information, if they had a credit history or a higher credit rating, or if they were living in a higher-income neighborhood with access to a wider range of financial institutions.**

While reliance on financial services providers that specialize in transactional services such as check cashing, money wiring, and short-term loans may fill an important gap, it does not allow a consumer to make deposits or establish long-term relationships with a financial institution. These relationships enable saving and, eventually, wealth building. Even worse, the way in which many of the products sold by some of the "predatory" financial services providers are designed can significantly increase the likelihood of borrower failure and increased debt.

## Strategies

### 1. Protect Consumers From Wealth-Stripping and Predatory Financial Practices

Predatory mortgage lending, refund anticipation loans, and payday loans are variations on the same theme: All strip income and assets from low-income and, often, financially unsophisticated consumers. These activities are not going unnoticed by advocates for low-income families. Policy and law surrounding these practices is complex and varies from state to state. However, coalitions to protect low-income consumers from predatory financial practices are being created in cities and states across the country to prevent further stripping of income and wealth.

- **Example: The Center for Responsible Lending** The Center for Responsible Lending (CRL) of North Carolina comprises more than 80 groups and individuals, including CEOs of financial institutions, housing and community development organizations, consumer protection groups, and religious organizations, and is dedicated to the principles of fair lending. This group successfully mobilized support around the landmark 1999 North Carolina predatory lending bill that has saved consumers an estimated $100 million in unnecessary loan costs since its passage. The CRL is building on its membership base to address the problem of payday lending in the state and has since signed up 71 of its members to join a campaign to reform payday lending.
- **Example: New York State Anti-Predatory-Lending Law** In New York State, a broad coalition of city and statewide agencies and organizations mobilized to pass an anti-predatory-lending law in 2002. Nearly 100 organizations including AARP, Buffalo Urban League, League of Women Voters, Association of Community Organizations for Reform Now (ACORN), Neighborhood Economic Development Assistance Project (NEDAP), New York Public Interest Research Group, Public Interest Law Office of Rochester, and South Brooklyn Legal Services participated in this effort. Governor Pataki signed this bill into law one month before his successful reelection. The law went into effect in April 2003.

#### Policy Recommendations

- Support the development of federal legislation that will protect consumers from predatory mortgage practices, but still allow for stronger state laws that protect working families from predatory lending.
- Support the development of state legislation that will protect consumers from abuses arising from payday lending practices.
- Limit city business with predatory lenders.

- **Increasing Financial Opportunity**
- Reducing Costs of Living
- Accessing Public Benefits
- Making Work Pay
- Increasing Affordable Housing

Prohibit the city from doing business with institutions that engage, directly or indirectly, in predatory lending practices.

- Support the development of federal legislation that protects consumers from abusive practices in debt management planning and counseling. Again, this legislation should allow states to go further with consumer protection if they wish.
- Require consumer financial counseling and education for persons seeking subprime loans.
- Support free or low-cost tax preparation services to provide consumers with an alternative to high-cost preparers.
- Create state legislation to regulate tax preparers and reform refund anticipation loans.
- Make online filing for state taxes free and easy.

### 2. Increase Access to Affordable and Suitable Credit

Many working families need to establish a credit history or improve their credit rating; many also need to remove their names from the "CHEX System's" database, a database widely used by banks and credit unions to identify consumers with a negative account history (for example, a history of unaddressed overdrafts). Being on the CHEX System generally will prevent individuals from establishing a checking account, thereby increasing their reliance on alternative financial services providers.

Different strategies are required to assist working families in establishing a credit rating and cleaning up their relationships with creditors and financial institutions. Organizations like Consumer Credit Counseling can help working families consolidate and reduce their debt. The Get Checking program provides people who are on the CHEX System's database with an opportunity to reconnect with formal financial institutions. Homeownership counselors can help working families deal with debt and establish credit so that they can eventually own a home. Because unpaid medical bills represent such a significant portion of consumer debt for low-income families, initiatives to provide access to affordable health care are also a priority.

- **Example: Credit When Credit Is Due** New strategies, such as Credit When Credit Is Due, provide families with money management skills. Consumers who successfully complete the course are certified as graduates of a national standardized credit education program and receive positive letters that can be added to their credit reports.
- **Example: Delaware Governor's Task Force** In Delaware, Governor Miner created the Governor's Task Force for Financial Independence, comprising 29 business, government, and community leaders, to identify and implement public policies to help low- and moderate-income individuals build assets and achieve long-term economic stability. Among the task force's 15 recommendations were including financial literacy in meetings with Temporary Assistance for Needy Families (TANF) clients and making financial literacy an allowable work activity for clients. The Task Force also recommended providing state support for mainstream and nonprofit alternatives to high-cost fringe banking services.

**Policy Recommendations**

- Create state funding streams to support working families in their efforts to clean up their credit and successfully manage their overall debt load (not just consumer debt).
- Encourage greater state support for programs designed to increase working families' access to affordable health care to help them reduce high levels of medical debt.

### 3. Connect Families to Mainstream Financial Services

The provision of financial products and services in a profitable but reasonable manner to underserved markets will require innovation, partnerships, and the appropriate use of technology. A number of large financial institutions already have found attractive markets among the growing immigrant population. Community banks and community credit unions are forging partnerships with nonprofit groups and churches to design programs and services that appropriately serve new customers. Some financial institutions are creating partnerships with the check-cashing industry to build on these companies' established relationships and presence among the low-income customer base.

- **Examples: Bon Secours Foundation and Union Bank of California** The Bon Secours Foundation of Baltimore, with the support of the Federal Deposit Insurance Corporation, is responsible for bringing together a large credit union, a check-cashing outlet, and a community organizing effort to provide low-cost financial services—including opportunities to save—to residents through a new institution called "Our Money Place." Another innovative partnership is being implemented by Union Bank of California, together with Operation Hope and Nix Check Cashing. It provides low-cost financial services, with depository options, to residents of Central Los Angeles.

**Policy Recommendations**

- Continue funding for programs such as First Accounts, managed by the U.S. Department of the Treasury. This program provides resources to financial institutions working in partnership with community-based agencies to reduce the number of "unbanked" consumers—people living without sustained connections to the mainstream financial system.
- Enact reforms relating to the Service Test under the Community Reinvestment Act to eliminate "grade inflation" and make it more performance based.
- Increase funding to the Treasury Department's Community Development Financial Institutions (CDFIs) Fund, specifically, for community development banks and community development credit unions to provide retail financial services to underserved markets.
- Create state CDFI legislation. Follow the example of Illinois and its state program to create new CDFIs, attract more public/private partnerships in community development, and provide state funds to match federal CDFI funds.
- Improve electronic benefits transfer programs at the state level to promote sustained connections between public benefits recipients and low-cost bank accounts.

**4. Develop Customized Financial Literacy Programs and Link to Appropriate Products**

More financial education alone is simply not

### For More Information

**AARP** Use the search word "predatory" to access information on predatory mortgage lending practices that target seniors. **www.aarp.org**

**ACORN (Association of Community Organizations for Reform Now)** This site contains information about ACORN's housing counseling program. **www.acorn.org**

**Center for Responsible Lending** This site has information about predatory lending legislation. **www.responsiblelending.org**

**Citizens for Community Improvement (CCI)** Iowa CCI has information on the Community Reinvestment Act and efforts to control predatory lending. **www.iowacci.org**

**Community Action Program (CAP) of Tulsa County** CAP of Tulsa County is a service provider and resource for the development and implementation of legislation that will support the objective of eradicating poverty. **www.captc.org**

**Community Development Financial Institutions (CDFIs) Fund** CDFI application forms, certification process, and list of awardees are available on this site. **www.cdfifund.gov**

**Consumer Federation of America (CFA)** CFA has advocated policies and programs that help ensure a marketplace with vigorous competition, products that are useful and safe, marketing that is truthful and informative, and adequate consumer redress. **www.consumerfed.org**

**Credit When Credit Is Due** This website contains information on the Credit When Credit Is Due course, including ordering information. **www.ncfe.org/#credit**

**Fannie Mae Foundation** This site contains resources on affordable housing and counseling. **www.fanniemaefoundation.org**

**First Accounts** A brief description of the First Accounts program and list of awardees is on this site. **www.ustreas.gov/firstaccounts**

**Get Checking Program** These sites describe the program and provide contact information. **www1.uwex.edu/news/story.cfm/492**

**www.cccssdic.org/cccs_programs/get_checking/get_checking.htm.**

**Individual Development Accounts (IDAs)** The Corporation for Enterprise Development website has the most current information and resources on IDAs and links to the IDA network. **www.cfed.org**

**Institute for Socio-Financial Studies** This site contains research papers on financial literacy education, health-care financing, the finances of aging, employee workplace financial education, and American Dream studies. **www.isfs.org**

**National Consumer Law Center** This site provides descriptions of payday loans and the policy around this issue, as well as the rights of the consumer. **www.nclc.org**

**National Endowment for Financial Education (NEFE)** NEFE is a nonprofit organization dedicated to helping all Americans acquire the information and gain the skills necessary to take control of their personal finances. **www.nefe.org**

**National Foundation for Credit Counseling** This site contains consumer debt advice, standards for quality credit counseling, education for financial wellness, and a searchable database of creditors and affiliates. **www.nfcc.org**

**Neighborhood Economic Development Advocacy Project (NEDAP)** This site describes NEDAP's services in New York City, such as developing strategies to combat bank redlining and promote investment in community development initiatives. **www.nedap.org**

**Woodstock Institute** This website contains information on financial services policies such as the Community Reinvestment Act and predatory lending and payday lending legislation, as well as other aspects of financial services for underserved populations. **www.woodstockinst.org**

enough. Financial education must be designed to take into consideration the "real-life" situations and challenges of a wide range of consumers with a variety of financial preferences. Financial education also is most useful when coupled with products and services that can allow working families to use their newly acquired knowledge in ways that are financially productive. Organizations as diverse as family resource centers, employers, churches, credit unions, banks, and nonprofit organizations currently are providing working families access with this new version of higher quality, relevant financial education, connected to attractive and suitable products and services.

- **Example: Indianapolis Neighborhood Housing Partnership** In conjunction with its homebuying programs and low interest mortgage pool, INHP has created pre- and post-purchase housing counseling for low-income families. Families looking to purchase a home start with training classes and one on one counseling to identify barriers to home ownership, such as judgments or late payments. The classes include instruction on budgeting, improving credit ratings and savings. Once the pre-purchase counseling is completed, INHP matches families with lender partners and loan programs that best fit their situation. INHP refers qualified customers to partner banks and mortgage companies, but also manages a multi-bank loan pool of more than $21 million in lendable proceeds for clients deemed "unbankable." Post-purchase counseling is also available for families who may need support in maintaining homeownership.
- **Example: United Parcel Service (UPS)** United Parcel Service (UPS) has been recognized as a leading example of how to incorporate financial literacy into the workplace for the benefit of employees. In January 2000, UPS launched a financial education program, with 42,000 full-time managers, specialists, and nonunion administrative employees considered eligible for participation. The program will deliver more than 1,500 workshops over a period of two years, and employees will be allowed to attend on company time. The current goals of the program are to improve 401(k) participation, improve the Employee Relations Index, and promote UPS as a good employer. The main focus of the program content is on education related to company benefits and basic personal finance fundamentals.

**Policy Recommendations**

- Support tax credits to financial institutions to provide Individual Development Accounts (IDAs) and financial education to working families.
- Expand state funding for existing IDA initiatives, which typically combine financial education with savings. Many states have created IDA legislation and support the legislation with appropriate funding. In addition, North Carolina and Oklahoma allow the use of Community Development Block Grant (CDBG) resources to fund IDA programs. Michigan allows the use of TANF funds to support IDA programs; and Indiana provides tax credits to companies, financial institutions, or corporations that support IDA programs.
- Create innovative asset-building legislation. Washington's Economic Opportunity Institute built support throughout the state for a new program called Washington Voluntary Accounts. This program would (1) make voluntary, portable pensions available to all workers in the state; (2) allow workers to make tax-deferred contributions to an IRA or a 401(k)-style retirement account, through a new plan administered by the Washington State Department of Retirement Systems; and (3) provide an easy and inexpensive mechanism for small businesses to offer the benefit of a pension plan to workers.

*The policy recommendations, programs, and resources identified in this guide are intended to contribute to policy deliberation and are not a comprehensive list.*

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# REDUCING COSTS OF LIVING

## Strategies to Improve Affordability in Economically Isolated Neighborhoods



### Problem Statement

**Low-income families living in economically isolated rural and urban communities often face higher costs of living based on where they live and have fewer choices of where to spend limited resources. For these families, the place-based cost disparities are striking. Such families pay higher prices for often-inferior basic goods and services than their suburban counterparts. Lacking mobility and disposable income, low-income inner-city and rural families often are captive consumers who are exploited in three key areas:**

- Retail: Large grocery and apparel retail chains historically have ignored inner-city consumer markets because of incorrect perceptions about income, population, and demographics. Neighborhood-based consumer dollars are relegated to the few, usually small, local retail establishments that offer a narrow selection of higher priced goods.
- Insurance: Some insurance companies practice "territorial rating," or "redlining," which means that low-income inner-city families must pay higher insurance rates based on where they live, rather than on their claims experience. Compulsory automobile liability insurance laws force many low-income families to choose between breaking the law or getting to work.
- Utilities: Utilities impose a disproportionate burden on low-income families. Rapidly increasing energy costs, coupled with the fact that many low-income families also live in energy-inefficient housing, force many low-income families to make difficult choices, for instance, between buying food and paying utility bills.

### Strategies

#### 1. Inner-City Retail: Increase Neighborhood Choices for Goods and Services

Despite their lower household incomes, inner-city areas concentrate more buying power into a square mile than do many affluent suburbs. Mainstream retailers acknowledge their widespread perception that inner-city neighborhoods lack the purchasing power and consumer concentration they need to do business. They also acknowledge the facts that their traditional suburban markets are becoming saturated and that they have a desperate need to find new locations for market expansion. Unfortunately, the trade area formulas and real estate equations used by large retail developers do not account for the unique opportunities and challenges of doing business in the inner city. A key strategy to attract prospective retailers to inner-city neighborhoods is to encourage cooperation between retailers and community-based organizations and use new urban trade area analysis tools to market efficiently the unique characteristics of highly profitable, densely populated communities.

- **Example: Attracting a Major Grocery Chain to Inner-City New Haven** New Haven provides a striking contrast between wealth and economic distress. In 1994, community activists formed the Greater Dwight Development Corporation (GDDC) to improve the economic and social well-being of low-income residents of three New Haven neighborhoods: Dwight, Edgewood, and West River. That same year, a Yale University School of Management study estimated that $150 million of New Haven's annual food consumption dollars were being exported to the suburbs, where food prices were 10 percent to 20 percent lower. For 20 years, the communities had been without a full-service supermarket; most inner-city residents left the city to do their grocery shopping. The Yale study identified the level of unmet consumer demand and formed the cornerstone for the GDDC's plan to market a 6.2-acre parcel of land that it had assembled, with the assistance of The Retail Initiative (TRI), to prospective large grocery chains.

  A market research team at Shaw's Supermarkets considered the Greater Dwight location "a bull's-eye." Particularly appealing was the absence of competition (no supermarkets within 2 miles) and the "captive" customer base (only 20 percent of the residents owned cars), estimating weekly trade area sales at 1 mile = $1 million and 2 miles = $3 million. The GDDC's leadership and the community's commitment to making a new store work also impressed Shaw's. In 1995, Shaw's Supermarkets signed a

20-year guaranteed lease on a proposed 55,000-square-foot store, which would later become the Whalley Avenue Shopping Plaza. Shaw's and New Haven's success can be credited to a productive business–community partnership, the engagement of a retailer interested in urban expansion, and valuable inner-city-specific market research.[1]

**Policy Recommendations**

- Provide incentives to encourage retailers to locate and remain in economically isolated communities, through initiatives such as The Main Street Program.
- Support legislation that removes barriers to urban land assembly, project financing, and local merchant support.
- Expand state legislation to address regulatory and legal issues that make it difficult to redevelop inner-city brownfield sites.
- Support efforts to map neighborhood assets accurately—land, trade area buying power, and workforce.
- Support Smart Growth initiatives that advocate business location tax incentives in inner cities, leveling the playing field between neighborhoods and suburban economic development authorities.
- Support efforts to enhance the business and commercial development skills of community development corporations.
- Encourage partnerships between community development corporations and private retailers/developers.

### 2. Insurance: Require Community Reinvestment

Unlike the banking industry, the insurance industry is regulated only at the state level, complicating the information gathering and oversight efforts of low-income community advocates. While redlining is prohibited in most states, insurance companies are legally allowed to use risk-based pricing which may discourage policy provision in many inner-city neighborhoods. In addition to mandatory auto insurance, low-income people also purchase substantial amounts of life and credit insurance. A key strategy to overcoming the obstacles of redlining, risk-based pricing and discrimination is to encourage the insurance industry to invest in underserved markets through mechanisms like the Community Reinvestment Act for banks. For this strategy to succeed, however, low-income community advocates need good, comparable public data; a reinvestment mandate; and a mechanism for holding institutions accountable for their performance.

- **Example: Encouraging Insurers to Reinvest in Massachusetts Communities** In 1989, a coalition of community groups in Massachusetts launched an effort to increase investments in low-income and minority communities by the banking and insurance industries. The coalition sent a formal, detailed Community Investment Plan to the state's 20 leading banks and seven leading insurance companies. When the insurance industry refused to participate, advocates proposed legislation (similar to the Community Reinvestment Act) to the Massachusetts legislature that included key data disclosure provisions and an affirmative obligation to invest in these communities. In 1996, the Massachusetts legislature passed the data disclosure portion of the original bill, which provided advocates with a means of proving industry discrimination against targeted communities. Two years later, the legislature required insurers to invest in low-income communities in exchange for tax relief, the goal of the industry's previous lobbying efforts. The availability of data on where companies are writing homeowners insurance policies allowed the Massachusetts Affordable Housing Alliance to monitor individual insurance company compliance. By the third year of monitoring, 16 of the top 25 insurers had written more business in the underserved areas than in the year before. Since 1998, more than $66 million has been committed to community development efforts by the insurance industry in exchange for permanent tax relief.[2]

**Policy Recommendations**

- Encourage insurance industry investment in underserved areas through increased data disclosure and reinvestment policies.

- Include insurance companies in the CRA program as these companies are acquired by banks. Opportunities for insurance industry accountability are opening up as state-regulated insurance companies become wrapped into broader, regulated financial services holding companies.
- Support more investigation into insurance industry redlining of low-income communities.
- Address the need for comparable public data on insurance company activity. One avenue is through testing and litigation under the Fair Housing Act, which most courts have found does apply to homeowners insurance.

**3. Utilities: Address the High Cost of Utilities**

Home heating and cooling is a high-cost basic necessity that imposes a significant financial burden on low-income households, often expressed in nonpayment of bills or the disconnection of service. It is not uncommon for home heating bills to impose burdens of 20 percent or more on low-income consumers. Electric bills generally impose an additional burden of 10 percent to 15 percent on low-income consumers. Significant portions of low-income consumers' high energy costs are derived from the poor insulation and outdated, energy-inefficient appliances that characterize their homes and rental units. This has become an increasingly critical issue in the era of energy industry restructuring, as related price fluctuations have had a devastating impact on working families in some parts of the country. Low-income families need strategies that make energy-focused renovations possible in their homes; that subsidize their heating and/or cooling bills as necessary; and that enable consumers to aggregate their buying power to encourage ethical suppliers, contractors, and financial institutions to reduce their long-term utility costs through improved home energy efficiency.

- **Examples: Introducing Energy and Water Conservation in Low- and Moderate-Income Communities**

  In Chicago, Commonwealth Edison's (ComEd) Renaissance Illinois program provided grants (around $2,000 per unit) to nonprofit housing developers to include energy-efficiency measures as part of their rehabilitation of multi-

## For More Information

**American Community Survey** ACS provides accurate and up-to-date profiles of America's communities every year. Data users gain access to timely information for planning and evaluating public programs.
**www.census.gov/acs/**

**Campaign for Home Energy Assistance** This Web-based resource includes a white paper on LIHEAP, updated media information, and information on LIHEAP legislation.
**www.liheap.org/**

**Center for Insurance Research (CIR)** CIR is a state-based regulatory campaign focused on national and state issues of insurance and financial services regulation.
**www.essential.org/orgs/cir/**

**The Center for Neighborhood Technology** The center is a national resource for energy and community development.
**www.cnt.org**

**Employment and Training Institute** The Employment and Training Institute, School of Continuing Education, University of Wisconsin–Milwaukee has developed a model for generating purchasing power profiles for inner-city Milwaukee neighborhoods and commercial districts.
**www.uwm.edu/Dept/ETI/**

**The Fair Housing Institute** The institute conducts research and advocacy in the areas of fair housing, fair lending, and insurance redlining.
**www.hadv.org/HADV%20WEBSITE/Fair%20Housing%20Page.htm**

**Inner City Press/Community on the Move, Inc., and Inner City Public Interest Law Center** These groups provide information on insurance industry redlining and pending litigation.
**www.innercitypress.org/insure.html**

**Low-Income Home Energy Assistance Program (LIHEAP)** LIHEAP has an Internet-based clearinghouse of information for state, tribal, and local LIHEAP providers, as well as others interested in low-income energy issues.
**www.ncat.org/liheap/wwa.htm**

**The Main Street Program** Since 1980, the National Main Street Center of the National Trust for Historic Preservation has been working with communities across the nation to revitalize their historic or traditional commercial areas.
**www.mainstreet.org/**

**Massachusetts Affordable Housing Alliance** With partners, MAHA led a campaign that resulted in the 1998 passage of Massachusetts' Act Insuring Community Investment and the Equitable Taxation of Insurance Companies.
**www.mahahome.org**

**The Massachusetts Association of Community Development Corporations (MACDC)** With MAHA, MACDC published *Insuring the Future of Our Communities: The First Progress Report on the Massachusetts Insurance Investment Initiatives.*
**www.macdc.org**

**MetroEdge (Chicago)** A subsidiary of Shorebank Corporation, MetroEdge uses cutting-edge analytical techniques to produce market intelligence on ethnic, urban, and underserved markets.
**www.metro-edge.com/**

**National Energy Affordability and Accessibility Project (NEAAP)** NEAAP is a resource tool for anyone interested in the impacts of energy restructuring and energy market changes on low- and moderate-income households.
**neaap.ncat.org/**

**National Fuel Funds Network (NFFN)** NFFN advocates continued federal funding for LIHEAP. NFFN also promotes all types of energy-assistance programs.
**www.nationalfuelfunds.org/index.html**

**Neighborhood Connections** The Neighborhood Business Development Methodology, a Web-based tool, is designed to maximize the effectiveness of neighborhood-level business development efforts.
**www.neighborhoodconnections.org/**

**The Retail Initiative (TRI)** TRI is a commercial real estate equity fund that brings supermarket-anchored shopping centers to low-income neighborhoods.
**www.liscnet.org/whatwedo/affiliates/retail/**

**Solutions for Progress** This group has created a seamless process to increase homeownership and affordable energy for low- and moderate-income communities.
**www.solfopro.com**

family buildings. Renaissance Illinois' goal is to cut energy expenses by a minimum of 50 percent compared to traditional rehabs. Research developed through this program was successfully applied to single-family homes in the Baltimore row house study by the U.S. Department of Energy and Morgan State University. The Illinois program was begun in 1995 to rehab vacant housing units into residences that are both energy efficient and affordable for low- and moderate-income households. In fact, the monthly savings on energy and water costs from such rehabs directly contribute to the affordability of the units. Fifty-five units in 13 buildings were completed by 2000. An analysis of seven buildings completed before the 1998–1999 season showed that average savings in heating costs alone for that season were more than 50 percent (average cost per unit was $275, compared to $570 for a typical rehab). ComEd recently has tested a program called Home Efficiency for You that offers first-time buyers of new homes rebates of $250 or $500 if they meet energy-efficiency standards similar to Renaissance Illinois.

**Policy Recommendations**

- Help create affordable and energy efficient housing for low and moderate income communities by working with state public utility commissioners, financial institutions and builders. Support policies and practices that ensure continued investment in conservation. These measures are practical for utilities and vital for families in lowering their costs.
- Expand programs that subsidize low-income families' heating bills. LIHEAP (Low-Income Home Energy Assistance Program) helps low-income families pay heating bills in the winter months. Although LIHEAP is exceptionally efficient, it only serves about 20 percent of those eligible, and few states provide assistance on a year-round basis. Support needs to be given to efforts to expand the program to more people on a 12-month basis.
- Support continued LIHEAP funding.
- Support efforts to maintain both adequate funding and forward funding (funding into the next fiscal year). Forward funding recently has become an issue, forcing states to lobby in winter months for emergency federal appropriations to cover unforeseen escalating heating costs. Forward funding is critical for local planning, particularly if appropriations are delayed.
- Support efforts to ease utility payment penalties and disconnect provisions for low-income energy consumers.
- Develop and sustain revolving home energy loans in every state.

**Endnotes**

1. Initiative for a Competitive Inner City (ICIC), 2002, "Shaw's Supermarkets New Haven," *The Changing Models of Inner City Grocery Retailing*, p. 29.

2. Luquetta, Andrea Caliz, and Deborah Goldberg, 2001, "Insuring Reinvestment," *Shelterforce OnLine*, Issue 120, November/December, available at www.nhi.org/online/issues/120/LuquettaGoldberg.html.

*The policy recommendations, programs, and resources identified in this guide are intended to contribute to policy deliberation and are not a comprehensive list.*

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# ACCESSING PUBLIC BENEFITS

## Strategies to Connect Working Families With Services and Supports

### Problem Statement

**For many families, employment alone does not lead to financial well-being. A parent who has a full-time job and makes the minimum wage earns well below the poverty line for a family with two children. For families leaving welfare, earnings often are too modest to cover even basic needs, like food and health care. These low wages underscore the importance of continued development of income support strategies for low-income workers. Workers who earn too little to provide adequately for their families' basic needs can turn to federal programs like the Earned Income Tax Credit (EITC), Medicaid, the state Child Health Insurance Programs, and the Food Stamp Program to bridge the gap between inadequate wages and family-sustaining income. The EITC alone, for example, provides a wage subsidy up to $2 per hour for workers receiving the maximum credit.**

Unfortunately, low-income families face significant obstacles in accessing these work supports, including income and resource restrictions on eligibility, complicated and fragmented application procedures, and lack of awareness of the programs and how to apply. In most of the country, delivery of human services at the local level consists of a patchwork of separate programs, each with its own rules, bureaucracies, funding mechanisms, and procedures. As a result, numerous studies have identified patterns of underutilization and lack of knowledge about support services intended to assist low-wage workers. Although state revenue constraints may preclude major expansions of programs within the near future, low-cost, innovative policies and practices have shown promise in reducing barriers to access and improving participation rates for benefits programs.

### Strategies

#### 1. Improve Service Delivery

Rates of participation in government programs can be improved through the creation of better service delivery systems. A wide array of organizations, including community action agencies, health clinics, and public schools, provide targeted enrollment outreach and application assistance. These initiatives, which generally help families apply for a limited number of government benefit programs, have improved enrollment rates. A number of states and counties have moved further, restructuring their human service systems to allow for integrated and responsive service delivery. The most successful models are comprehensive systems that offer clients the ability to apply and reapply for several programs at once. Some of these initiatives also offer on-site financial counseling, employment-related services, and other supportive services. These one-stop models are less common, primarily because they require significant structural and procedural changes across the agencies that administer the programs.

- **Examples: Service Integration, Information Networks, and Counseling** Some of the most comprehensive examples of service integration are found in San Mateo County, California; Montgomery County, Ohio; and Racine and Kenosha Counties in Wisconsin. For example, San Mateo has created a responsive, client-focused human service system that offers one-stop access to income support programs, employment and training programs, and multidisciplinary self-sufficiency teams. The county has implemented a common intake process in which staff receive training in multiple programs and use a comprehensive screening and assessment tool to determine client needs.

In most parts of the country, where such integration of public programs has not occurred, nonprofit organizations are assisting families to navigate the maze of benefit programs. For example, the Community Food Resource Center (CFRC) in New York is an advocacy and direct service organization that works to ensure access to nutritious food, adequate income, and affordable housing for low-income New Yorkers. Through its Food Force project initiative, multilingual staff equipped with laptop computers travel to more than 500 emergency food providers, unemployment offices, senior centers, health clinics, and other community-based sites citywide to distribute information about food stamps and conduct computerized eligibility prescreenings.

CFRC provides direct food stamp information to more than 35,000 households annually and generates computer analyses of potential Food Stamp Program eligibility for more than 7,000 households. Food Force also trains hundreds of advocates on basic food stamp eligibility. As part of its mission to promote family financial well-being, the CFRC also provides free assistance in filing taxes and claiming the Earned Income Tax Credit (EITC) and other tax credits, along with help in opening savings accounts, getting direct deposit of refunds, prescreening for food stamps, and accessing health insurance. In 2002–2003, CFRC completed and electronically filed 9,640 federal and state tax returns at nine sites, helping families receive about $9.64 million in EITC refunds in the process.

Using a different model in a rural region, Connect, Inc., in North Carolina, offers benefits counseling along with job retention and career advancement services to low-income working families. Through partnerships with county social service agencies in each of the nine counties it serves, Connect, Inc. gives customers direct access to a broad array of social services and benefits over the phone. Connect, Inc. has plans to develop kiosk computer centers in public locations to enable families to conduct online prescreening for benefits programs.

**Policy Recommendations**

- Encourage state welfare administrators to train front-line workers to provide information to recipients of Temporary Assistance for Needy Families (TANF) about programs that will be available as they join the workforce and as their wages increase.
- Provide information about benefits in clear, straightforward language and stress their availability and value. Application assistance should be as simple and coordinated as possible and available in multiple languages.
- Ensure that nonprofit agencies maintain or expand their benefits counseling services and use the latest technology to facilitate providing eligibility information and application assistance to families.
- Encourage public and private agencies and institutions that serve low-income families to develop one-stop service centers that allow recipients to access a variety of benefits and services most conveniently and efficiently.
- Advocate for simplified application forms at the state level, ensure minimal requirements for in-person meetings and documentation, and begin to “package” supports by combining the application processes for a variety of benefits.

### 2. Expand Eligibility for Work Supports

This set of strategies involves expanding eligibility for needed programs and developing new initiatives to pick up additional families. Although outreach and enrollment assistance are vital in improving access to work supports, many struggling families are not eligible for needed benefits under current eligibility rules. For example, more than one-third of working parents have no health insurance. Most low-wage workers do not receive health insurance through their jobs, and Medicaid time and income limitations exclude many low-wage workers.

Low-income parents leaving welfare for work are eligible for one year of extended health coverage, but many eligible families neither enroll nor stay enrolled for the full year, in part because of rigid federal paperwork requirements. In addition, the safety net for those who lose jobs needs to be repaired; most low-wage workers and part-time workers are excluded from unemployment insurance benefits because of restrictive eligibility rules.

- **Examples: Estimating and Expanding Benefits** The National Center for Children in Poverty (NCCP) has developed a tool called Let’s Invest in Families Today (LIFT) to help states analyze the impact of earnings, benefits, and taxes on family income. LIFT incorporates information on federal and state policies, eligibility rules, taxes, and the value of cash and near-cash assistance, as well as noncash benefits such as health insurance. This tool allows program administrators to calculate the resources that are available to families as their income changes. Now being piloted in Illinois and Alabama, LIFT seeks to ease families through the transition to financial independence and ensure that work pays.

A number of states have revised their unemployment insurance policies to enable additional low-wage and part-time workers to qualify for benefits. These expansions are state revenue-neutral and allowable under federal law. Rhode Island and Vermont, for example, now count part-time work and a worker's most recent wages in determining eligibility for benefits; they also allow workers who also attend college or training programs to qualify with fewer work hours. In New Mexico, a coalition of about 100 organizations recently succeeded in securing enactment of a comprehensive unemployment insurance reform bill that increases benefits to all workers and provides coverage to part-time workers and certain workers in school or in training programs.

Several states are taking advantage of new state options in the Food Stamp Program. Some are implementing the federal option to automatically provide up to five months of food stamps at a frozen benefit level without requiring any additional paperwork. Other states have eased their vehicle ownership rules to allow families to own more reliable cars while receiving food stamps. Several states are providing households with six months of continuous eligibility at a constant benefit level.

### Policy Recommendations

- Develop Earned Income Tax Credits at the state and city levels that are refundable and that people can apply for easily and without charge.
- Provide additional state-level tax credits and other subsidies to ease the impact on low-income working families when states increase taxes in order to balance budgets.
- Revise Food Stamp Program eligibility rules. States should take advantage of recent changes in federal food stamp law by eliminating unnecessary eligibility barriers, which would not require additional state expenditures.
- Expand unemployment insurance coverage. States should expand unemployment insurance coverage by, for example, including the most recent quarter of work in the base period earnings calculation, including those seeking part-time as well as full-time work, and providing benefits to certain workers who are in school or in training programs.
- Expand health coverage. As state revenue

## For More Information

**Annie E. Casey Foundation/ National Tax Assistance for Working Families Campaign** The Casey Foundation's tax campaign seeks to build the capacity of participating local tax credit campaigns and to increase national attention to the importance of the EITC, free or low-cost tax preparation services, and asset development for low-income working families.
**www.eitc.info**

**Center for Economic Progress/ National Community Tax Coalition** This group provides technical assistance and advocacy on areas of concern to low-income taxpayers, including EITC information and outreach kits.
**www.tax-coalition.org**

**Center on Budget and Policy Priorities** This research organization and policy institute conducts research and analysis on a range of government programs and policies, with an emphasis on those affecting low- and moderate-income people. The organization also compiles an annual EITC Outreach Kit.
**www.cbpp.org**

**Community Food Resource Center** The mission of this advocacy and direct service organization is to expand access to food and nutrition for all New Yorkers. It also provides EITC and other financial services.
**www.cfrcnyc.org**

**Connect, Inc.** This organization provides job retention and career advancement services in the nine-county eastern North Carolina region. Through partnerships with county social services departments, Connect, Inc. assists families in accessing public benefits.
**www.connectinc.org**

**Corporate Voices** This employer initiative helps promote public dialogue on contemporary work–family issues, including the Family and Medical Leave Act and the EITC.
**Telephone: 301.380.6856**

**The Employer Group** A consortium of companies with a significant entry-level, low-wage, or hourly employee base, the group meets to exchange experience, ideas, and best practices for supporting their employees.
**Telephone: 212.465.2044**

**The Finance Project** The mission of this project is to develop and disseminate information, knowledge, tools, and technical assistance to improve the effectiveness, efficiency, and equity of public- and private-sector financing for education, welfare, family and children's services, and community building and development.
**www.financeproject.org**

**Food Research and Action Center** This national organization works to improve public policies to eradicate hunger and undernutrition in the United States through research, policy analysis, and technical assistance.
**www.frac.org**

**National Center for Children in Poverty/Let's Invest in Families Today (LIFT)** This collaborative project, with a network of state and regional advocacy organizations, endeavors to protect and increase public investments for low-income children and their families.
**www.lift.nccp.org**

**National Employment Law Project** The project is involved in advocacy, research, and publications on unemployment insurance, workplace rights, and other policies the impact the working poor and unemployed.
**www.nelp.org**

**National League of Cities/ Institute for Youth, Education, and Families** This organization helps municipal leaders take action on behalf of children, youth, and families in their communities.
**www.nlc.org**

constraints ease, states should move toward ensuring continuous coverage for all family members to at least 200 percent of the federal poverty level and extending public health coverage to immigrant families ineligible for federal assistance. In the short term, states should at least protect Medicaid from budget cuts.

- Help low-income workers transition from welfare to work. States should provide transitional income support or asset-building capabilities to people when they first leave TANF, or to all workers with low earnings, to assist with work-related expenses.

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*The policy recommendations, programs, and resources identified in this guide are intended to contribute to policy deliberation and are not a comprehensive list.*

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# MAKING WORK PAY

## Strategies to Reduce the Costs of Working

### Problem Statement

**In the last decade, the challenge of welfare reform was met by low-income people who went to work in record numbers. More low-income people now are bringing home paychecks than at any other time in recent history. But the promise that work will make these families better off is yet to be fulfilled. While low-wage earners are working harder and longer, often holding down several jobs to make ends meet, families still are just barely getting by. Low-wage earners incur the expenses familiar to all earners. But for low-income households, those costs are higher; they eat up a disproportionate amount of earnings, and they erode the belief that hard work does indeed pay.**

It takes more family resources, not just more work, to yield improvements in children's well-being.[1] The good news is that innovative practices and public policies do make a difference. Although the current economic downturn and state revenue constraints may preclude major expansions of programs within the near future, low-cost, innovative practices and public policies already are helping some low-wage workers stay on the job while improving outcomes for their children.

### Strategies

#### 1. Provide and Maintain Public Benefits to Make Work Pay

When reductions in public benefits cut family revenue even as earners work more, the rules undercut public policy messages that promote hard work as a means to economic security. Complicated rules related to welfare payments, food stamps, Medicaid, and child-care and housing subsidies are difficult to navigate and often penalize earnings. Rigorous research is demonstrating that welfare and employment programs that provide financial incentives to work can increase children's school readiness and later development. These benefits are derived from higher family income, rather than more parental employment alone. One of the clearest findings from welfare-to-work studies is that public policy "can help offset the disadvantages experienced by low-income children through its effects on family resources."[2]

By more carefully calibrating the interaction of earnings, benefits, and taxes on family income, policymakers and program administrators can eliminate the "tax" on work and bring policies in line with the public goal of promoting economic self-sufficiency.

- **Example: The National Work Advancement and Support Center Demonstration** In 2001, MDRC—a nonpartisan social policy research firm with offices in New York City and Oakland, California—began developing the Work Advancement and Support Center (WASC) demonstration to test a promising approach to making work pay for low-wage workers. In up to eight sites, WASCs will target low-wage workers to ensure that they have knowledge about and access to job-retention and career-advancement programs aimed at stabilizing employment and increasing skills, as well as a full package of financial work supports such as the Earned Income Tax Credit (EITC), food stamps, Medicaid, sCHIP, and subsidized child care. Low-wage workers often are unaware of the range of supports that they are eligible for and face barriers in applying for multiple benefits. Through WASCs, low-wage workers will find simplified applications for financial work support programs, assistance in applying for the EITC, and counseling on how benefits interact with earnings. At the same time, career counselors will help participants in mapping career pathways with links to higher paying jobs and facilitate access to skills training. Drawing on the strengths of public, private, and community-based organizations, WASCs will be located primarily in one-stops established by the Workforce Investment Act, and some will adopt a focus on improving access to these services in a neighborhood context.

**Policy Recommendations**

- Make work pay with a range of job and income-related supports by expanding the EITC and streamlining access to Food Stamps and other subsidies.
- Measure the success of Temporary Assistance for Needy Families (TANF) according to

increased income and realistic assessments of self-sufficiency, as well as employment gains.

### 2. Broaden Efforts to Ensure the Availability of Child Care

Reliable, high-quality child care is one of the most important factors enabling workers to retain their jobs and progress in their careers. When the 1996 welfare reform legislation consolidated child-care subsidy programs into the Child Care Development Fund (CCDF) and allowed states to use their welfare (TANF) funding for child care, it led to a dramatic increase in child-care funding and an improvement in quality. Still, the demand for quality child care far outstrips the supply, and only one in seven eligible families receives subsidy support.[3] Most low-wage earners pay 14 percent of their income for child care, while higher-income households average 7 percent. Now, as states are experiencing serious fiscal woes and TANF funds may be less available than in previous years, child-care funding is at risk.

- **Example: The At-Home Infant Care Program** Because low-income working families spend a higher proportion of their incomes on child care than do middle- or upper-income families, and because state budgets often cannot support high reimbursement rates for providers, many low-income working families can neither find nor afford quality licensed or center-based child care.

  Minnesota and Montana have adopted legislation expanding eligible families' child-care options. The At-Home Infant Care (AHIC) Program[4] allows a parent to stay at home to care for their infant, during which time they receive a monthly stipend in lieu of the child-care subsidy they would have used to purchase services outside the home. The AHIC model can address the issue of long waiting lists for child care while promoting parent–child bonding during the first year of a child's life. In Montana, AHIC addresses deficiencies in the provision of infant care for many low-income working families living in rural areas, where child-care costs average $4,500 per year. A preliminary evaluation by Montana's Department of Health and Human Services found that the AHIC Program saved the state $114,388 in child-care costs. Most of these cost savings were due to parents' ability to provide care for their other children while staying at home to care for their infants. The At-Home Infant Care model was included in the original TANF reauthorization bill proposed by the Senate Finance Committee last year.

**Policy Recommendations**

- Sustain federal TANF funding to enable the states to maintain child-care subsidies.
- Develop outreach and technical assistance programs at the state level to inform low-income families about eligibility for CCDF subsidies and assist parents with the application process.
- Set eligibility criteria for CCDF subsidies at 75 percent of state median income and guarantee availability of subsidies for all working families.
- Set child-care co-payments so that families spend no more than 10 percent of their annual income on child-care; waive co-payments for families below the poverty line.

### 3. Provide Low-Wage Employees With Cost-Efficient Alternatives to Check Cashing

Low-income earners are dissuaded from using traditional banks by their high fees and minimum balances, as well as by the lack of banks in low-income neighborhoods. But low-income earners can end up paying 2 percent to 3 percent of their income simply to receive their pay by cashing their paychecks at check-cashing outlets.[5] While such outlets offer services needed by low-income workers, too often these services are provided at predatory prices. Community and employer-based practices can mitigate these costs, as can regulatory policies for banks and check-cashing outlets.

- **Example: Payroll Debit Cards** Some employers have figured out a way to cut their costs while eliminating check-cashing fees for their employees.[6] According to American Payroll Associates, the average payroll check costs employers $1.07 to process, whereas direct deposit costs about 5 cents per employee. Since so many low-income workers do not have bank accounts in which to make direct deposits, employers have developed payroll debit cards, which look and function like ATM cards. They allow workers direct access to their earnings without having to go through either a bank or a check-cashing service. Employers issue the cards, which are reusable, and electronically transmit workers' salaries to the card each pay period. The cards can be used to withdraw funds or to purchase goods and services.

WHSmith booksellers and Movie Gallery already are using payroll debit cards; and Ruth's Chris Steak House, a restaurant chain with 2,400 employees in 82 locations, is planning to adopt the practice as well.

**Policy Recommendations**

- Promote additional regulation of check-cashing outlets to ensure reasonable caps on check-cashing fees.
- Support community financial institutions and their partnerships with community organizations to innovate services for low-income residents that help them reduce costs, become financially literate, and build assets.
- Encourage businesses to lower the costs of converting paychecks for low-wage workers through products and services like payroll debit cards and direct deposit.

### 4. Decrease Commuting Costs for Low-Income Workers

Like cashing a paycheck and paying for child care, simply getting to work is disproportionately more costly and time-consuming for low-wage workers. Jobs for low-wage workers often are inaccessible via public transit.[7] For example, a study in Cleveland found that less than one-half of the job opportunities in the metro area were accessible to inner-city welfare recipients by public transit systems.[8] At the same time, buying and owning a car is excessively costly. Car buyers with poor credit histories often pay interest rates that are two to three times higher than the prime rates offered to preferred borrowers who buy new cars.

- **Examples: Location Efficient Mortgage and Ways to Work** Creative programs to reduce high commuting costs are now working successfully in communities throughout the nation. Fannie Mae's Location Efficient Mortgage®, for example, is a mortgage that helps people become home-

### For More Information

**At-Home Infant Care** First established in Minnesota, At-Home Infant Care programs offer certain lower-income parents of infants a choice between returning to work and using a state child-care subsidy or staying home and receiving a monthly stipend. The website offers information about At-Home Infant Care legislation.
**www.familyandhome.org/policy/infant_care.htm**

**Center for Law and Social Policy** The Center for Law and Social Policy is a national, nonprofit organization that conducts research, policy analysis, technical assistance, and advocacy on issues related to economic security for low-income families with children.
**www.clasp.org**

**Clear Card** Clear Card is a payroll-deduction card, developed by E-Duction, that allows workers to cover emergency purchases (for example, car repairs) that they otherwise could not have afforded, without incurring high interest charges and late fees.
**www.e-duction.com/html/00000.html**

**Location Efficient Mortgage®** Sponsored by FannieMae, the Location Efficient Mortgage is a mortgage that helps people become homeowners in location efficient communities.
**www.locationefficiency.com/**

**National Center for Children in Poverty** As a research and policy organization, the National Center for Children in Poverty seeks to identify and promote strategies that prevent child poverty in the United States and improve the lives of low-income children and their families.
**www.nccp.org/index.html**

**The Southern Institute on Children and Families** An independent, nonprofit, public policy organization founded in 1990, the Southern Institute endeavors to improve opportunities for children and families in the South, with a focus on disadvantaged children.
**www.kidsouth.org/index.html**

**Ways to Work** A federally certified Community Development Financial Institution, Ways to Work programs provide small loans to low-income families that are commonly used for automobile purchase or repair, mortgage or housing expenses, or child care–all to help parents keep a job or stay in school.
**www.alliance1.org**

**Wider Opportunities for Women (WOW)** For more than 35 years, WOW has helped women learn to earn, with programs emphasizing literacy, technical and nontraditional skills, welfare-to-work transition, and career development.
**www.wowonline.org/**

**Work Advancement and Support Center (WASC)** Developed in 2001 by the MDRC, WASC is a new project designed to test a promising approach to making work pay for low-wage workers. Links to the WASC framework paper and information on other MDRC projects serving low-wage workers are available on the Internet.
**www.mdrc.org/subarea_index_16.html**

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owners in "location efficient" communities. These are convenient neighborhoods in which residents can walk from their homes to stores, schools, recreation, and public transportation. People in these communities have less need to drive, allowing them to save money and improve the environment. The Location Efficient Mortgage® combines a low down payment, competitive interest rates, and flexible criteria for financial qualification to allow more people to own the home of their dreams.

Ways to Work, Inc., a certified Community Development Financial Institution, provides small loans to low-income parents to help them keep a job or stay in school. Loans are available for a variety of purposes, but in most cases, recipients have borrowed monies for transportation-related expenses. Since Minnesota's McKnight Foundation launched the program as the Family Loan Program in 1984, small loan programs have served communities in 20 states, providing more than 18,000 families with over $25 million in loans.

**Policy Recommendations**

- Provide federal, state, and local support for public transportation plans that increase access between employees and employers.
- Strictly enforce insurance redlining laws to remove the penalties for residents of low-income communities.
- Support affordable credit options for car loans.
- Develop a short-term amnesty program for drivers whose licenses were suspended because of unpaid fines.

### 5. Extend Credit to Low-Wage Workers Through Employer-Based Systems

One of the reasons low-wage workers use check-cashing outlets is because they provide easy access to credit that most banks do not offer. But the cash advances often needed by people with limited savings for car repairs, doctor bills, and other unanticipated expenses quickly can turn into burdensome debt. For example, low-wage earners resort to payday loans that provide quick cash based on future paychecks. But if the borrower is unable to make the repayment on time, then the loan is rolled over again and again, leaving the borrower in perpetual debt. Some borrowers wind up paying annual interest rates of more than 450 percent.[9]

- **Example: Clear Card for Purchases and Credit Building** The "Clear Card" is a payroll deduction card developed by E-Duction, a Pennsylvania-based company, in partnership with MasterCard International. The Clear Card enables users to make purchases wherever MasterCard is accepted. Purchases are paid off through payroll deductions, which are spread over the year. Workers are not charged interest, and the only cost is a $29 annual fee to participate in the program. Workers are granted credit equaling 2.5 percent of their annual salary; they must earn a minimum of $20,000. Because payroll deductions are automatic, employees cannot be late with payments, which allows those in difficult financial situations to rebuild their credit or begin to establish it.

The cards allow workers to cover emergency purchases (for example, car repairs) that they otherwise could not have afforded, without incurring high interest charges and late fees. In addition, payroll-based credit lines are accessible for people who have poor credit histories. Reliance Standard Life Insurance and Whirlpool are implementing the program with their workers.

**Policy Recommendations**

- Encourage banks and other financial institutions to provide alternative forms of credit.
- Forge partnerships between community groups and formal financial institutions to develop loan packages that meet the needs of poor consumers.
- Disseminate information about employer-based credit options.

*The policy recommendations, programs, and resources identified in this guide are intended to contribute to policy deliberation and are not a comprehensive list.*

**About the Author**

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# INCREASING AFFORDABLE HOUSING

## Strategies to Lower the Costs of Housing for Low-Income Families


- Increasing Financial Opportunity
- Reducing Costs of Living
- Accessing Public Benefits
- Making Work Pay
- **Increasing Affordable Housing**


### Problem Statement

**An inadequate supply of affordable housing remains a critical problem for low-income families across the United States. While the past decade's economic prosperity enabled many Americans to achieve homeownership and improve their housing conditions, a large portion of the nation's low-income households were left behind because of the growing gap between housing costs and income. Unlike previous decades, working a full-time job no longer guarantees access to decent housing. Federal rent subsidy programs are being cut while overburdened budgets threaten state programs. Consequently, many low-income families must allocate increasing percentages of their income to escalating rent charges for a shrinking supply of basic housing. More than 7.7 million renter households pay more than half of their income in rent.[1] To ensure the future health and economic stability of low-income families, strategies are needed to produce, preserve, and subsidize the costs of more sustainable, affordable housing.**

### Strategies

**1. Increase the Supply of Affordable Housing**

Building more apartment complexes and houses represents a key component of an affordable housing strategy. In addition to increasing the net supply and availability of affordable housing units, new construction can catalyze the revitalization of economically isolated communities. Most strategies to increase the supply of affordable housing involve government intervention, including financial assistance and monetary incentives for housing developers.

Most of today's new affordable development and renovation projects were aided by the significant private investment generated by the Low-Income Housing Tax Credit (LIHTC) Program. This program was created by the Tax Reform Act of 1986 to help offset the loss of incentive provided by the 15-year depreciation for low-income rental housing. Under the LIHTC, investors in qualified projects receive a credit against their federal income taxes. A rental property that is allocated tax credits is required to be affordable to low-income households for at least 15 years. The manner of implementation is left up to individual states. Since its inception, more than $10 billion in private funds have been invested in LIHTC projects. More than $2 billion has been channeled into nonprofit-developed affordable housing, resulting in nearly 800,000 rental-housing units, accounting for a substantial portion of all multi-family development in the United States.

A. Community Development Corporations

Community development corporations and other nonprofit housing organizations have worked to increase the supply and development of affordable housing. According to the National Congress of Community and Economic Development, community development corporations produced more than 245,000 units of affordable housing from 1994 to 1998. Utilizing creative financing and zoning land assembly strategies, these organizations attempt to produce, preserve, and manage financially viable affordable housing units efficiently.

- **Example: New Community Corporation**
  Founded by a group of dedicated residents in the aftermath of the 1967 riots in Newark, New Jersey, New Community Corporation (NCC) is the nation's largest and most comprehensive community development corporation, with assets valued at more than $500 million. As the primary force behind the revitalization of Newark's Central Ward, NCC owns and manages more than 3,000 housing units for 7,000 people. NCC's housing portfolio includes 18 properties in Newark, Englewood, and Jersey City, comprising family rental units, senior citizens' residences and homes available for ownership.

  Community Hills is NCC's newest residential development and consists of 206 two- and three-bedroom town homes, providing affordable homeownership opportunities for community residents. Located on 13 acres in Newark's Central Ward, Community Hills' quality homes were financed with a $25 million HOPE VI grant from the U.S. Department of Housing and Urban Development (HUD) and a group of private and public partners. While the average selling price of a Community Hills home is about

$50,000, the actual sale price is based on the buyer's income. The total housing-related costs, including mortgage payments, real estate taxes, insurance, and utilities, cannot exceed 25 percent to 35 percent of a family's annual income.

B. Public Housing Redevelopment There are 1.3 million units of public housing in the United States, representing 5 percent of all rental units in the country. Public housing is an important source of affordable housing for low-income families, particularly in large urban areas. Much of this housing is in good repair and serves a positive role in the lives of low-income families. Despite their critically important function, over the past two decades, public housing "projects" have become a vivid symbol of the devastating long-term effects of a previous generation's failed attempts at social engineering. With support from the federal government, housing authorities across the country now are attempting to shift the public housing paradigm in the direction of safe, low-density, sustainable, mixed-income, affordable communities. While many of these new developments have been highly successful, evaluations of the HOPE VI program have found that some residents are not able to return due to loss of units and new background check rules.[2]

- **Example: San Francisco Housing Authority's North Beach Place** Scheduled for completion in 2004, the San Francisco Housing Authority's $102 million North Beach Place project will replace a dilapidated 50-year-old cinder-block public housing complex and add 341 new affordable housing units. Developed by Bridge Housing Corporation, the complex will consist of several new four-story apartment buildings anchored with retailers. In contrast to the old public housing formats, this project combines low-income public housing with affordable units for low-wage workers and retail. Unlike many isolated urban housing projects that become magnets for economic and social distress, North Beach Place will be highly visible, located between Fisherman's Wharf and Ghirardelli Square.

  The project relied heavily on public subsidies and tax credits. The state's $55 million in tax credits, $10 million from the city, and $23 million from the federal government provided gap financing. Bank of America and Citibank are providing permanent debt financing for the project. The tax credits are sold to major corporations and investors and will be used by the developers to help build affordable housing, including a separate, senior housing building. All of the low-income housing currently in this project will be replaced on a "one-for-one" basis. Those residents will pay rents that equate to 30 percent of their monthly salaries. The affordable apartments will rent for $1,000 to $1,500 a month.

C. Homeownership Opportunities for Low-Income Families Although not an option for all low-income families, homeownership has become a top affordable housing strategy for many government and funding agencies. Homes constitute an important source of wealth for all Americans. Half of all homeowners with incomes under $20,000 held nearly 72 percent of their wealth in home equity. However, homeownership rates in low-income neighborhoods are lower than the national average. Levels of homeownership are also lower overall among minority populations compared to white families. Many low-income working families face major obstacles in their efforts to secure reasonable mortgages through mainstream credit institutions because of poor credit histories and other barriers. Rejected by mainstream lenders, low-income homebuyers and home-equity loan seekers fall prey to subprime lenders who offer loans at exorbitant interest rates with numerous fees. Several organizations across the country have established advocacy programs to help low-income homebuyers navigate the financial landmines and credit obstacles associated with homeownership.

- **Example: Neighborhood Assistance Corporation of America** The Boston-based Neighborhood Assistance Corporation of America (NACA) is a nonprofit community advocacy and housing services organization that provides prime loans and mortgage services to low- and moderate-income borrowers and those considered subprime borrowers. NACA's typical borrowers have been classified as "risky" mortgage prospects by the lending industry because they have “B, C, or D credit ratings and no substantial savings.” As a result, the lending industry charges these “risky” borrowers high rates, points, and fees. A typical low-income borrower might be forced to pay interest rates of 14 percent and points and fees greater than 5 percent in the conventional market. Through NACA, that borrower can receive a mainstream bank mortgage with rates as low as 5 percent or 6 percent. The NACA mortgage has no down payment, no closing costs, no application fees, and a below-market interest rate.

After winning predatory lending campaigns against finance companies, NACA partners with the mainstream banks that have relationships with those finance companies to provide affordable mortgages. These investments in NACA help the banks meet their Community Reinvestment Act obligations. NACA has combined an affordable mortgage product with a free housing services program that features extensive education and resources for potential homebuyers. They become NACA members after an introductory workshop and then are assigned personal housing consultants. These ongoing relationships allow NACA to address each member’s credit issues and determine an affordable housing payment. More than 95 percent of NACA’s mortgage applications are approved, compared to 70 percent to 75 percent of traditional lenders’ applications.

- **Example: Housing Assistance Council and Self-Help Housing** Established in 1971, the Housing Assistance Council (HAC) helps local organizations build affordable homes in rural areas by providing seed-money loans, small grants, technical assistance, research, training, and information. These organizations often use “sweat equity,” self-help housing. Using funds from HUD’s Self-Help Homeownership Opportunity Program (SHOP), since 1997 HAC has provided over $40 million to a network of more than 100 local nonprofit builders to help almost 5,000 low-income families build their own homes. Up to $10,000 can be allocated per unit for land and infrastructure costs, some of the most difficult items for local nonprofits to finance. Working under an experienced construction supervisor, families in the local projects put an average of 1,000 hours of sweat equity into their own and their neighbors’ homes. Contributing about 65 percent of the labor in the house, and working evenings and weekends over a 1-year period, families frame, drywall, insulate, roof, paint, and landscape. Permanent mortgages for the homes come from the low-income, single-family loan program of the U.S. Department of Agriculture and other sources, such as the Federal Home Loan Banks, the Federation of Appalachian Housing Enterprises, and HUD HOME funds. Most organizations receiving loans employ “mutual self-help” methods in which families help each other build their homes. No one moves in until all of the 8 to 10 homes in a building group are completed.

**Policy Recommendations**

- Support federal housing policies that preserve the endangered stock of publicly subsidized housing.
- Transform public housing funding programs so that subsidies are more targeted to specific properties, improving the ability of public housing authorities to obtain private financing to rehabilitate individual properties.
- Expand the capacity of community-based nonprofits to develop, rehabilitate, and manage much of the affordable housing stock in an efficient, professional, and community-minded fashion.
- Increase the capacity of entrepreneurial nonprofit developers to reshape low-income communities.
- Regulate predatory lending practices at the state and national levels.
- Increase access to reasonably priced home mortgages from mainstream financial institutions.

### 2. Subsidize and Maintain the Cost of Housing

Over the past decade, the cost of housing has skyrocketed, and the supply of affordably priced rental housing has diminished. Rent control, which used to provide price protection to some low-income families, is being rolled back in several key states and cities in favor of free-market pricing. In no housing market in the country can a household earning the minimum wage reasonably afford a two-bedroom rental. There is a crisis in affordable multi-family rental housing. The imminent expiration of the subsidies and contracts on much of this nation's regulated housing supply only exacerbates the crisis. Strategies are needed to increase low-income families' access to a larger supply of affordable housing options.

A. Section 8 Vouchers The federally funded, state-administered Section 8 voucher programs have helped to maintain many low-income families' access to affordable housing. However, in cities impacted by the real estate boom and staggering rent increases of the past decade, the demand for vouchers far exceeds the supply. In many cities, tenant-based Section 8 rent subsidies also have not kept pace with rising prices, forcing many low-income families to allocate increasing percentages of their income to escalating rent charges. Many low-income families find themselves on long waiting lists for vouchers to cover a decreasing percentage of the rent on difficult-to-find affordable rental units. Some cities have created more flexible programs to increase the variety of housing options available to low-income families. On September 12, 2000, HUD allowed public housing authorities to establish a Section 8 homeownership program. Through this program, Section 8 applicants and participants can use their rental assistance payments toward homeownership expenses.

- **Example: Massachusetts Section 8 for Homeownership** In accordance with the general terms outlined by HUD, individuals and families who receive Section 8 rental assistance vouchers from participating public housing authorities and Section 8 administrators in Massachusetts can qualify for a mortgage loan based on their current earned income combined with the housing assistance subsidy. Upon purchasing a home, the homeownership option allows Section 8 recipients to apply the subsidy toward the payment of principal, interest, taxes, and insurance on a mortgage. To qualify for the Massachusetts program, Section 8 recipients must earn a minimum annual income of $10,300, must work full time, and must have completed a 1-year lease in HUD's Section 8 Housing Assistance Payments program. Section 8 voucher recipients who are elderly or have disabilities are exempt from the employment requirement, but must receive $10,300 in annual income. Under this initiative, Citizens Bank of Massachusetts originates the mortgage loans, and Fannie Mae purchases the eligible loans.

B. Employer-Assisted Housing Employers are beginning to use employer-assisted housing (EAH) programs to address the increasing affordable housing needs of entry-level workers. In the past, these programs have helped businesses recruit senior-level employees. The role of businesses in funding low-income housing has grown with the new opportunities to earn a return on their investment through the Tax Reform Act of 1986, such as the Low-Income Housing Tax Credit (LIHTC) Program. EAH programs benefit employers by creating savings in employee training and retention, labor force availability, productivity, and real estate appreciation.

- **Example: The University of Pennsylvania** For the past 20 years, the University of Pennsylvania has offered a mortgage guarantee program to its employees. The program successfully has stabilized the west Philadelphia neighborhoods in which the university is located. Because the university guarantees 100 percent of the mortgage value, no down payments are required. Moderate-income employees who are unable to accumulate a down payment gain access to homeownership through this program. For other, higher salaried employees, it provides an incentive to move into an urban neighborhood, rather than the suburbs. Since the late 1960s, more than 1,000 loans have been made.

**Policy Recommendations**

- Increase the number of Section 8 vouchers and make them as mobile as possible, permitting low- and moderate-income households as much choice as possible in their housing. Continue and expand the Section 8 homeownership program.
- Continue the provisions within the tax code for the LIHTC Program, a major tool for housing production. Reform the LIHTC Program by removing complexities that curb participation by developers and project owners.

## For More Information

**American Community Survey** ACS provides accurate and up-to-date profiles of America's communities every year. Data users gain access to timely information for planning and evaluating public programs.
**www.census.gov/acs/**

**ACORN (Association of Community Organizations for Reform Now)** ACORN campaigns against redlining, works to increase access to credit for low-income and minority neighborhoods, and fights for greater community reinvestment by financial institutions.
**www.acorn.org/acorn10/predatorylending/campaign.htm**

**Bridge Housing Corporation (BRIDGE)** BRIDGE is the largest nonprofit affordable housing developer in California and a nationally recognized leader in cutting-edge housing development practices.
**www.bridgehousing.com**

**Center for Responsible Lending (CRL)** CRL is an online resource for opponents of predatory lending.
**www.responsiblelending.org/**

**Employer-Assisted Housing (EAH) Site** This site contains important information on EAH programs.
**policy.rutgers.edu/eah/welcome.html**

**The Enterprise Foundation** This nonprofit works to provide low-income people with affordable housing, safer streets, and access to jobs and child care. It was the first nonprofit organization to build 100,000 homes for low-income families.
**www.enterprisefoundation.org/**

**The Fannie Mae Foundation** The foundation creates affordable homeownership and housing opportunities through innovative partnerships and initiatives that build healthy, vibrant communities across the United States. This site contains information on Fannie Mae's employer-assisted homeownership programs and a link to "Knowledgeplex," an interactive Web resource on affordable housing issues.
**www.fanniemaefoundation.org/**

**Housing Assistance Council (HAC)** The HAC provides financing, technical assistance, training, research, and information to help community-based nonprofits and public agencies improve housing conditions for low-income rural families, with an emphasis on the poorest of the poor in the most rural places.
**www.ruralhome.org**

**HUD Housing Choice Vouchers Program** This federally funded state-administered program allows very-low-income families to choose and lease or purchase safe, decent, and affordable privately owned rental housing.
**www.hud.gov/offices/pih/programs/hcv/index.cfm**

**Joint Center for Housing Studies, Harvard University** This site contains a research paper, "Employer-Assisted Housing: Competitiveness Through Partnership," as well as other EAH resources.
**www.jchs.harvard.edu/publications/mpill_W00-8.pdf**

**Local Initiative Support Coalition (LISC)** LISC provides grants, loans, and equity investments to community development corporations (CDCs) for neighborhood redevelopment.
**www.liscnet.org/**

**Metropolitan Planning Council** This site contains a detailed list of EAH resources, articles, and papers.
**www.metroplanning.org/browse.asp?keywordID=35**

**National Congress of Community and Economic Development (NCCED)** The NCCED is the trade association and advocate for the community-based development industry. Founded in 1970, the NCCED represents more than 3,600 CDCs across America.
**www.ncced.org/**

**National Low Income Housing Coalition** This membership-based policy advocacy group is dedicated solely to ending America's affordable housing crisis.
**www.nlihc.org/**

**Neighborhood Assistance Corporation of America (NACA)** The NACA provides prime loans and mortgage services to low- and moderate-income people and those who are considered subprime borrowers.
**www.naca.com/index.jsp**

**New Community Corporation (NCC)** Based in Newark, New Jersey, NCC is the nation's largest and most comprehensive community development corporation.
**www.newcommunity.org/main.htm**

**San Francisco Housing Authority (SFHA)** The SFHA is the 17th largest housing authority in the United States. It includes 45 developments, with more than 6,575 units of public housing, serving very-low-income families, seniors, and disabled residents in San Francisco.
**www.ci.sf.ca.us/sfha/**

**U.S. Department of Housing and Urban Development** This site contains information on employer-assisted housing and the HOME Program.
**www.hud.gov/offices/cpd/affordablehousing/library/modelguides/2019.cfm**

- Support federal legislation to provide a homeownership tax credit, thereby reducing the loan amount that low- and moderate-income households would have to borrow.
- Preserve affordable housing that has been federally financed for ongoing affordable use, particularly in strong market situations.
- Enact a new, state-administered homeownership tax credit, modeled after the federal LIHTC.

### 3. Protect Low-Income Homeowners From Predatory Lenders

Growing numbers of aggressive, dishonest, or "predatory" lenders advertise their services to people in financial need—people who might have fallen behind on property taxes, or who need money for medical bills, or who face costly home repairs. Instead of offering a fair loan, these subprime lenders use smooth-talking salespersons, high interest rates, outrageous fees, and unaffordable repayment terms. Some homeowners can be tricked into taking out loans that they cannot afford to repay and may then lose their homes to foreclosure. Predatory lending is a multi-billion-dollar, largely unregulated industry. To protect homebuyers, homeowners, and other consumers from these deceptive and ultimately costly practices, legislation and strategies are needed to help communities, cities, and states combat the discriminatory and devastating effects of predatory lending.

- **Example: Center for Responsible Lending**
  With the support of a broad coalition of banks, credit unions, mortgage industry representatives, and consumer advocates, North Carolina passed the nation's first state law to curb predatory lending in 1999. In its first year alone, the predatory lending law saved North Carolina's homeowners an estimated $100 million by prohibiting predatory practices and ensuring that borrowers have relevant information. Moreover, the law did not hamper access to credit in North Carolina. North Carolina was still the sixth most active state for subprime lending in 2000, with borrowers 20 percent more likely to receive a subprime loan than borrowers in the rest of the nation. In fact, no major subprime lender exited North Carolina after the legislation was passed. However, the terms of subprime loans in North Carolina are now significantly better than the terms of subprime loans in many other states. As a result, borrowers are no longer having the equity stripped out of their homes due to predatory lending.

  The Center for Responsible Lending (CRL) in North Carolina is a research and policy center formed to assist initiatives in other states and help develop effective federal regulatory and legislative solutions. The North Carolina predatory lending law is being used as a template for other state policy initiatives. New Jersey and New Mexico also have recently passed legislation to curb predatory lending.

**Policy Recommendations**

- Support state-level initiatives that restrict predatory lending practices.
- Support the formation of coalitions to lobby for anti-predatory-lending legislation.
- Support state initiatives that require financial counseling and education for consumers who seek subprime loans.
- Support efforts to develop alternative low-interest mortgage products for communities targeted by the predatory lending industry.
- Support efforts to put a ceiling on mortgage lending rates.

#### Endnotes

1. Dolbeare, Cushing N., and Sharon S. McGowan, 2003, "Affordable Rental Housing and the American Dream: The Role for Foundations," Neighborhood Funders Group, April.

2. Abt Associates Evaluation, available at abtassociates.com/reports/2001409176851.pdf.

*The policy recommendations, programs, and resources identified in this guide are intended to contribute to policy deliberation and are not a comprehensive list.*

#### About the Author

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kids count

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