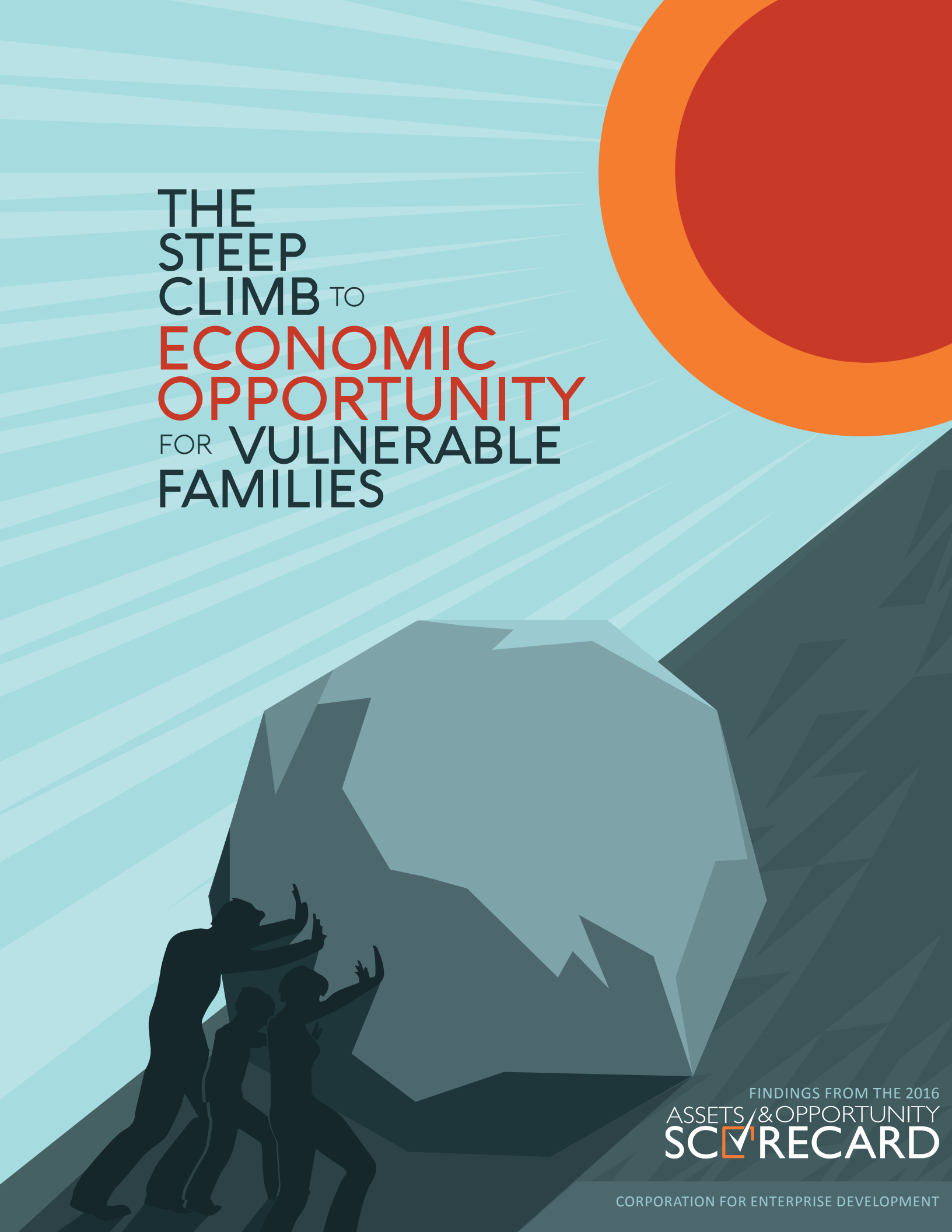
THE STEEP CLIMB TO ECONOMIC OPPORTUNITY FOR VULNERABLE FAMILIES



FINDINGS FROM THE 2016

ASSETS & OPPORTUNITY SCORECARD

CORPORATION FOR ENTERPRISE DEVELOPMENT

THE STEEP CLIMB TO ECONOMIC OPPORTUNITY FOR VULNERABLE FAMILIES

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PUBLISHED JANUARY 2016

ABOUT THE SCORECARD

The *Assets & Opportunity Scorecard* is a comprehensive look at Americans' financial security today and their opportunities to create a more prosperous future. It assesses the 50 states and the District of Columbia on 130 outcome and policy measures, which describe how well residents are faring and what states are doing to help them build and protect assets. The *Scorecard* enables states to benchmark their outcomes and policies against other states in five issue areas: Financial Assets & Income, Businesses & Jobs, Housing & Homeownership, Health Care and Education.

To access the complete *Scorecard*, view data sources and download customizable reports and charts, visit **http://scorecard.cfed.org.**

#CFEDScorecard

HOW THIS REPORT IS ORGANIZED

This report summarizes the key findings from the 2016 *Assets & Opportunity Scorecard* and provides a deeper look at the racial wealth divide and the outcome and policy data trends over time and across states in the *Scorecard's* five issue areas: Financial Assets & Income, Businesses & Jobs, Housing & Homeownership, Education and Health Care. The report also includes an infographic of the overall adoption of the 69 *Scorecard* policies across the states, which allows you to see at-a-glance which states have adopted the most policies and which policies have been adopted by the most states.

Nearly seven years after the Great Recession officially ended, most economists agree that we've achieved financial recovery. In the past, economic recovery has typically heralded an era of prosperity—a return to the so-called "good old days." But this time around, there is little cause for celebration. Instead, those who once enjoyed a modicum of financial stability have settled into a "new normal" of ongoing financial vulnerability, while the struggles of those who were financially insecure before the recession have only deepened. The number of households below the poverty line has barely budged and millions of low- and moderate-income people live paycheck to paycheck with no prospect of saving for a more prosperous future. Each is like a modern-day Sisyphus, forced to perpetually push a big boulder up a steep hill to reach financial stability.

The analogy is especially apt for families of color. Decades of unequal access to economic opportunity means they must shoulder an even larger boulder and climb a steeper hill to financial well-being. Households of color are 2.1 times more likely to live below the federal poverty level and 1.7 times more likely to lack liquid savings. African-American and Latino consumers are also significantly more likely to have subprime credit scores.[1]

The findings of the 2016 *Assets & Opportunity Scorecard* presented here confirm the gravity of the challenges of growing financial insecurity and inequality. To build the opportunity economy we want and need, the status quo is no longer acceptable. Instead, we need to embrace policy opportunities—many of which are showcased in this report—that work for everyone, especially those who have shouldered too big a boulder up too steep a hill.

What does widespread financial insecurity mean for American households?

Making ends meet on a modest income involves regularly juggling a series of complex choices and often "robbing Peter to pay Paul" just to manage week-to-week finances. As a result, these families have little chance of finding their financial footing.

In most cases, being financially stretched in one area inevitably has consequences in others. CFED's 2016 *Assets & Opportunity Scorecard* shows how this scenario can play out in real life.[2]

Take housing for example. More than half (51.8%) of renters nationally are cost-burdened, meaning they spend more than one-third of their income on housing. This is due in part to the significant shortage of affordable rental units in the United States. Just 28 units of affordable and adequate housing are available for every 100 extremely low-income households that rent.[3]

So what happens when families need to spend too much to keep a roof over their heads? They don't have enough left over to pay for food, health care, child care and other basic needs. Doctor visits are often the first to go. The *Scorecard* found that 14.3% of adults nationally report that they did not go to a doctor in the last year because of cost. Adults of color were even more likely to forgo a doctor's visit when needed because of the cost, including one out of every four (23.7%) Latino adults and one out of every five (18.9%) African-American adults.

Covering basic needs without sufficient income also means choosing among a series of bad financial options, such as paying bills late. On-time payment of credit obligations, such as credit cards, has improved steadily since the recession to just under 80% of credit users (i.e., adults with a credit file and credit score). In the high-poverty states of Mississippi and South Carolina, however, nearly one-third of credit users were late on their credit payments in the past year. Others don't even have the option of turning to credit to make ends meet. Almost one in three credit users nationally don't have access to revolving credit, including nearly half of credit users in Mississippi.

All of this has an impact on credit health. More than half of credit users have below-prime credit scores. Research from the Consumer Financial Protection Bureau (CFPB) indicates that an additional 26 million adults are "credit invisible,"

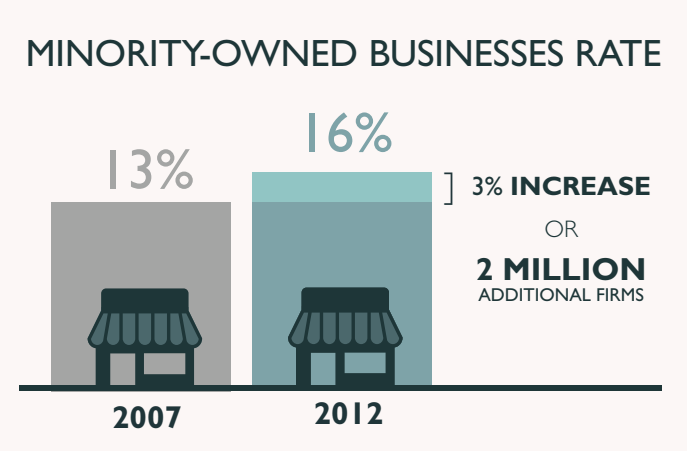
meaning they have no credit file, and another 19 million are "unscorable" (lacking sufficient credit histories to generate a credit score). The problem is particularly evident in low-income neighborhoods where nearly 30% of consumers are credit invisible and another 15% are unscored.[4]

Low or non-existent credit scores lead many consumers to high-cost, short-term loans to make it to the next paycheck. More than one in 10 households with incomes below $30,000 annually have used alternative financial service credit products, such as payday and auto-title loans.[5] With annual interest rates at 400% or higher for payday loans, for example, few can afford to pay back these loans on time, forcing them to take out additional loans to pay off the first and trapping them in an unrelenting cycle of debt.[6]

For the modern-day Sisyphus, such financial scenarios make it close to impossible to build up even a small amount of savings to cover unforeseen expenses. Nearly half of households (44%) in America today have less than three months of savings to cover their basic needs at the poverty level if they lose a job, face a medical crisis or suffer some other income loss.

Stagnant incomes and low wages

When it comes to income, many families are stuck in neutral—or worse. While the national unemployment rate has dropped to 5 percent, the underemployment rate is more than twice as high, at 10.8%. Many of the underemployed are in part-time positions but want to work full-time, while others have given up looking for a job because they are discouraged by the employment market. What's more, among those who are employed, large numbers are stuck in jobs that don't pay enough to cover basic expenses. One in four jobs in the US today is in a low-wage occupation.
Aside from jobs, many people's incomes come from their own businesses, mostly microenterprises, which are defined as businesses with fewer than five employees. Fully 16.6% of workers own a microenterprise, a rate that has held steady since the recession compelled many workers to create their own employment to earn a living. However, the picture for business owners of color is significantly different than that of white business owners. Between 2007 and 2012, the number of white-owned businesses decreased, suggesting that those workers were able to find employment elsewhere. At the same time, the percentage of workers of color who own businesses increased from 13% to 16%, a change representing two million additional firms. Of those additional businesses, 1.9 million had no paid employees, meaning they were self-employed workers. Unfortunately, the relative gains in business ownership among people of color did not translate into equal improvements in income. While the latest data show that the average value of minority-owned businesses increased by nearly $22,000 (10.8%) since 2007, the average white-owned business saw their value rise by more than $121,000 (22.6%) during that same period.



These combined factors—lower growth in value for minority-owned-businesses, the sustained jump in microenterprise ownership overall and the continued high underemployment rate—suggest that despite economic recovery, American households are left patching together sources of income to make their budgets work. Unfortunately, if income is the first link in a broken chain, other indicators of financial health like savings or homeownership are unlikely to improve. These data suggest that if we maintain the status quo, there is little hope for low- and moderate-income families to make their way up the hill and provide better futures for themselves and their children.

It's clear that bold systemic changes are needed across all sectors of the economy to usher in a recovery that translates into genuine prosperity and breaks the cycle of financial insecurity. That means ramping up policies and programs we know can make an enormous difference and reforming private-sector practices such as predatory lending, which perpetuates debt and financial insecurity for millions of vulnerable Americans.

In short, we need to rethink many of the structures, systems and assumptions on which our current economy is built. We need to create an opportunity economy where anyone who works hard can get ahead, where every American has a clear and critical stake, and where policies and programs are designed to encourage upward mobility.

How do we create an opportunity economy?

We can start by taking an honest look at our federal, state and local policies. We know that effective policy changes lives. That means we need to expand policies that work

so they are available to all families who need them. It also means reforming those policies that stand in the way of economic opportunity.

Examples of effective public policy abound. Few legislative initiatives in recent memory demonstrate the impact of policy more clearly than the Affordable Care Act (ACA). In the law's first full year of implementation, uninsured rates dropped to an historic low of 13.5%—a whopping 3.2-percentage-point decrease from 2013. The decline was especially dramatic among people of color, with rates falling nearly five percentage points nationally to 19.7%.

The impact of the ACA also underscores the important role states can play in implementing federal policy. Kentucky, for example, embraced the new law from the beginning, creating a robust state health care exchange and significantly expanding Medicaid. The result was the largest single-year decrease in uninsured rates of any state in the nation. The state's new governor, Matt Bevin, had pledged to roll back Medicaid expansion and dismantle the exchange, threatening to undo a policy that has provided health insurance to a half-million Kentuckians.[7] He recently announced that he would shut down the state's health insurance exchange but backtracked on his Medicaid plans, saying he would restructure rather than repeal Medicaid expansion, possibly by requiring premiums and co-payments.[8] While that is preferable to eliminating the expansion altogether, Governor Bevins should avoid reforms that increase the financial burden on vulnerable families. Instead, Kentucky should continue to serve as a model for other states of effective implementation of the ACA. Currently, just 30 states[9] and the District of Columbia have expanded Medicaid. The rest have a public duty to do so.

Another notable example of how policy can change lives is the Earned Income Tax Credit (EITC)—the most effective anti-poverty program in the country. In 2013, the federal government spent $61 billion[10] to increase the incomes of 27 million low-income taxpayers and lifted 6.2 million out of poverty.[11] The EITC increases the incomes of hard-working families struggling to cover basic expenses—adding 20-50% of their earned income to their budgets[12]—and enables families to start saving for a more secure financial future.

The EITC is a model policy for an opportunity economy. Policymakers on both sides of the aisle agree that it works, coming together just recently to make permanent several important provisions in the EITC and Child Tax Credit. Now we need to take the logical next step and increase the effectiveness of the EITC by boosting support for childless workers and using the program to support emergency savings with a Rainy Day EITC. Twenty-six states and the District of Columbia have adopted EITCs that expand on what the federal credit puts in the pockets of low-income taxpayers. More states should do the same. Federal, state and local policymakers also need to increase funding for EITC outreach and community tax preparation so those who are eligible know about and can take advantage of the credit.

Unfortunately, while policies like the EITC can reduce inequality, unfair tax programs make inequality worse. The federal government spends nearly nine times as much on tax programs designed to encourage upper-income households to save, invest and build wealth as it does on the EITC. All told, the top 0.1% gets more from these "upside-down" tax programs than the entire bottom 80% combined.[13] Turning these upside-down tax programs right-side up is imperative to building an opportunity economy.

Polices can also ensure that those in the private sector are playing fairly. Since its creation in 2011, the CFPB has taken important steps to make this happen—including dramatic reforms in areas such as mortgage lending and servicing, debt collection and prepaid cards. However, much more work remains to be done. For instance, the predatory lending industry has pressured the Bureau on payday and auto-title lending regulations. Consumers should not have to wait any longer for the CFPB to promulgate strong rules to rein in an industry that preys on the most vulnerable. Federal regulation would also empower states to build on already-established consumer protections and would help level the playing field for consumers who live in states with few, if any, protections against the small-dollar loan market. Just 17 states and the District of Columbia have regulations in place to protect consumers from payday loans; 29 states and the District of Columbia have done so for auto-title loans. The rest should follow suit. In an opportunity economy, there is no room for unfair players who take advantage of struggling families.

Policy support is also needed to fund the expansion of innovative programs that help families achieve financial well-being. Approaches such as financial coaching, credit building and Children's Savings Accounts should be integrated into social service systems, schools and workplaces so they reach those who need the most help. Addressing the perilous state of American family finances cannot be achieved by any one group or sector. Instead, action is required from all players in the system, including the business community, education leaders, nonprofits and government agencies.

Change starts at the top. During the 2016 presidential campaign, our political leaders need to make the financial security of all Americans a key priority. Fortunately, there are signs that more are paying attention than in years past to the long-term societal implications of entrenched wealth and income inequality. Recent economic stagnation makes these issues difficult to ignore. However, paying lip service to a few policies isn't enough. Our political leaders need to join with all other sectors to embrace a true opportunity economy that provides low- and moderate-income families a real chance to make it to the top of the mountain.

ADDRESSING THE RACIAL WEALTH DIVIDE

Racial and ethnic disparities exist across all dimensions of financial security and quality of life measures, from average earnings to college attainment to life expectancy. Even the *Scorecard*'s state outcome ranks are directly correlated with the proportion of a state's white population—that is, the greater the share of a state's population is identified as white (and not Hispanic), the better the state's overall rank. This is, in large part, the result of the deliberate, long-term exclusion of racial and ethnic minorities from the middle class and the financial mainstream, itself the product of long-standing prejudices.

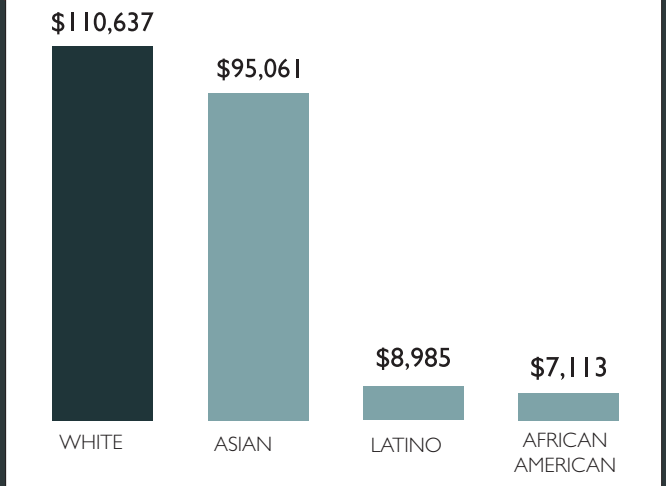
The depth of racial wealth inequality demonstrates the challenges of combating economic inequality, as no one solution will adequately bridge the broad divide, nor are all households of color confronted with identical obstacles on the path to financial security. Only a comprehensive approach to helping households of color—from all backgrounds—achieve financial stability will effectively remedy the disparity in outcomes, and help bring every American family to a place of true opportunity.

Let's take the example of lack of wealth and lower homeownership rates for African-Americans and Latinos. The median net worth of white households today is nearly $111,000, compared to $9,000 for Latino households and just over $7,000 for African-Americans. Home equity is a greater share of African-American and Latino household wealth than it is for other ethnic groups,[14] yet their homeownership rates lag behind not only white households, but every other racial and ethnic group. This shortfall limits the amount of wealth and credit available to these families, and restricts access to everything from health care to well-paying employment to quality K-12 education. These critical elements of financial security are all intrinsically tied to property location and value, both of which have historically been influenced by racial bias and discrimination. Systemic racial wealth inequality thus compounds, and has far-reaching implications.

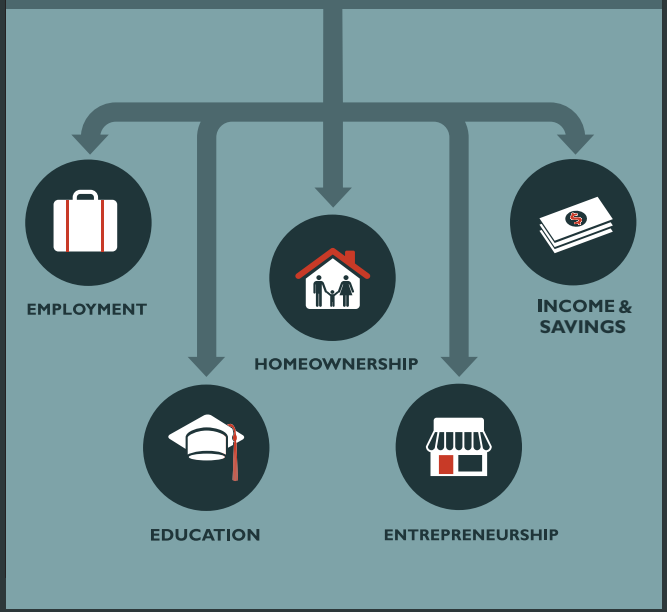
To allow for a more meaningful analysis of racial disparities, starting this year, the *Scorecard* will feature data disaggregated by race for 18 different measures, including rates of homeownership, income poverty, liquid asset poverty and high school graduation.

In addition to expanding the *Scorecard*, CFED has launched the Racial Wealth Divide Initiative to partner with leaders, especially leaders of color, in identifying and advancing best practices and policies aimed at closing the divide. We hope you will join us as we work to ensure that all households of color have an equal chance to achieve economic opportunity.

MEDIAN HOUSEHOLD NET WORTH BY RACE



UNEQUAL ACCESS TO THE FOLLOWING CONTRIBUTES TO THE RACIAL WEALTH DIVIDE:



ASSETS & OPPORTUNITY SCORECARD

FINANCIAL ASSETS & INCOME

A good, stable income is the first step toward financial stability, and by that measure, our economy is failing low- and moderate-income families. Approximately one out of every seven households (14.5%) lives below the federal **income poverty** line, a rate that has remained virtually unchanged in four years. **Income inequality** also hasn't budged—households at the top of the income range continue to have five times the annual income of those at the bottom ($109,918 vs. $21,883 nationally).

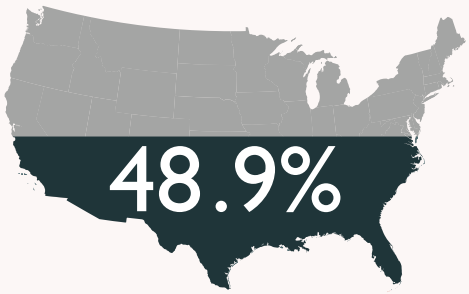
Without a decent income, accumulating savings is nearly impossible, leaving families with no ability to plan for the future or contend with a financial emergency. Nearly 44% of households are **liquid asset poor**, meaning they have less than three months of savings to cover expenses if they lose a job, face a medical emergency or are hit by some other unexpected income disruption. Furthermore, one in three American **households has no savings account**, leaving them more vulnerable when emergencies arise. And, these emergencies aren't uncommon; a recent survey found that six out of 10 households reported experiencing a financial shock, such as income loss or a major unexpected expense, in the last year. More than half of those households, burdened by stagnant incomes and little or no savings, had a difficult time making ends meet in the aftermath of such shocks.[15]

Without the savings to cover emergencies, credit is often the next best option. On the bright side, consumers' ability to keep up with credit payments has improved considerably since the recession. Nearly 80% of borrowers were current on their credit obligations over the past year nationally, and the rate of **on-time payers** exceeds the pre-recession highs in every state. As a result, the percentage of **credit users with prime credit** has steadily increased over the past several years, with 33 states and the District of Columbia outperforming their pre-recession peaks. Yet, even with these recent gains, only 49% of consumers with "scorable" credit files have prime credit scores, meaning that roughly half either wouldn't qualify for credit, or would pay high premiums to access that credit.

Where borrower performance has improved, however, the credit market has lagged significantly. **Access to revolving credit** (the percentage of consumers with an open credit card or home equity line of credit) has fallen since the recession. Nationally, access to revolving credit has declined from a peak of 74% in 2007 to 68% in 2014. Access has also fallen in 34 states, including Arkansas, Mississippi and West Virginia, which saw double-digit declines from their 2007 peaks. The majority of American households require some amount of credit to manage their finances, but with limited

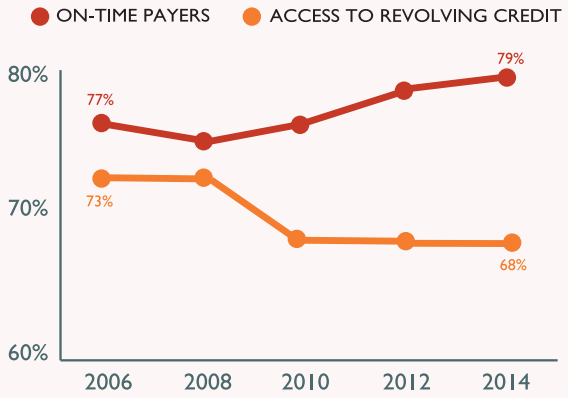
THE HOUSEHOLD INCOME POVERTY RATE

REMAINS UNCHANGED AT 14% [$24,250 FOR A FAMILY OF 4]



OF CONSUMERS HAVE PRIME CREDIT SCORES (720+)

ON-TIME PAYMENT HAS INCREASED
WHILE ACCESS TO REVOLVING CREDIT HAS NOT



income and without access to traditional credit or savings to fall back on, families are left with few options.

Not surprisingly, many turn to the most accessible source of quick cash in their communities—payday, auto-title and other small-dollar, short-term installment loans. Many states have recognized the harmful impact of these **predatory loan products**. A majority of states regulate these practices in some way, although laws offer varying degrees of protection. Overall, 17 states and the District of Columbia cap interest rates at 36% APR or lower or prohibit payday loans, 29 states and DC cap interest rates or prohibit auto-title loans, and seven states protect against high-cost, short-term installment loans. Five states—Connecticut, New Jersey, New York, North Carolina and Pennsylvania—have prohibited or capped all three types of predatory loan products. But despite these incremental steps in the handful of states where they have been enacted, more work remains to be done to ensure low-income borrowers don't fall prey to the never-ending cycle of debt perpetuated by the small-dollar lending industry.

Such reforms are a critical step for families trying to save and plan for a more secure financial future. With an improving economy, more states should invest in policies that promote longer-term economic opportunity for all families. Several states have embraced a more expansive view of financial security by supporting policies such as **Individual Development Accounts** (IDAs) and retirement savings programs. State IDA programs provide low- and moderate-income households opportunities to increase savings for targeted goals—most commonly postsecondary education, homeownership or business ownership. Oregon, which already contributes the most funding of any state for an IDA program, recently renewed its strong support for building long-term opportunities for low- and moderate-income savers by increasing funding for its IDA program to $10.7 million annually through 2022. Fourteen states and the District of Columbia provided funding for IDAs in 2015, and most of those have maintained stable funding over the last three years.

Supporting **retirement savings** through Individual Retirement Accounts into which workers are automatically enrolled (known as Auto-IRA programs) is another opportunity for states to increase long-term financial security while reducing families' reliance on Social Security and other public benefits programs later in life. In June 2015, Oregon enacted legislation to establish a state-run Auto-IRA program. This system, when fully implemented, will provide employees in the state not covered under an employer-sponsored plans with an automatic, state-administered option to safely save for retirement. Oregon now joins Illinois as one of just two states that have enacted Auto-IRA legislation. California, which was the first state to launch a study commission tasked with making recommendations for an Auto-IRA program, continues to study its options and will likely introduce a legislative proposal in the near future.

FINANCIAL ASSETS & INCOME POLICY AT THE FEDERAL LEVEL

In November 2015, the U.S. Department of the Treasury introduced a retirement savings account that is simple, affordable and carries little risk. The program, known as ***my*RA**, is geared toward the millions who have historically been discouraged from opening retirement accounts, such as low-income, part-time, or temporary workers. Essentially a Roth IRA that requires no upfront fees to open, *my*RA allows participants to contribute as little or as much as they choose as long as it does not exceed the yearly Roth limit of $5,500 annually. The program only invests deposits in U.S.-backed Treasury bonds as well, making them a safe option for generating returns larger than a typical savings account. To learn more, please visit myra.gov.

BUSINESSES & JOBS

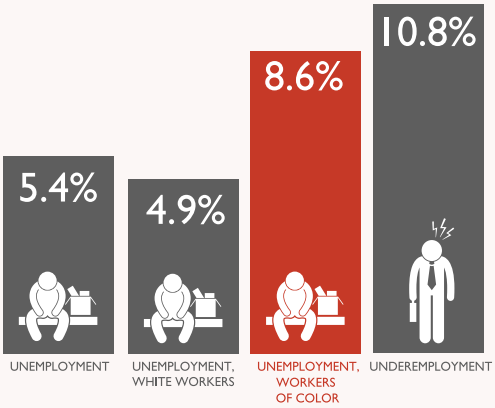
The continuing decline in the national unemployment rate to five percent in 2015 was good news for the U.S. economy, but it masked some disturbing trends. **The underemployment rate**—the percentage of those who are unemployed, employed part-time but looking for full-time work, or who recently stopped looking for work outright—remains high, with rates more than double the state unemployment rate in 21 states. The percentage of **low-wage jobs** remains high as well, with the share of jobs paying an annual wage lower than the national poverty threshold having increased to 25.6%. In nine states, more than one in three jobs is low-wage; of these states, six have a relatively high racial minority population.[16]

While unemployment did decline nearly equally across the board for both white workers and workers of color, the national unemployment rate for African-Americans (11.5%) remains nearly two full points greater now than the national rate for *all* workers at the height of the economic crisis. Furthermore, African-Americans are unemployed at double-digit rates in 35 states and the District of Columbia.

Trends in **microenterprise ownership** echo this troubling picture. As unemployment spiked in 2010, many Americans who couldn't find jobs turned to self-employment to earn income, with 16.6% of the labor force owning businesses with fewer than five employees. **Business ownership rates among workers of color** also increased from 13% in 2007 to nearly 16% in 2012. This represents an increase of over two million firms owned by people of color. While this measure includes businesses of all sizes, all but 100,000 had no paid employees, suggesting that people of color have been especially likely to turn to self-employment to fill income gaps caused by heightened unemployment rates.

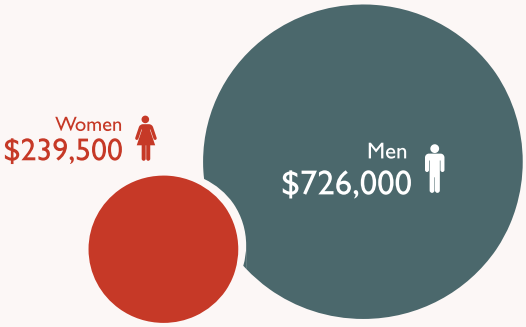
In contrast, among white business owners, the total number of businesses actually decreased by more than one million firms from 2007. The majority of this decline was among firms without paid employees, which, coupled with the related trend among minority business owners, indicates that post-recession employment opportunities favored white workers. And although the gap in business ownership between white and black workers narrowed, the **business value gap by race** grew. The value of minority-owned businesses—measured in sales, receipts or revenue—improved nationally, but declined in 13 states and the District of Columbia between 2007 and 2012. Over that period, white-owned businesses increased in average value in every state and by $121,000 nationally. As a result, the average white-owned business now is worth nearly three times the average minority-owned business ($656,364 vs. $224,530, respectively).

UNEMPLOYMENT BY RACE



BUSINESSES OWNED BY MEN ARE WORTH

3X MORE THAN BUSINESSES OWNED BY WOMEN



The **gender gap in business value** is even more galling. While businesses owned by women are worth $239,500 on average, businesses owned by men are worth more than three times that amount, at over $726,000. In fact, at the state-level, the highest average business value for women—$436,191 in Delaware—is *still* below the lowest average business value for men, $459,074 in Maine.

The persistence and growth of substantial gaps between ownership rates and average business value by race and gender underscore the need for states to make strong investments to **support microbusiness development**. States should continue to make investments in these businesses by directing federal funding received through Community Development Block Grants (CDBG), the Workforce Innovation and Opportunity Act (WIOA) and Temporary Assistance for Needy Families (TANF) to support low-income entrepreneurs and microbusiness development. In 2015, 23 states permitted the use of federal CDBG funds to support microbusiness, while 17 states permitted federal TANF or WIOA funding to do the same.

Even with state support, starting a business is not yet a viable option for many low- and moderate-income households whose goal is simply to find stable and secure sources of income in a changing job market. To create new opportunities for gainful employment, states should support workforce development through **sector partnerships**. These partnerships build career pathways for workers to meet the current and future needs of employers in the community. States can support sector partnerships by providing funding or technical assistance to community-based organizations, community colleges, chambers of commerce and other workforce-oriented organizations. States also can promote the use of sector partnerships by adopting legislation or administrative policies tied to state workforce development programs. Twenty-one states currently provide support for sector partnerships through one of these approaches.

States also should ensure that all workers have access to jobs that pay a **minimum wage** that helps them meet their basic needs and start building savings. Currently, 15 states and the District of Columbia are on track to guarantee a wage of at least $10 per hour by 2017 or index their minimum wage rates to the rate of inflation. A growing movement is further stressing the need for states to look beyond this simple threshold and set their long-term targets even higher, with New York leading the way with a proposal to raise the state's minimum wage to $15 per hour statewide by 2021.[17]

BUSINESSES & JOBS POLICIES AT THE FEDERAL LEVEL

President Barack Obama signed the **Workforce Innovation and Opportunity Act (WIOA)** into law in July 2014. WIOA, the nation's largest investment in workforce development, has several key updates that support financial capability for low- and moderate-income households. Financial education is now required for workforce agencies administering youth employment programs and an "allowable service" for adults. The Department of Labor has yet to write rules governing these new provisions, but it does detail the types of activities included in youth financial literacy curriculum. States will submit their plans to the Department of Labor by 2016. Advocates can submit comments to states on draft plans and should stay abreast of new developments as the Department of Labor releases additional guidance on financial literacy.

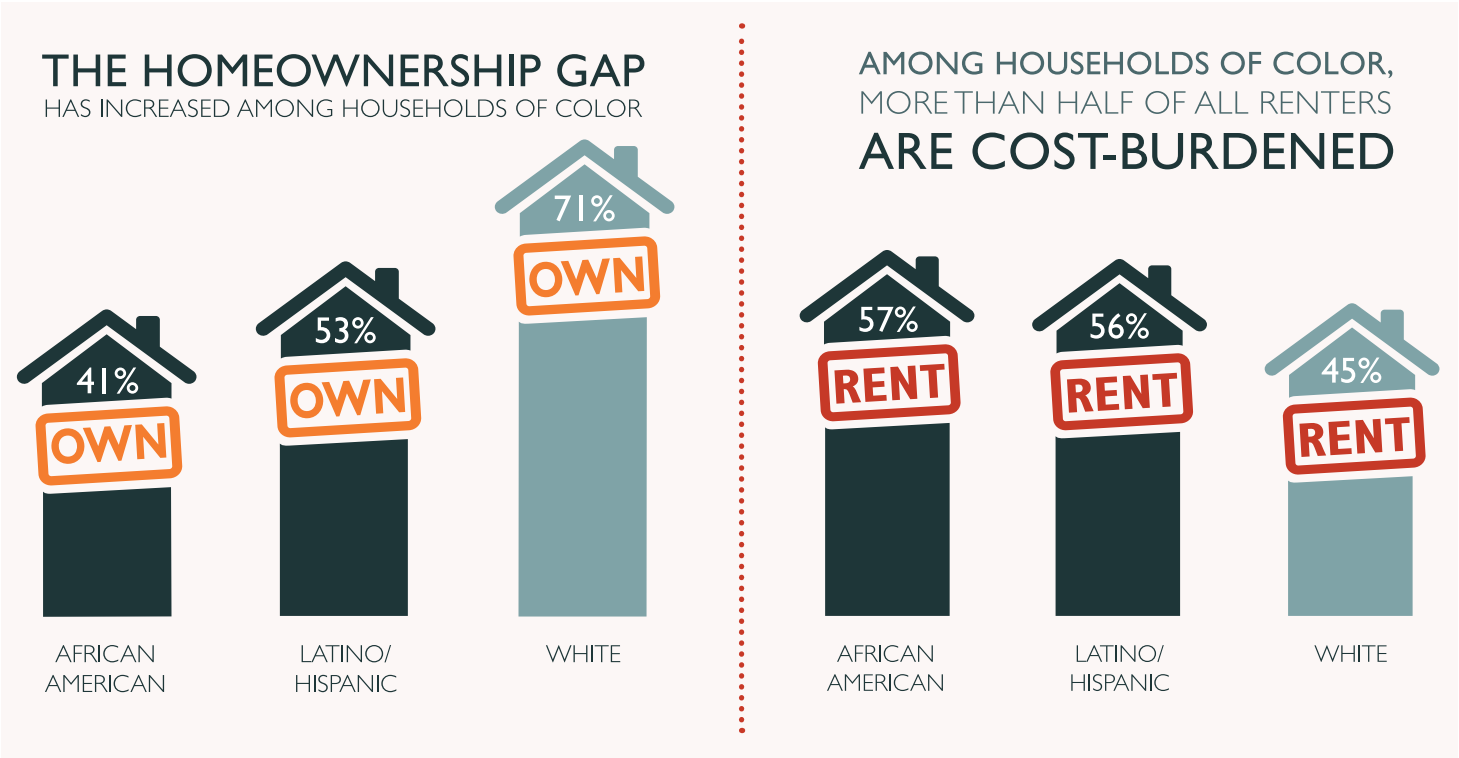
HOUSING & HOMEOWNERSHIP

Homeownership remains the greatest source of wealth for the majority of U.S. households, serving not only as shelter but as a signifier of social status and access to the drivers of upward mobility. The housing market has shown strong signs of stabilizing over the five years since the worst of the foreclosure crisis, with the national **foreclosure rate** declining for the fifth consecutive year, reaching 2.1% in 2015. Most notably, Florida—which experienced the greatest spike in foreclosures during the height of the crisis—has seen its foreclosure rate plummet to 4.2% from a high of 14.5% in 2011.

Although declining foreclosure rates may seem like an indicator of market stabilization, the reality is that many who experienced foreclosure aren't returning to homeownership. **Homeownership rates** are at historic lows, down to 63.1% from a high of 67.3% in 2006. And while homeownership is declining among all racial and ethnic groups, it has fallen by a much larger degree among households of color. The **homeownership gap** between white households (71%) and households of color (45%) remains wide as ever, stretching to over 26 percentage points in 2014. This gap has increased consistently over the past decade, and became more pronounced when the foreclosure crisis devastated the wealth holdings of African-American and Latino homeowners. African-American households currently have the lowest homeownership rate (41.2%) of all racial groups, nearly 30 percentage points lower than that of white households (71%); Latinos fare little better with a rate of 45%. Additionally, the percentage of African-American homeowners with negative equity in their homes (14.2%) is more than double that of white homeowners,[18] demonstrating the recovery isn't reaching those who would benefit most and who have been historically excluded the benefits of homeownership.

Even for those who can afford to purchase a home, an increase in **high-cost mortgage loans** once again makes owning a home a riskier proposition. The rate of home purchase loans classified as high-cost more than doubled in 2013 to 7.1%, its highest level since the housing market cratered.

Without affordable homeownership as an option, households turn to renting, but in many places, renting doesn't equate to saving money on housing costs. The percentage of **cost-burdened renters**—those paying more than 30% of their income on rent—increased in 2014 to 51.8%, even as the rate of **cost-burdened homeowners** decreased for the fourth consecutive year. Among households of color nationally and in 39 states, more than half of all renters are cost-burdened, including 57% of all

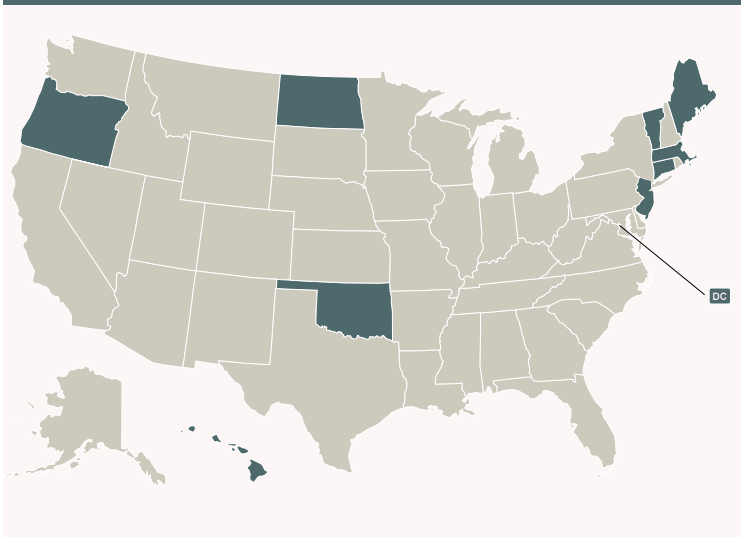


African-American and 56% of all Latino rental households. In only four states are the majority of white households who rent cost-burdened.

These stark realities highlight the need for states to proactively support safe and affordable routes to homeownership. States have a vested interest in growing stable and prosperous housing markets and thus should embrace first-time homebuyer assistance programs. As budgets begin to stabilize, states should reverse the trends of the past several years and reinvest in **homeownership counseling** and **direct-lending programs** to encourage homeownership for low- and moderate-income families. Nearly every state and the District of Columbia has recognized the importance of providing some degree of support for first-time homebuyers by offering **downpayment assistance**, with only Hawaii not currently offering this support.

Unfortunately, as beneficial as these policies may be toward eventually stemming the tide of declining homeownership rates, policies that create more options for buying a home are unlikely on their own to be sufficient to solve the housing needs for most low- and moderate-income families harmed by the housing crisis. Therefore, states also must take action to ease the pressures of increasingly prohibitive rental markets to guarantee that the most vulnerable families will not be prejudicially left without affordable housing options. One way of doing so is to provide **protection from discrimination for low-income renters** by including housing choice vouchers (formerly known as Section 8 vouchers) as a protected source of income under state fair housing statutes. Only nine states and the District of Columbia currently prohibit housing choice voucher "source of income" discrimination. Without these protections, many low-income renters will continue to be left without safe and stable housing opportunities.

9 STATES & DC PROHIBIT HOUSING CHOICE VOUCHER "SOURCE OF INCOME" DISCRIMINATION



HOUSING & HOMEOWNERSHIP POLICY AT THE FEDERAL LEVEL

In 2008, federal legislation placed an obligation on Fannie Mae and Freddie Mac to serve low- and moderate-income families by making the affordable housing finance market more robust. This past December, the Federal Housing Finance Agency (FHFA) proposed a set of **"duty to serve"** rules that spell out how Fannie and Freddie will meet this responsibility. It covers three core underserved markets—manufactured housing, affordable housing preservation and rural housing—and describes ways Fannie and Freddie can make and monitor progress toward the objective of facilitating financing in these markets. When it comes to manufactured housing—an appealing and affordable homeownership option for low-income households—the proposed rules would apply to units financed as real estate (rather than those financed with personal property, or chattel, loans) and to manufactured housing communities that meet certain qualifications. The proposed rules also include provisions for pilot programs to test whether Fannie and Freddie could invest more in chattel loans. The shape of the final rules will become clearer after the comment period closes in March 2016.

EDUCATION

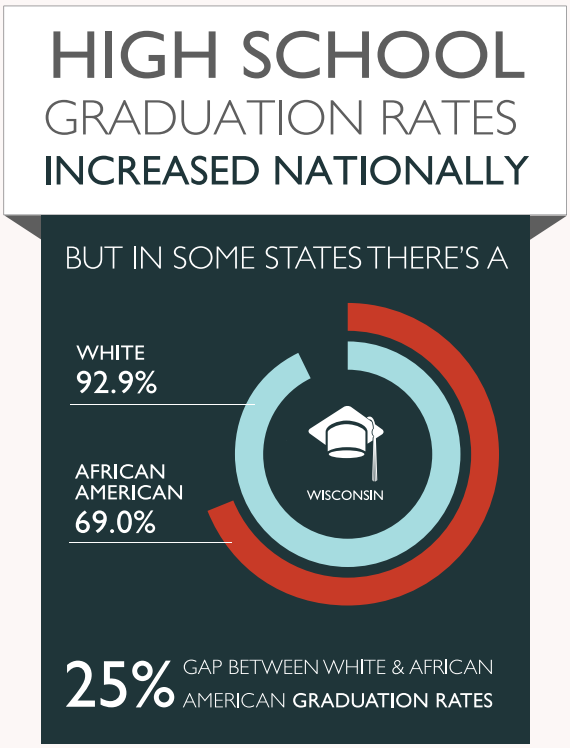
As the era of No Child Left Behind comes to a close, many indicators show slow but evident progress in educational attainment. **High school graduation rates** continue to climb across the country, having increased nationally and in 39 states from 2013 to 2014. This marks the fourth consecutive year of improvement. The proportion of the adult population with **four-year college degrees** also increased in 43 states over the same time period, with Wyoming and Iowa leading the way in gains in two-year and four-year degree attainment, respectively.

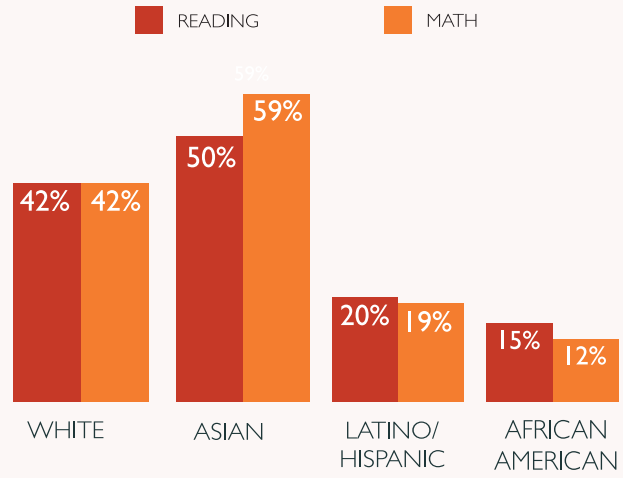
While high school graduation rates have increased across the board, there remains a sizable achievement gap between white and Asian students versus other students of color. The nationwide high school graduation rate is 87.2% for white students and 89.4% for Asian students, but only 72.5% for African-American students and 76.3% for Hispanic and Latino students. In some states, the disparity between white and African-American students is over 25 percentage points, such as in Wisconsin, where the graduation rate is 92.9% for white students and 69.0% for African-American students.

These disparate outcomes begin well before high school, as demonstrated by **8th-grade math and reading proficiency rates**. Both declined nationally after a decade of steady improvement, dropping to 32% and 34% of students performing at or above proficient in math and reading, respectively. Reading proficiency rates fell in 40 states, while math proficiency rates declined in 41 states. Though proficiency rates are abysmal across the board, the nation's failure to provide a foundation for educational success for all students is more pronounced when the data is disaggregated by race. Nationally, only 15% of African-American students and 20% of Latino students tested at a proficient level or above on reading exams, compared to 42% of white students and 50% of Asian students. The math proficiency gap is no better: only 12% of African-American students and 19% of Latino students tested at a proficient level.

This inequity has long-term consequences. Although rates of **disconnected youth**—those aged 16-24 who are neither working nor enrolled in school—decreased in 36 states and the District of Columbia, rates of disconnected youth of color remain six points higher than rates for their white counterparts. The problem is most acute among young Native Americans (26.3%) and African-Americans (20.6%), who remain disconnected at rates nearly double and triple those of young white Americans (10.8%), respectively.

A level playing field for education must begin with equitable investments in education funding. Many school districts rely heavily on local property taxes to support



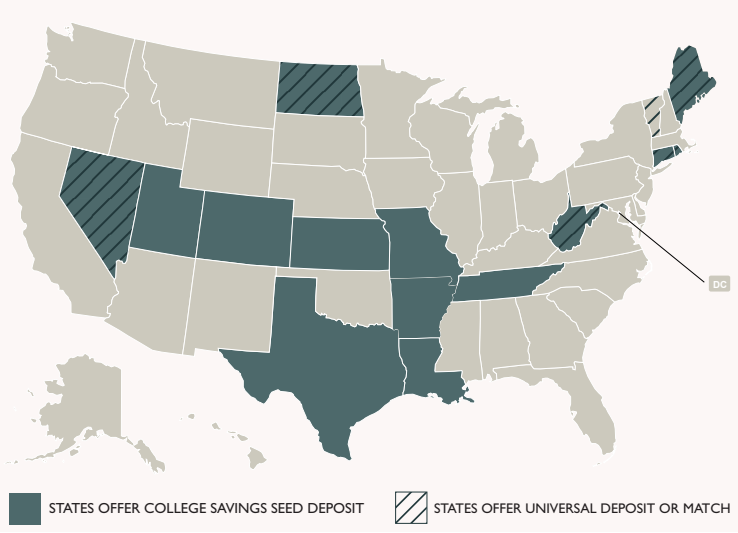


education, a funding source that ensures large disparities between wealthy and high-poverty districts. To ensure resource needs are equally met across all districts, states should seek statewide sources of **K-12 education funding** that provide sufficient levels of per-pupil spending. While per-pupil spending averages $10,700 nationally, several states spend significantly less than that amount on their students, suggesting their need to seek additional funding sources.

Unfortunately, many of the gaps that appear in data by the 8th grade trace their origins to the earliest inequalities in education. **Access to early education** through pre-K programs can have lasting impacts on children's learning outcomes and their success in life. Currently, 40 states and the District of Columbia offer statewide pre-K programs. However, programs in only 23 of these states and the District of Columbia meet comprehensive quality pre-K standards, while only 14 states and the District of Columbia fund pre-K education at levels sufficient to provide high-quality programs. States should also consider providing supplemental **Head Start funding**. Only 13 states made this investment in 2015.

Finally, states should make investments to continue reducing potential financial barriers to postsecondary education, especially for low- and moderate-income students. **College savings incentive** policies have the potential to make higher education goals more attainable and to encourage persistence through the K-12 years and into college. States can make simple changes to encourage saving in 529 college plans by providing no-fee options and eliminating minimum deposits to open an account. Two states – Colorado and Utah – have minimized these barriers for potential savers. States can encourage further growth in their 529 accounts by offering income tax credits for contributions. Three states—Indiana, Utah and Vermont—offer this incentive. And to truly encourage saving for college, states should offer families a seed deposit or savings match for children born or adopted in their states. Currently, 14 states have taken this extra step by offering a deposit or match into a college savings account, while seven states ensure that their deposit or match incentives are offered universally to all children.

14 STATES OFFER A COLLEGE SAVINGS DEPOSIT OR MATCH; **7 STATES** OFFER A UNIVERSAL SEED DEPOSIT OR MATCH



EDUCATION POLICY AT THE FEDERAL LEVEL

Signed into law by President Barack Obama on December 10, 2015, the **Every Student Succeeds Act** (ESSA) gives states and districts more authority to develop ways to measure teacher and principal performance and effectiveness, a divergence from No Child Left Behind, which concentrated this authority more heavily in the federal government. ESSA places less reliance on standardized testing and acknowledges the unique needs and barriers among states and districts, encouraging more autonomy rather than a one-size-fits-all approach. States and districts can take advantage of this increased flexibility to focus on more practical measures, such as financial capability, that are critical to their population's future.

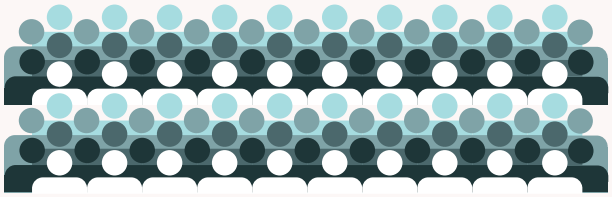
HEALTH CARE

After several years of anticipation, 2014 was the first year in which the major coverage provisions of the Affordable Care Act (ACA) went into effect. The results are promising. Nationally, **uninsured rates** fell from 16.7% in 2013 to 13.5% in 2014—an historic low. This 3.2-percentage-point decrease translates to roughly *8.2 million people with health insurance who previously had no coverage.* Rates also declined in every state and the District of Columbia, most notably in Kentucky, Nevada and West Virginia, where uninsured rates plummeted by more than six percentage points.

Uninsured rates fell significantly for people of color, declining by nearly five percentage points nationally to 19.7%, compared to a 2.5-percentage-point drop for white Americans. Rates fell among people of color in 48 states and the District of Columbia, with Alaska and New Hampshire the lone states that saw rate increases. While health insurance coverage improved by a much greater margin for people of color, significant racial disparities remain. People of color are twice as likely as whites to be uninsured, and the health insurance gap actually expanded between the two groups in 2014.

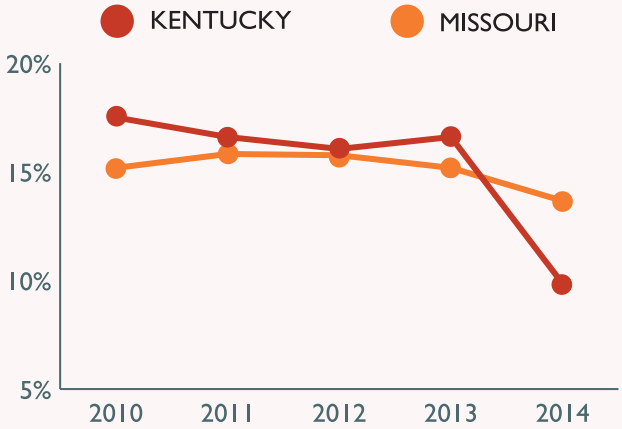
In addition, the **uninsured rates among those in the lowest 20%** of the income distribution remained stagnant, holding steady at just above 22%. Rates among this cohort increased in 31 states, including all 20 states that have refused to **expand Medicaid** under the ACA's expanded income eligibility guidelines. The expansion of income eligibility in Medicaid is a key driver of a state's uninsured rate. Thirty states and the District of Columbia now have expanded Medicaid—including Alaska, Indiana and Montana in 2015—with the remaining states that have not chosen to expand largely concentrated in the South and Midwest. The uninsured rate in states that did expand Medicaid dropped 3.6 percentage points, while the uninsured rate in states that did not expand Medicaid dropped only 2.8 percentage points.

This discrepancy was particularly noticeable in the South, where most states did not expand Medicaid, but one that did experienced a massive drop in uninsured residents. Kentucky enjoyed a drop of 6.75 percentage points in its overall uninsured rate, and an even larger drop—8.2 percentage points—for Kentuckians in the bottom income quartile. The impact of Kentucky's decision to expand Medicaid becomes clear when the state is compared to its neighbors. Missouri, for example, which did not expand Medicaid, saw a drop in its uninsured rate of just 1.52 percentage points. Missourians' access to affordable health care was further restricted by the fact that it has the second-lowest income threshold for Medicaid eligibility in the nation, at only 22% of the federal poverty level.

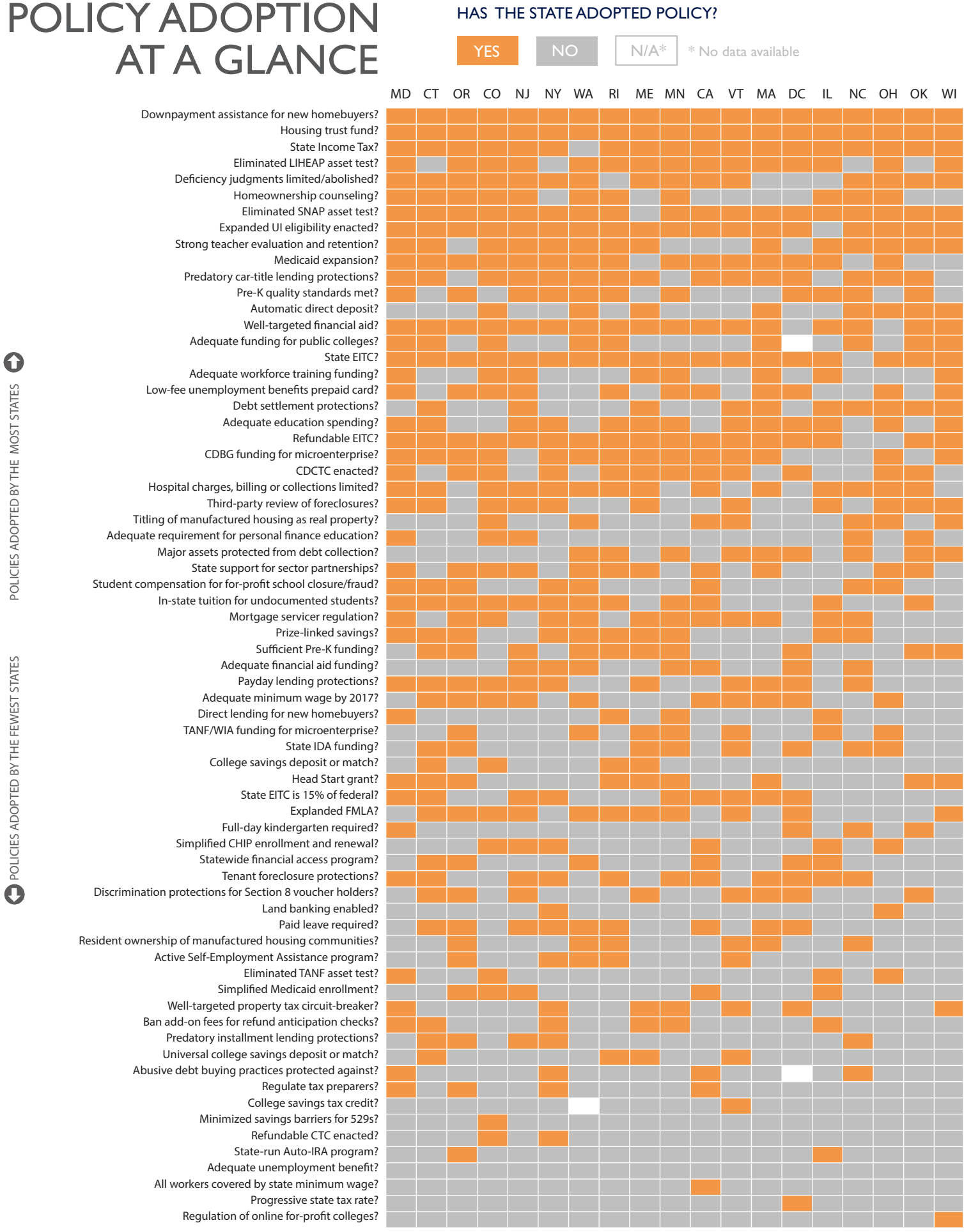


8.2 MILLION
ADDITIONAL PEOPLE
HAVE HEALTH INSURANCE
AFTER ACA'S IMPLEMENTATION

UNINSURED RATES DROPPED 6.75% IN KENTUCKY AFTER **MEDICAID EXPANSION**



POLICY ADOPTION AT A GLANCE

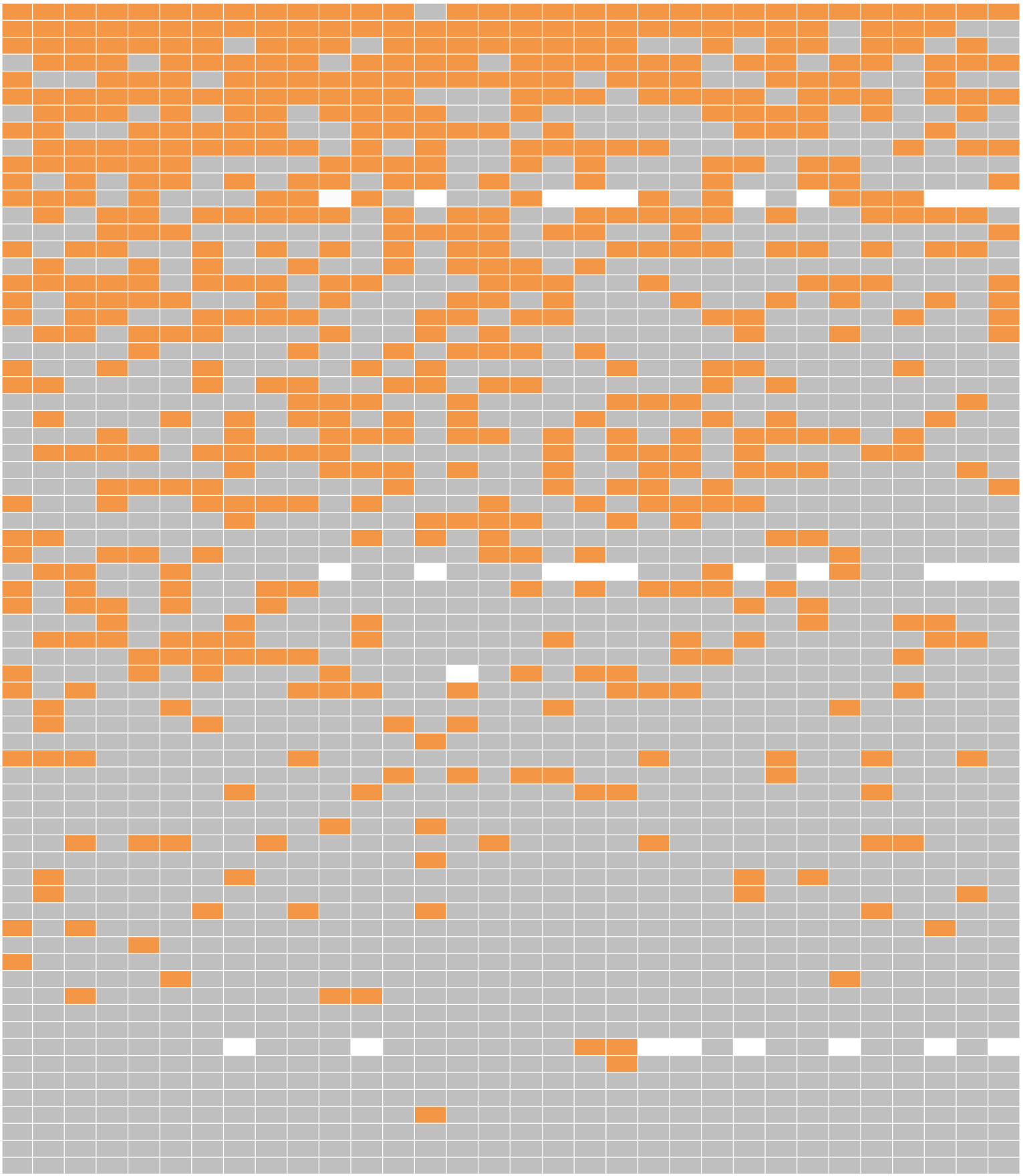


ASSETS & OPPORTUNITY SCORECARD

STATES ADOPTING THE MOST POLICIES

STATES ADOPTING THE FEWEST POLICIES

AR DE WV AZ MI PA VA FL GA LA ND NV IA HI KS NE NM ID IN UT TN TX KY NH SC MT AK AL MO SD MS WY



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HAS THE STATE ADOPTED POLICY? YES NO N/A* * No data available

ENDNOTES

[1] Robert B. Avery, Kenneth P. Brevoort & Glenn Canner, *Credit Scores, Race and the Life Cycle of Credit: Evidence from Credit Records* (Washington, DC: Board of Governors of the Federal Reserve System, 2008).

[2] All data cited in this report, unless attributed to another source, is from the 2016 *Assets & Opportunity Scorecard*. For more information on measure definitions and sources, please visit http://scorecard.cfed.org.

[3] An extremely low-income (ELI) household is one whose income is at or below 30 percent of the area median income. A housing unit is "affordable" if its reported monthly rent and utilities, from the American Community Survey (ACS), were less than or equal to 30 percent of the income limit for ELI households in that area. The number of adequate, affordable and available units is found by then subtracting both vacant and occupied substandard units, which are those with incomplete plumbing or kitchen or cooking facilities. For more information, see Josh Leopold, Liza Getsinger, Pamela Blumenthal, Katya Abazajian and Reed Jordan, *The Housing Affordability Gap for Extremely Low-Income Renters in 2013* (Washington, DC: Urban Institute, 2015).

[4] Kenneth P. Brevoort, Philipp Grimm and Michelle Kambara, *Data Point: Credit Invisibles* (Washington, DC: Consumer Financial Protection Bureau, 2015), 6.

[5] *2013 National Survey of Unbanked and Underbanked Households* (Washington, DC: Federal Deposit Insurance Corporation), Appendices, Table D-5, 66.

[6] Susanna Montezemolo, *Payday Lending Abuses and Predatory Practices: The State of Lending in America & its Impact on U.S. Households* (Durham, NC: Center for Responsible Lending, 2013), 2.

[7] Amy Goldstein, "Kentucky's Newly Insured Worry About Their Health Under Next Governor," *Washington Post* (Washington, DC), Nov. 9, 2015.

[8] Deborah Yetter, "Questions Linger Over Bevin's Medicaid Plans," *Courier-Journal* (Louisville, KY), Jan. 5, 2016.

[9] In early 2016, Louisiana moved to expand Medicaid, which will take effect July 1, 2016. However, because the 2016 *Assets & Opportunity Scorecard* only measures policies enacted in the 2015 calendar year, Louisiana will not be credited as having expanded Medicaid until the 2017 *Scorecard*.

[10] Ezra Levin, Jeremie Greer and Ida Rademacher, *From Upside-Down to Right-Side Up: Redeploying $540 Billion in Federal Spending to Help All Families Save, Invest and Build Wealth* (Washington, DC: CFED, 2014), 25.

[11] *Policy Basics: The Earned Income Tax Credit* (Washington, DC: Center on Budget and Policy Priorities, 2015).

[12] Jennifer Sykes, Kathryn Edin, Laura Tach and Sarah Halpern-Meekin, *It's Not Like I'm Poor: How Working Families Make Ends Meet in a Post-Welfare World* (Berkeley: University of California Press, 2015). For a household with three children earning $15,000, the value of the EITC is $6,242 and the value of the Child Tax Credit is $1,800, totaling $8,042. This figure does not include other possible credits, state refunds and refunds from over-withholding.

[13] Levin, Greer and Rademacher, *Upside-Down to Right-Side Up*, 25.

[14] Authors' analysis of the 2011 data from the U.S. Census Bureau's Survey of Income and Program Participation.

[15] *How Do Families Cope with Financial Shocks? The Role of Emergency Savings in Family Financial Security* (Washington, DC: The Pew Charitable Trusts, 2015).

[16] More than one in three jobs is low-wage in Alabama, Arkansas, Florida, Louisiana, Mississippi, New Mexico, South Carolina, South Dakota and West Virginia. Of these, only Arkansas, South Dakota and West Virginia have a population of color of less than one-third of the total population.

[17] The Governor of New York proposed an all-industry minimum wage of $15 per hour statewide by 2021. Wage orders have already been issued to raise the minimum wage for fast-food workers, state employees and employees of the State University of New York in New York City to $15 per hour by the end of 2018 and statewide by mid-2021. See "Governor Cuomo Announces State University System to Raise Minimum Wage for its Employees to $15 an Hour," Office of the New York State Governor, Jan. 4, 2016.

[18] Michael Fletcher, "A Shattered Foundation," *Washington Post* (Washington, DC), Jan. 24, 2015.

ASSETS & OPPORTUNITY
NETWORK

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WORKING TO IMPROVE OUTCOMES FOR FAMILIES

To improve policies and programs that promote financial security and opportunity, CFED is the backbone organization for the national Assets & Opportunity Network, which is comprised of nearly 2,000 advocates, service providers, researchers, financial institutions and others, representing all 50 states and DC. To learn more about and join the Assets & Opportunity Network, visit **http://assetsandopportunity.org/network.**

To connect with Network Leaders in your state, visit **http://assetsandopportunity.org/network/states/.**

ACKNOWLEDGEMENTS

The authors thank CFED staff and consultants—Roberto Arjona, Norman Black, Sandiel Grant, Kristin Lawton, Sean Luechtefeld, Amy Saltzman and Samuel Weinstock—for their contributions to the report and also thank Joanna Ain, Dedrick Asante-Muhammad, Anju Chopra, Jeremie Greer, Ezra Levin, David Newville, Emanuel Nieves, Lillian Singh and Andrea Levere for their invaluable feedback and guidance.

The *Assets & Opportunity Scorecard* was made possible through the generous support of the Ford Foundation and the Northwest Area Foundation.

ABOUT CFED

CFED's work makes it possible for millions of people to achieve financial security and contribute to an opportunity economy. We scale innovative practical solutions that empower low- and moderate-income people to build wealth. We drive responsive policy change at all levels of government. We support the efforts of community leaders across the country to advance economic opportunity for all. Established in 1979 as the Corporation for Enterprise Development, CFED works nationally and internationally through its offices in Washington, D.C.; Durham, North Carolina, and San Francisco, California.

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