

CSD Working Papers

Wealth Building Strategies in Rural States: Are They Doing Enough?

William Schweke

CSD Working Paper

2005

Wealth Building in Rural America Project



Center for Social Development

Wealth Building Strategies in Rural States: Are They Doing Enough?

William Schweke
Vice President of Learning and Innovation
CFED
schweke@cfed.org

CSD Working Paper

2005

Center for Social Development
George Warren Brown School of Social Work
Washington University
One Brookings Drive
Campus Box 1196
St. Louis, MO 63130
tel 314-935-7433
fax 314-935-8661
e-mail: csd@gwbmail.wustl.edu
<http://gwbweb.wustl.edu/csd>

WEALTH BUILDING STRATEGIES IN RURAL STATES: ARE THEY DOING ENOUGH?

By William Schweke, CFED¹

If the poor and near-poor Americans are to achieve lasting economic advancement, we need to promote a path that provides a better “starting gate,” as well as helps individuals and families to weather economic hardships. In our view, asset building is key. This is true for rural as well as urban households.

The purpose of this paper is to undertake an initial and rough assessment of asset building efforts in rural states.² It begins by setting the scene through short discussions of why broadened asset ownership matters, how has the United States supported opportunity-enhancing asset policies in the past, and what the federal government is doing today to advance this agenda. We then argue that the current fiscal distress faced by our national government hinders it from playing a larger role. So, during the next decade, innovative states are the most likely candidates to be the champion of more inclusive asset policies and a major public investor. Next, we compare state-by-state the assets base of their citizenry and the policies that can help or hinder their ability to get ahead. Following this, we analyze the current practice of America’s 15 most rural states. The paper concludes with a brief series of suggestions for rural asset policymakers, advocates, and practitioners.

¹ Much of this paper draws on my colleagues work on the *2005 Assets and Opportunity Scorecard*.

² It is difficult to get a good handle on the rural angle on assets. Two papers by Jami Curley and Michael Grinstein-Weiss – “A Comparative Analysis of Rural and Urban Saving Performance in Individual Development Accounts” and “Individual Development Accounts in Rural Communities: Implications for Research” – are practically the only such studies. These reports find that there are not large differences between rural and urban IDA households. But there were some program nuance issues that surfaced. For example, using IDA funds in rural areas for car purchase seemed advisable. The smaller scale of the communities helped in establishing a trust factor between program managers and participants more easily. Yet, rural communities’ smaller population base made fundraising more difficult.

There is also a thesis that runs through this paper. The American Dream rests on two pillars: first, a family's ability to build assets that can be used to invest for the future, send children to college, and weather unexpected financial storms; and second, safety nets and safeguards that provide financial security in the event of a job loss, medical emergency, or other life events that could otherwise put a family into a tailspin.

Why Does Broadened Asset Ownership Matter?

Academic Michael Sherraden contrasts assets with income in this way: “*Assets* refers to the stock of wealth in a household . . . *Income* refers to the flow of resources in a household, a concept associated with consumption of goods and services and standard of living.” More technically:

An asset is an entity possessing market or exchange value, and forming part of the wealth or property of the owner. In economics an important distinction is made between “real” assets, which are tangible resources like plant, buildings and land yielding services in production or directly to consumers; and financial assets, which include money, bonds, and equities, and which are claims or titles to receive income or to receive value from others³.

Assets, thus, represent the ability to invest in the future—to build skills to earn living incomes, to acquire the security of home, to enter the marketplace with a new idea or venture, to invest in children or oneself. According to Mark Schreiner, assets are also the

³ MIT Dictionary of Economics

way "we move resources through time." They are durable and can be leveraged—allowing for relatively great appreciation; they are flexible. Assets provide insurance against the economic havoc imposed by illness, disability, loss of a job, and other acts of fate. And assets instill a confidence in the future that income alone cannot provide. Finally, they can be passed onto future generations.

In this paper, we have a somewhat broader conception of assets. Besides the obvious categories, such as savings, stocks, bonds, homeownership, and business equity, we also focus on two other “assets”. First is human capital. We reason that, in the old days, land was the asset that made for self-sufficiency. Today it is educational background, credentials along with workplace skills. Although human capital is not fungible, asset accumulation is connected in three ways: (1) the greater the education, the greater the financial literacy, including the understanding of the importance of assets and the role they play in securing a future, (2) postsecondary education is one of the three main eligible investments for IDA programs, and (3) education is part and parcel of the continuing stream of intergenerational wealth. (Families with wealth can give their children a better position in the labor force by providing them with premier post-secondary educational opportunities.) Moreover, we also include access to health insurance as protection against income interruption and asset depletion from medical bills. In fact, skyrocketing health care costs and a lack of adequate health insurance is one of the major causes of bankruptcy.⁴

Sadly, assets are very unequally distributed in the United States. Past research has documented that *more Americans are asset poor than income poor*. In the United States,

⁴ We could also have included: pensions, life and auto insurance, etc. Pension policy is mainly a federal concern. Insurance regulation is, in fact, a state responsibility. But in the interest of time, money, and complexity, we felt like we had to draw the line somewhere. So, it was omitted.

the distribution of assets is highly unequal, far more unequal than the distribution of income. For example, while the top 20 percent of wage earners commands 43 percent of earned income, they control 86 percent of net financial assets.⁵ Of equal if not greater concern is the large number of “asset poor” families. Research by Robert Haveman and Edward N. Wolff estimates that, even using a liberal definition of asset poverty—net worth needed to survive for three months at the poverty line—the asset poverty rate (25.5%) is twice that of the income poverty rate (12.7%).⁶ Thus, in the event of the sudden loss of a job, one in four American families today lack sufficient net assets to survive at the poverty line for three months.

Studies also show that financial wealth varies widely across the states. There is a racial divide in wealth ownership in America’s state, as well as a wealth gender gap (e.g., single parent, female-headed households possess few financial assets). Moreover, asset ownership is continuing to become even more unequally distributed as the rich get richer and income growth from the lowest quintile has almost been stagnant for the past decades.

A Capsule History of Federal Asset Development Policy

Asset-based development strategies are not novel approaches; in many respects they are “old-hat.” Two outstanding examples of successful American asset building policies are the Homestead Act and the GI Bill of Rights.

⁵ Melvin Oliver and Thomas Shapiro, *Black Wealth/White Wealth: A New Perspective on Racial Equality*. New York: Routledge, 1997), p. 69.

⁶ Robert Haveman and Edward Wolff, *Who are the Asset Poor?* (University of Wisconsin Institute for Research on Poverty: April 2001) Discussion Paper No. 1227-01. Similar research by the Consumer Federation of American, the National Credit Union Foundation, and the Credit Union National Association, using the same data but a different definition of asset poverty, yielded similar results. Using a definition of net assets less than \$10,000, the CFA, NCUF and CUNA study also found that 25 percent of all U.S. households are wealth poor.

Passed by the U.S. Congress in May 1862, the Homestead Act catalyzed settlement of the American West. It provided settlers 160 acres of public land in exchange for living on that land for five years. From 1862 until 1900, the Homestead Act provided between 400,000 and 600,000 American families with farms and new homes. (Supposedly, the Homestead Act provided the property endowment for 25% of the current American population.)⁷

The GI Bill of Rights was a driving force in America's post-WW II economic expansion. It was used by more than 10 million WW II and Korean War veterans to get an education. 9.8 million loans totaling \$141 billion were made for homes and businesses under the GI loan programs. According to the Joint Economic Committee of the U.S. Congress, "For every dollar the government invested in education under the GI Bill, the nation received at least \$5 and as much as \$12.50 in benefits." The income differential for veterans who received an education under this program reached an average of \$19,000 per year.⁸

Other examples of asset-based development strategies include: the 30-year home mortgage, the deduction of interest from home mortgages, the secondary market for housing loans, the Individual Retirement Account (IRA), the tax favorability for capital gains, and a plethora of savings and investment-oriented tax incentives.⁹

⁷ Ray Boshara, *USA's: Universal Savings Accounts – A Route to National Economic Growth and Family Economic Security* (Washington, DC: Corporation for Enterprise Development, 1996), p. 8).

⁸ U.S. Congress, Joint Economic Committee, Subcommittee on Education and Health, "A Cost-benefit Analysis of Government in Post-Secondary Education under the World War II GI Bill," Staff Report, December 14, 1988.

⁹ Thus, U.S. asset-building policies can be traced back to the reconstruction period shortly after the civil war. Asset-building is nothing new but has historically been largely aimed at non-poor households. Further, those policies have *defined* the non-poor and the poor. In the first hundred years of our nation's existence African Americans were property, not owners of property. Owning land and/or commercial ventures was restricted to white *men*. Those early policies, while long amended or abolished, continue to reverberate in today's America. The distribution of wealth today reflects those long-ago policies that created tremendous opportunities for the acquisition of assets for a narrow portion of the population at the same time that they excluded the majority from those very same opportunities.

Anti-poverty policies have traditionally focused on income, spending, and consumption. However, a new vision is steadily emerging--one that focuses on savings, investment, and asset accumulation--that works in conjunction with, not *instead of*, traditional anti-poverty and safety net programs. Although the trend toward asset accumulation for all can be traced as far back as the Homestead Act, only recently have the savings and asset base of the poor gained any attention.

What Are The Feds Up To Today?

One of the most important new anti-poverty asset tools is the Individual Development Account (IDA). IDAs are matched savings accounts designed to help low-income and low-wealth families accumulate a few thousand dollars for high-return investments in education, homeownership, and microenterprise. Low-income individuals save regularly, typically over a three-year period, and have their savings matched by public or private funders.

To date, the Assets for Independence Act (AFIA) has served as the cornerstone for the IDA field. As the primary source of Federal support for IDA programs, AFIA has helped to expand IDAs from the handful of accounts in the 1990s to the more than 20,000 accounts that exist today. AFIA also has helped to cultivate the IDA field by catalyzing its growth, sophistication, and capacity. Going forward, AFIA will continue to be a crucial funding source for the burgeoning IDA field and the thousands of working poor families who are saving and building assets for the future.

The reauthorization of AFIA presents an important opportunity to make small, but critical modifications to increase AFIA's uptake and ensure its success in the coming years. The reforms are principally focused on making the program more flexible in allowing a wider range of matching monies and easing compliance complexities, as well as expanding eligibility beyond the poor to those households with moderate-incomes. AFIA needs to be refinanced to the tune of \$125 million for five years.

After nearly passing five years in a row, the Savings for Working Families Act – a proposed federal IDA tax credit – is still alive and kicking. If it was signed into law by the President, \$450 million would be made available in IDA tax credits to match the savings of working families and would allow up to 300,000 IDAs to be created.

The IDA Tax Credit would work by providing financial institutions with a dollar-for-dollar tax credit for every dollar they contribute as matching funds for IDAs, up to \$500 per IDA per year. The Credit would substantially expand the amount of matching funds available for IDAs and cement them as an asset-building tool for low-income Americans in the federal tax system.

Cosponsored by Senators Chuck Grassley (R-IA) chairman of the Committee on Finance, Max Baucus (D-MT) ranking member of the Committee on Finance, Rick Santorum (R-PA) and Joseph Lieberman (D-CT) and supported by President Bush, the strongly bipartisan IDA Tax Credit proposal is backed by a coalition of organizations representing the financial, nonprofit, academic, and corporate sectors.

Such well-targeted federal programs and proposals are exceptions. Today, the federal government spends billions of dollars on asset-building for the affluent, through a wide variety of programs and initiatives. A CFED study, *Hidden in Plain Sight*, analyzed

such spending and tax policy, thereby, determining how much federal asset policies cost, where the money goes, and who benefits. In Fiscal Year 2003:

- Measured conservatively, federal asset policies cost \$335 billion a year.
- Spending to stimulate asset accumulation is the result of many disparate and uncoordinated programs, with no coherent strategy, no explicit asset budget, and little public scrutiny.
- Benefits go disproportionately to those who already have assets. Of the three biggest programs, accounting for more than half of the federal expenditures, roughly one-third of the benefits go to the richest one percent of Americans — those with an average income of over \$1 million per year.
- Less than 5 percent of the benefits go to the bottom 60 percent of taxpayers.
- Many of the programs can be used only by those individuals with certain types of assets or levels of tax liability.

How big is this asset-building budget? Even by the standards of the federal government, \$335 billion is a lot of money. It is about ten times more than what Washington spends on housing assistance programs. It is five times more than the government invests in higher education (\$62 billion). It is also five times more than it spends on building roads, bridges, and mass transportation systems (\$62 billion). At \$335 billion, it is only a little bit smaller than the Pentagon's budget (\$377 billion).

Where does the money go? More than 93 percent of it goes to support homeownership, reward retirement savings, and subsidize other kinds of savings and investments, primarily through the taxation of capital gains and estates.

Who benefits? Many of the programs are theoretically universal, and there are some specifically aimed at the middle class and the poor. In practice, however, the data show that the major beneficiaries are those with the most assets already.

Although the Bush Administration does support the Savings for Working Families Act and a renewal of AFAI, the looming and growing federal budget deficit will discourage lots of innovation and spending on asset building strategies for the economically disadvantaged. For the next few years, innovative state governments are more likely candidates for more aggressive action on this front.

How Can States Help?

States possess the expenditure, procurement, regulatory, and tax policies to make a significant contribution to the “assets for the poor” movement. Although many states are hindered by out-of-date revenue systems, they are recovering from the last recession and are more fiscally healthy than the federal government. CFED’s *Assets and Opportunity Scorecard* gives us a tool with which to ascertain the overall picture of asset holdings and asset policies in America’s states. Following this, we then focus on our most rural states and gauge their level of commitment and creativity.

Are America's States Fostering "An Ownership Society?"

For American families to fully participate in the ownership society they need more than a job and income. They also need the opportunity to build assets for the future and to protect those assets against unforeseen events. As this country engages in a national conversation about ownership, it is useful to know what the financial security picture in America really looks like.

CFED's *Assets and Opportunity Scorecard* shows that today's ownership society is far from inclusive. *Nearly one in five American households has a zero or negative net worth.* In the event of a job loss, one in four households does not own enough to support it at the poverty line for three months. And the picture is even bleaker for women and people of color: one in four female-headed households and one in three minority-headed households has a zero or negative net worth.

Data paint a mixed, though concerning, picture of financial security among Americans:

- Homeownership - a key source of asset-building – is a true success story and is at an all-time high. This said, the growth of homeownership has slowed substantially. The homeownership rate was 67 percent in 2000 and 68 percent in 2003, and there is wide variance across the country. A little more than half of New Yorkers own their own homes, for example, while more than three quarters of West Virginia's do. Minority homeownership, while also growing, continues to lag substantially behind white families'.

- Health insurance – which provides a critical financial safety net and protects owned assets – is on the decline. Fewer people are covered by employer-provided health insurance—66 percent were covered in 2000 but only 64 percent were by 2003. Nearly four million people lost employer-provided health coverage during that time.¹⁰ Related research shows that half of all bankruptcies in the United States result from unexpected illness or medical bills.¹¹
- Net worth – a basic indicator of financial security – remains widely disparate. Female-headed households have only half of the household net worth of all Americans; minority-headed households have only one tenth. Median net worth is at low of \$500 for minority-headed households in New York; the high, \$169,000, is for white-headed households in Massachusetts.

The road to ownership and financial security is long and complex. For many Americans, it starts with gaining the skills and education to enter the economic mainstream. Later, it may mean saving, buying a home, starting a small business, and investing. And for all Americans, it means making sure that one job loss, one catastrophic illness, or one household crisis doesn't cause their financial stability to collapse like a house of cards.

How We Measure Financial Security

¹⁰ Elise Gould, "The chronic problem of declining health coverage," Economic Policy Institute, September 16, 2004, EPI Issue Brief #202.

¹¹ David U. Himmelstein, Elizabeth Warren, Deborah Thorne, and Steffie Woolhandler, "Illness and Injury As Contributors To Bankruptcy," Health Affairs, Market Watch, February 2, 2005.

The 2005 Assets and Opportunity Scorecard is a state-level snapshot of how the country is performing in five key areas: financial equity, business development, homeownership, health care and education. The Scorecard uses a broad array of outcome and policy measures to assess states' asset-building and asset-protection capacity. After analyzing 31 outcome measures across five issue areas, only one state, Maine, receives all As and Bs. In looking at 38 policy measures, only the District of Columbia, Massachusetts, Minnesota, and New York are headed in the right direction in all five issue areas.

Getting to Ownership: Education, Homeownership and Small Business

Development

Education is the first step to achieving security, acquiring assets, and building wealth. Working Americans who are well-educated and well-trained provide returns for society; they create a workforce that is productive, agile, and responsive to economic changes. The report card shows promising trends in education.

- The percent of poverty-level children served by a Head Start program increased in 46 states between 2001 and 2003.
- College attainment rates increased in 43 states since the late 1990s. The attainment gap by income has closed slightly, yet the wealthiest 20 percent of Americans complete college at a rate over six times that of the poorest 20 percent.

In addition to education, accessible homeownership and an entrepreneurial culture can form the foundation of a true ownership society. Home equity is the single largest component of household wealth for most Americans. Small business creation has often been a route into the middle class for many Americans. States are finding creative ways to support small business development and homebuyer assistance. For example, 19 states make Community Development Block Grant funding available for microenterprise support. Thirty-six states have a state housing trust fund.

Facilitating Ownership: Banking Access and Leveraging Savings

Before buying a home or starting a business, individuals and families must be able to build assets over time. One of the basic factors that determine the ability of low-income households to accumulate assets is access to mainstream financial products and services. However, the Scorecard shows that banking access has declined and bankruptcies have increased.

- In 2002, only 29 percent of Americans had a checking account (down from 33 percent as recently as 1996) and 57 percent of Americans had a savings account (down from 59 percent in 1996.) The lowest rates can be found in Georgia where 18 percent of households have a checking account, in West Virginia where just 24 percent of households have access to a savings account.

- Personal bankruptcies have reached an historic high.¹² Related research shows that per capita consumer bankruptcy filings increased in 49 states between 2000 and 2003.¹³

In addition to bank accounts, individuals and families can leverage their assets through matched savings accounts designed specifically for low-wealth citizens such as Individual Development Accounts (IDAs). Unfortunately, only 27 states have a state-supported IDA program. Tools that encourage lending in underserved communities are even more underutilized. For example, only seven states have enacted Community Reinvestment Act legislation covering state-chartered banks and only eight states have legislation creating lifeline bank accounts to expand access to mainstream financial services.

Protecting Ownership: Health Insurance, Anti-Predatory Lending and Asset Limits

Health care costs and predatory lending can strip away hard-earned assets, and asset limits for public assistance can discourage saving. Health insurance provides some degree of asset protection, but the report card shows that, while insurance is increasingly available to some of the states' most vulnerable citizens, access is quickly slipping away for others.

¹² "Personal Bankruptcy Filings Continue to Break Records," November 14, 2003, American Bankruptcy Institute.

¹³ "Annual U.S. Bankruptcy Filings by State 2000-2003." American Bankruptcy Institute.

- The rate of uninsured low-income children declined in 40 states, but it remains alarmingly high in some states, such as Texas (34 percent), Nevada (29 percent), and Colorado (27 percent).
- The rate of employer-provided health insurance continues to drop. New Mexico, Montana, and Texas have the lowest rates of coverage at 54 percent.

Research shows that predatory lending is responsible for stripping billions of dollars of assets from low-income families and communities each year.¹⁴ Many states have enacted legislation against predatory lending in recent years. In North Carolina, for instance, abusive prepayment penalties declined by 72 percent since that state's legislation was enacted in 1999.¹⁵ Asset limits that determine eligibility for federal assistance benefits discourage saving. Ohio and Virginia stand out as the only states that have eliminated asset limits for means-tested programs.

Disparities in Ownership

Minority and women-headed households own much less than the national average. These gaps are slowly closing, which could mean gains for traditionally excluded groups, losses by white- and male-headed households, or both.

¹⁴ Stein, Eric. "Quantifying the Economic Cost of Predatory Lending," Coalition for Responsible Lending, July 25, 2001.

¹⁵ Waldron, Tom. "Leading the Charge Against Predatory Mortgage Lending," Self-Help for The Annie E. Casey Foundation, Advocasey, Winter 2005, Volume Seven, Number One.

- The asset poverty gaps by race and gender have both narrowed. However, while one in five American households has zero or negative net worth, this is true for one in four female-headed households and one in three minority households.
- The asset inequality between white households and minority households has diminished. Likewise, the net worth of female-headed households is catching up to that of male-headed households. However, female-headed households have half the net worth of the average American household, and minority-headed households have one-tenth the net worth.
- The homeownership gap between white and non-white heads of household and between female and male heads of household narrowed slightly, improving in a majority of states.

Finding Financial Security

In order for all Americans to reap the benefits of a true ownership society, policymakers and advocates must focus on the one in four Americans households that are asset poor. On a national level, more broadly based ownership will foster social mobility and help drive the economy forward. On an individual level, holding more assets will pull people out of poverty and help to keep them out.

Strong, effective policies change lives everyday, but no state has adopted all the policy tools currently available to help families build and protect assets. Advocates and policymakers can use the Assets and Opportunity Scorecard as a tool to evaluate their states' strengths and weaknesses as well as identify effective state policies. At a

minimum, state governments should foster an environment in which all Americans can achieve financial security by acquiring savings, a home, an education, a small business, and health care. To do so, states should remove barriers to asset accumulation, support asset building, and protect assets that already exist.

What's The Picture in Rural States?

There are 15 states that have rural populations of 36% or more. The 2005 Scorecard gave these states the following overall grades on **Assets Outcomes**:¹⁶

- Alabama – D (Rural population: 44.6%)
- Arkansas – F (47.6%)
- Iowa – A (38.9%)
- Kentucky – C (44.3%)
- Maine – A (59.8%)
- Mississippi – D (51.2%)
- Montana – C (46%)
- New Hampshire – A (40.8%)
- North Carolina – C (39.8%)
- North Dakota – B (44.2%)
- South Carolina – C (39.5%)

¹⁶ This overall grade is based on a state's grade on: Financial Security Outcomes, Business Development Outcomes, Homeownership Outcomes, Health Care Outcomes, and Education Outcomes. The 2005 Scorecard rates states on policies in these five areas, plus Tax Policy and Accountability.

- South Dakota – B (48.1%)
- Tennessee – C (36.4%)
- Vermont—A (61.8%)
- West Virginia – F (53.9%)

In total, that's 4 A's, 2 B's, 5 C's, 2 D's, and 2 F's. They do better than sheer probability in terms of earning A's, but they do worse regarding a grade of F. The South, which has the highest proportion of rural residents (about 28%), earns the lowest Asset Outcome grades. On the other hand, rural New England performs the best.

Why? Probably Cynthia Duncan's book, *World's Apart: Why Poverty Persists in Rural America* has the most illuminating answer. After noting that two main perspectives on the issue – that the poor's attitudes and culture are to blame or it's the working of the larger economic and social system – are being supplemented by a view that focuses on community institutions.¹⁷ She states that “a highly unequal two-class society was established early on in Appalachia's coal fields and the Delta's cotton plantations, and the divisions were exacerbated in the Delta by the extreme racism that condemned blacks to deep poverty.”¹⁸ She further notes that New England society began with lesser inequalities and richer social capital and this has continued up to now. Her findings are encapsulated in the phrases she recorded from her extensive interviews with the poor:

- Appalachia – “People try to keep you down.”

¹⁷ She, in fact, weaves these explanations into one convincing framework, drawing connections between people's “heads” and “culture” and the larger international, national, regional, and community systems.

¹⁸ Cynthia Duncan, *World's Apart* (New Haven: Yale University Press, 1999) p. 187-188.

- Delta – “Peoples ain’t for you.”
- New England – “We are pretty much in the same boat.”¹⁹

But it’s also important to get a sense if states are trying hard to improve their Asset Outcomes. This requires looking at their rankings on **State Asset Policy**.

After all, public policy choices at the state level matter; they can have a great impact on how people work toward financial security. They create opportunities for individuals to build assets, but they can also throw up barriers that impede wealth creation. For example, a state can provide an incentive for education savings plan deposits for low-income families. Or a state can penalize these low-income savers by setting limits on how much families can own and still remain eligible for public benefits.

In the Scorecard, we track 38 state policies, which span financial security, business development, homeownership, health care, education, and tax policy and accountability.

Many things impact assets and opportunity. States’ policies are just one set of factors, but they nonetheless play a role in helping or hindering families who try to get ahead and plan for the future. While some states are further ahead than others in terms of such policies, all states have room for improvement. The Scorecard can be used as a tool for benchmarking what’s working, what’s not, and where change may be necessary.

CFED chose not to give a grade for the policy measures and instead, place them in one of three groups. Our rural states shake out as follows:

¹⁹ Duncan does not deal with the West or Midwest. The former strikes me as a mixture of the mining, ranching, and small homesteading economic cultures (coupled with great racial homogeneity, except for Native Americans). The Midwest reflects more of the homestead influence, coupled with deep poverty on the Indian reservations in places like the Dakotas.

- *Favorable*: California, Connecticut, Delaware, District of Columbia, Illinois, Iowa, Maine, Maryland, Massachusetts, Minnesota, New Jersey, New Mexico, New York, North Carolina, Oregon, Pennsylvania, Rhode Island, Texas
- *Standard*: Colorado, Florida, Kansas, South Carolina
- *Substandard*: Alabama, Alaska, Arizona, Arkansas, Georgia, Hawaii, Idaho, Indiana, Kentucky, Louisiana, Michigan, Mississippi, Missouri, Montana, Nebraska, Nevada, New Hampshire, North Dakota, Ohio, Oklahoma, South Dakota, Tennessee, Utah, Virginia, West Virginia, Wyoming

Needless to say, the rural states, as a whole, are not doing enough to advance this policy agenda.

Now, let's get into some details, regarding how individual rural states rated on both Assets Outcomes and State Policies.

Alabama. Alabama's overall grade on the 2005 Assets and Opportunity Scorecard is a D. In particular, Alabama's financial security outcomes (F) suggest that the Yellowhammer State is struggling with many of the same issues being faced across the country in terms of providing a more financially secure and prosperous future for its citizens. Alabama is among the weakest five states in five measures: household net worth (47th), households with zero net worth (48th), households with checking accounts (50th), households with savings accounts (49th), and bankruptcy rate (50th). In addition to evaluating these outcomes, Alabama could work to strengthen its policies in support of financial security. Policies enacted by other states include, for example, support for asset-

building savings programs, raising the income threshold for income tax liability, and increasing the state minimum wage above the federal level.

On a more positive note, Alabama rates high in terms of both home value (10th) and its homeownership rate (4th). While homeownership is clearly an important vehicle for Alabamans to build assets, it is not yet widely distributed across race (34th), income (41st), or gender (44th) lines.

Arkansas. Arkansas received a grade of F on the 2005 Assets and Opportunity Scorecard. Despite high marks in areas such as small business development, Arkansas had several below average marks and an overall household net worth rank of 43. In the area of homeownership, despite the lower housing prices suggested by the state's home value rank (6th), Arkansas has a moderate homeownership rank (34th) and a low homeownership by income rank (42nd). This suggests the state should consider improving its homeownership policies to take better advantage of the unique opportunity that low housing prices provide for expanded homeownership in Arkansas.

In the area of financial security, the state ranks highly in the number of households with checking accounts (9th), but this access has not translated into greater levels of savings nor into a greater ability to cushion against crises. Arkansas ranks 47th in the number of households with savings accounts, and 45th in bankruptcy rate. Arkansas has enacted policies to promote savings and asset accumulation, such as providing Temporary Assistance for Needy Families funds for Individual Development Account (IDA) savings programs and establishing predatory lending norms and standards, but additional policies should be considered. The state could increase the amount of funding for IDA programs and better regulate payday lending practices.

Finally, Arkansas's education outcomes indicate that too few Arkansans have attained the levels of education that are essential to achieving economic success and stability. The state ranks 50th in the number of people with two and four years of college, and it ranks 50th in degrees by income. This suggests Arkansas could be doing more to promote access to higher education, particularly for lower-income families. To expand access to need-based financial aid, Arkansas could establish a state match for lower-income families' contributions to the state's 529 college savings plan.

Iowa. Iowa earned an overall A grade on the 2005 Assets and Opportunity Scorecard, placing it among the top 10 states in the nation. Despite the national trend indicating that nearly one in five American households has zero net worth or is in debt, the Hawkeye State shows a strong performance in the area of asset accumulation. The state received top 10 rankings in net worth of households (7th), households with zero net worth (7th), and asset poverty (2nd), as well as a 1st-place ranking in households with savings accounts. Iowa received an A in education, outpacing the national trend of stronger educational performance. With top-20 rankings in degrees by race (2nd), gender (12th), and income (16th), traditionally underserved populations are seeing their education needs met in Iowa, despite the low college attainment rate for the state as a whole (37th).

With ahead-of-the-curve policies on asset-building savings programs, workers' compensation benefits, and unemployment benefits, Iowa is creating and supporting wealth-building strategies for its low-income citizens. Iowa clearly prioritizes education with favorable per-pupil spending, equity in school spending, and strong need-based financial aid. Despite its favorable rating, Iowa might consider addressing its policies

around its minimum wage, asset limits for public assistance, and predatory lending norms and standards to ensure that financial security continues to expand across the state.

Kentucky. Kentucky earned an overall C grade on the 2005 Assets and Opportunity Scorecard, reflecting many of the financial security challenges facing the nation on whole. The Blue Grass State's citizens have limited access to mainstream financial institutions as illustrated by its 41st-place ranking in household with savings accounts and 33rdplace ranking in checking accounts. However, Kentucky runs counter to the national trend where female-headed households have only half the median net worth of all Americans and minority-headed households have only one-tenth. Kentucky's 4thplace ranking in household asset equality by gender and 15th-place ranking in asset poverty by race indicate that assets here are more equitably distributed than in many other states. Kentucky also stands out in the relative equity of its homeownership (8th) with top 5 rankings in homeownership by income (3rd) and gender (5th).

Kentucky has strong policies in support of homeownership, in particular, its use of bond sales to promote affordable housing and its support of first-time homebuyer assistance programs. Kentucky also promotes financial security through its strong support of workers' compensation and unemployment benefits. But, in a time where nearly one in five American households has zero net worth or is in debt, the state can do more to put into place policies that will promote greater financial security. Establishing an asset-building savings program for low-income citizens and raising the minimum wage above the federal level are ways the state can support asset accumulation. And by strengthening predatory lending norms and standards, Kentucky can help its citizens protect their assets.

Maine. Maine brought home an overall A grade in the 2005 Assets and Opportunity Scorecard. Pine Tree State citizens clearly understand the importance of assets and have the tools to maintain them. Maine ranks 3rd in the nation for households with savings accounts, and 2nd for lowest percentage of households with zero net worth. Further, Maine is 6th in the nation for asset poverty. The state also shows exceptionally strong outcomes in health care (A), ranking 8th in the nation both in having few uninsured low-income children and few uninsured low-income parents. However, Maine ranks in the middle of the pack in employer-provided health insurance (29th).

Maine's lawmakers vigorously promote asset building through policy and appropriations. Accessible education is recognized through supplemental state funding for Head Start, and Maine is one of only five states that provides matching funds for the college-savings plan deposits of low- and moderate-income families. Targeted programs that promote first-time homeownership and help vulnerable populations with their property taxes not only allow Maine residents to attain assets but also to protect them. One policy the state could explore is the elimination of asset limits for public assistance, allowing low-income people to set achievable goals for asset building without jeopardizing their much-needed public assistance.

Mississippi. Overall, Mississippi received a D grade on the 2005 Assets and Opportunity Scorecard. The Magnolia State's strongest performance is on the Homeownership index (B), where it is among the best states for homeownership by income (ranked 2nd), home value (8th), and homeownership by race (9th). However, when it comes to asset accumulation in general and the ability of Mississippians to hold on to their assets, the picture is considerably less competitive, as demonstrated by the

state's performance on the Financial Security index (D). Mississippi falls into the bottom tier on several of these measures: asset poverty (40th), bankruptcy rate (43rd), subprime loans (48th), net worth of households (49th), and households with savings accounts (50th).

Mississippi's education performance is poor (F), particularly given the importance of educational opportunities for promoting socioeconomic mobility. Mississippi comes in at 45th or below for nearly all of the measures in this index: math and reading proficiency (49th and 50th, respectively), population with four years of college (48th), and the distribution of those four-year degrees by race (45th), gender (49th), and income (51st). However, Mississippi is working on improving its future from the beginning. The state is a leader in Head Start coverage for its children (3rd). Mississippi policymakers have considerable room to explore policies that could improve the state's financial security and education performance, with the support of asset-building savings programs and increased per-pupil spending being just two examples.

Montana. Montana earned an overall C grade on the 2005 Assets and Opportunity Scorecard, the result of a mixed performance. The state ranks in the bottom 10 in a host of asset-building measures - asset poverty (48th), households with zero net worth (47th), and net worth of households (44th) to name a few - indicating that the state's residents lag behind much of the country. However, homeownership and business development (Montana earned an A in both indexes) - representing the first and second largest shares of wealth respectively for most American households - are both bright spots on the Scorecard for Montana. The state ranks 1st in both small business ownership and microenterprise ownership. Health care (F) is an area of weakness; there is relatively little

employer-provided health insurance (50th), many uninsured low-income children (40th), and many uninsured low-income parents (36th) who could see their assets stripped away in the face of unforeseen illness.

There are a number of policies that Montana can use to help move its residents toward financial security. With policies such as workforce training and equity in school spending already in place, the state is not starting from scratch, but Montana has a long way to go to ensure that all of its citizens can build assets. The state might consider lifting asset limits for public assistance and raising its minimum wage above the federal level. In addition, there are a number of asset-protection policies that can also be implemented such as strengthening predatory lending norms and standards and workers' compensation coverage and benefits.

New Hampshire. New Hampshire earned an A overall in the 2005 Assets and Opportunity Scorecard. The state ranks 1st in the nation for having the lowest asset poverty, an indicator of residents' ability to support themselves for three months at the federal poverty level in the face of unexpected loss of income. New Hampshire ranks 2nd in the nation for asset poverty by gender, meaning that this form of financial insecurity is not dramatically higher in female-headed households than it is in male-headed households. While the state's homeownership rate is among the highest in the country (8th), its rank for homeownership by race (41st) indicates the real need for more homeownership opportunities for minorities. New Hampshire has the highest rate of employer-provided health insurance (1st), a desirable position as insurance coverage decreases nationwide.

Despite earning an overall A grade for outcomes, the Granite State's asset-building and retention policies trail the rest of the nation. In the realm of financial security, these include the income tax threshold, the minimum wage, asset limits for public assistance, and asset-building savings program. In education, while New Hampshire awards state funding for Head Start, it falls behind the average national effort in funding preschool, school spending equity, and need-based college financial aid. The state can be commended for its support of microenterprise and small business investment as well as bond sales for affordable housing and first-time homebuyer assistance.

North Carolina. North Carolina received an overall C grade in the 2005 Assets and Opportunity Scorecard. Although North Carolina ranks in the middle of the pack in terms of asset accumulation (25th in net worth of households), the asset building that has occurred in the state has been relatively equitably distributed, as suggested by the Tar Heel State's rank of 8th in asset poverty by gender. North Carolinians could, however, benefit from broader access to financial institutions: the state ranked 48th in households with checking accounts and 36th in those with savings accounts.

Favorable state policies in areas such as predatory lending norms and standards (described as the strongest in the nation), workers' compensation coverage, and unemployment benefit eligibility, help to mitigate threats to financial security and support efforts to build assets. Similarly, North Carolina's first-time homebuyer assistance policies favor wealth creation, but the state's rank of 40th in foreclosures suggests that homeownership is still an area of concern. Several North Carolina education policies (Head Start funding, school spending equity, and workforce training, for example) should also contribute to a stronger position over time.

North Dakota. North Dakota earned an overall B grade on the 2005 Assets and Opportunity Scorecard. With strong performances in a number of asset-building measures such as households with savings accounts (5th), bankruptcy rate (6th), and subprime loans (1st), North Dakota excels in some measures of financial security. A D in the Homeownership index shows that North Dakotans are not taking advantage of the single greatest source of equity for most American households. Homeownership for North Dakotans also is poorly distributed by race (40th) and by gender (48th).

There are a number of policies that North Dakota can use to help move its residents toward greater financial security. With policies in place such as a state-funded Head Start program and high income limits for public health insurance, the state is not starting from scratch. However, North Dakota could consider increasing its minimum wage above the federal level and lifting asset limits for public assistance. North Dakota might also consider supporting policies that protect citizens' assets including strong predatory lending standards and short term loan protections to curb payday lending.

South Carolina. South Carolina earned a grade of C overall on the 2005 Assets and Opportunity Scorecard. Although the state does not rank particularly high in asset accumulation (33rd in net worth of households), it receives high marks on two equity measures: 6th in both asset poverty by race and household asset equality by race. The Palmetto State also receives high marks for its homeownership rate (ranking 6th) and its spread across ethnic groups, ranking 5th in homeownership by race. Despite these promising homeownership outcomes, the state's rank of 49th in foreclosures indicates a serious threat to what is, for many families, the cornerstone of wealth. Further, the state's

progress on improving asset equity across races is not echoed by the comparison between female- and male-headed households. In contrast to the distribution of homeownership and net worth across racial groups, the state ranks only 43rd in asset poverty by gender and 30th in homeownership by gender.

Several South Carolina policies contribute to a framework in support of asset building, such as an asset-building savings program, income tax threshold, predatory lending norms and standards, and workers' compensation coverage. This framework could be greatly strengthened, however, if these measures were complemented by additional financial security policies, such as lifting the minimum wage above the federal level, increasing asset limits for public assistance, and strengthening short-term loan protections.

South Dakota. South Dakota earned an overall B grade on the 2005 Assets and Opportunity Scorecard. With strong performances in several asset-building measures including households with savings accounts (5th), bankruptcy rate (9th), and subprime loans (2nd), South Dakota is among the leaders in some measures of financial security. Its D in the Homeownership index suggests that South Dakotans are not taking advantage of the single greatest source of equity for most American households. Further, homeownership among South Dakotans is poorly distributed by income (46th). The national trend shows improvements across the board in education, South Dakota moved to the head of the class, earning an A in the Education index.

Currently, South Dakota has only a handful of policy measures that encourage asset building, including first-time homebuyer assistance, help for poor farmers, small business

investment, and unemployment benefits. The state might consider focusing its efforts on policies that support financial security, particularly for low-income citizens, such as developing an asset-building savings program and strengthening predatory lending norms and short-term loan protections.

Vermont. Vermont can be very proud of its overall A grade on the 2005 Assets and Opportunity Scorecard. Contrary to a national picture in which one in five American households has zero net worth or is in debt, Vermont ranked 2nd in the nation for having the fewest households with zero net worth. In addition to household wealth, citizens of the Green Mountain State also have assets invested in their own businesses: the state ranks 5th for small business ownership and 2nd for microenterprise ownership (microenterprises are those businesses with fewer than five employees and an initial capitalization of under \$35,000). Vermont also scores well for meeting the health care needs of its population, ranking 1st in the country for fewest uninsured low-income children and 6th for fewest uninsured low-income parents. Health insurance is crucial to financial security, as spiraling health care costs drive people into bankruptcy and employer-provided insurance becomes less common.

Vermont lawmakers have recognized the importance of financial security by putting in place many policies that go beyond the norms of other states' policies. For instance, the state has programs to assist poor farmers, important in a state that is largely rural. It also provides property tax relief to keep vulnerable populations from losing their homes. There are, however, areas where Vermont could enact policies to better help citizens develop financial security. While the state does fund an asset-building savings program, its asset limits on public assistance discourage building financial security while receiving

public assistance. School spending equity across the state, first-time homebuyer assistance, and bond sales for affordable housing to improve overall homeownership are all policies that other states use to encourage asset building.

West Virginia. West Virginia earned an overall grade of F on the 2005 Assets and Opportunity Scorecard. While West Virginia's 5th-place ranking in households with checking accounts is encouraging and reflects widespread access to mainstream financial institution, its 41st ranking in both household net worth and household asset equality by gender highlights the larger problem in terms of families' abilities to build assets. The Mountain State must guard against its top-ranked homeownership rate (1st) being eroded by its high incidence of foreclosures (41st). West Virginians face other challenges as well, especially in education, where the state received bottom 10 rankings in achievement of two years of college (48th), four years of college (51st), degrees by income (47th), and degrees by gender (48th).

While West Virginia has a policy rating of substandard, a number of the state's policies in support of education and training exceed those of other states. These include higher per-pupil spending, better school-spending equity, and more accessible workforce training. And, with policies in place such as strong predatory lending norms and standards and above average workers' compensation benefits, there are some protections for West Virginians' assets. The state should next consider addressing its policies around financial security (perhaps raising asset limits for public assistance and improving family leave benefits), business development (by providing more support for microenterprises), and health care (by providing assistance to those who are hard-to-insure).

Conclusion: Finding Financial Security, Realizing Opportunities

In order for all Americans to reap the benefits of a true ownership society, policymakers and advocates must focus on the one in four Americans households that are asset poor. On a national level, more broadly based ownership will foster social mobility and help drive the economy forward. On an individual level, holding more assets will pull people out of poverty and help to keep them out.

Strong, effective policies change lives everyday, but no state has adopted all the policy tools currently available to help families build and protect assets. Advocates and policymakers can use the Assets and Opportunity Scorecard as a tool to evaluate their states' strengths and weaknesses as well as identify effective state policies. At a minimum, state governments should foster an environment in which all Americans can achieve financial security by acquiring savings, a home, an education, a small business, and health care. To do so, states should remove barriers to asset accumulation, support asset building, and protect assets that already exist.

Rural states face some unique challenges it tackling this agenda.²⁰ Their location and small size often creates other barriers. There are thousands of communities across Rural America and they are too numerous and diverse for any one-size-fits-all asset policy. Rural communities often face larger hurdles in identifying and recruiting families to participate in IDA programs. Their economies typically offer fewer and lower quality employment options.

²⁰ A brief, but thoughtful discussion of rural implementation issues can be found in “Low Income Families Building Assets: Individual Development Account Programs – Lessons and Best Practices” (October 2002), Center for Urban and Regional Studies, University of North Carolina at Chapel Hill, NC.

These obstacles can be addressed in a number of ways. Targeting a multi-county region could expand financing alternatives as well as take advantage of a broader labor market area. Partnering with already established institutions like a CDC or a CAA or an existing program for microfinance or homeownership could increase the scale, avoid costly duplication, and marshal additional expertise. Not surprisingly, more stable funding is needed, especially for administrative costs.

Fortunately, states are closer to the action than the feds and they do possess the fiscal wherewithal to make the needed public investments. They already have the jurisdiction to deal with the big financial security dangers. What is needed now is a real effort to improve their current package of public policies with regard to asset accumulation and protection. Happily, a few rural (and urban) states are pointing the way.

APPENDICES

Assets Outcome and Policy Indicators

Outcome indicators

Net worth of households
Asset poverty
Asset poverty by race
Asset poverty by gender
Household asset equality by race
Household asset equality by gender
Households with zero net worth
Households with checking accounts
Households with savings accounts. .
Bankruptcy rate
Subprime loans
Small business ownership
Private loans to small business
Microenterprise ownership
Home value
Homeownership rate
Homeownership by race
Homeownership by income
Homeownership by gender
Foreclosure rate
Employer-provided insurance
Uninsured low-income children
Uninsured low-income parents
Head Start coverage
Math proficiency
Reading proficiency
Two years of college
Four years of college
Degrees by race
Degrees by income
Degrees by gender

Policy indicators

Asset building savings program
Income tax threshold
Tax credit for low-wage workers
Minimum wage
Asset limits for public assistance
Banking for low-income consumers
Community reinvestment for state-chartered banks
Predatory lending norms and standards

Short-term loan protections
Property insurance disclosure
Workers' compensation coverage
Workers' compensation benefits
Unemployment benefit level
Unemployment benefit eligibility
Family leave benefits
Small business investment
Incentives for private lenders
Microenterprise support
Support for community development lenders
Help for poor farmers
Unemployment benefits for entrepreneurs
Bond sales for homeownership assistance
Trust fund for housing
Property tax relief
First-time homebuyer assistance
Average income for those receiving public health insurance
Coverage for poor adults
Welfare-to-work coverage
Assistance for hard-to-insure
State-funded Head Start
State-funded preschool
Per pupil spending
School spending equity
College financial aid
Workforce training
College savings match
Tax expenditure report
Tax incidence report

2005 “Assets and Opportunity” Grades

Alabama D	Hawaii B	Massachusetts B	New Mexico D	South Dakota B
Alaska A	Idaho D	Michigan C	New York D	Tennessee C
Arizona D	Illinois D	Minnesota A	North Carolina C	Texas F
Arkansas F	Indiana C	Mississippi D	North Dakota B	Utah C
California C	Iowa A	Missouri A	Ohio D	Vermont A
Colorado B	Kansas A	Montana C	Oklahoma D	Virginia C
Connecticut A	Kentucky C	Nebraska B	Oregon B	Washington B
Delaware A	Louisiana F	Nevada F	Pennsylvania C	West Virginia F
District of Columbia C	Maine A	New Hampshire A	Rhode Island D	Wisconsin B
Florida C	Maryland C	New Jersey C	South Carolina C	Wyoming B
Georgia C				

State Outcomes

	<i>State Grade</i>	<i>Financial Security</i>	<i>Business Development</i>	<i>Home Ownership</i>	<i>Health Care</i>	<i>Education</i>
Alabama	D	F	C	C	C	D
Alaska	A	A	A	B	C	C
Arizona	D	C	F	A	C	C
Arkansas	F	D	A	D	D	F
California	C	C	B	D	D	C
Colorado	B	B	A	C	D	B
Connecticut	A	B	C	C	A	A
Delaware	A	A	C	A	A	C
District of Columbia	C	F	A	C	B	D
Florida	C	C	B	B	F	C
Georgia	C	D	B	B	C	D
Hawaii	B	C	C	C	A	B
Idaho	D	D	A	C	F	D
Illinois	D	C	D	D	C	C
Indiana	C	C	D	A	C	B
Iowa	A	A	D	C	A	A
Kansas	A	B	B	C	C	A
Kentucky	C	C	D	A	C	D
Louisiana	F	F	B	C	F	F
Maine	A	A	B	A	A	A
Maryland	C	B	D	C	C	B
Massachusetts	B	B	C	F	A	A
Michigan	C	C	D	B	B	C
Minnesota	A	A	D	B	A	A
Mississippi	D	D	C	B	D	F
Missouri	A	B	C	A	B	B
Montana	C	D	A	A	F	B
Nebraska	B	B	B	D	B	C
Nevada	F	C	F	C	D	F
New Hampshire	A	A	C	B	B	A
New Jersey	C	A	C	F	C	B
New Mexico	D	F	C	A	D	D
New York	D	D	C	F	B	C
North Carolina	C	B	C	C	D	C
North Dakota	B	C	A	D	B	A
Ohio	D	C	F	D	B	C
Oklahoma	D	C	B	C	D	D
Oregon	B	B	B	C	C	B
Pennsylvania	C	B	D	C	C	C
Rhode Island	D	C	D	F	A	C
South Carolina	C	C	C	B	B	D
South Dakota	B	C	A	D	C	A
Tennessee	C	D	B	D	B	F
Texas	F	D	C	B	F	D
Utah	C	C	C	D	C	C
Vermont	A	A	A	C	A	A
Virginia	C	C	F	A	C	B
Washington	B	A	C	F	C	B
West Virginia	F	D	F	B	D	D
Wisconsin	B	A	D	D	A	C
Wyoming	B	D	A	A	D	C