April 17, 2017

To: Senator Michael Crapo, Chairman, Senate Committee on Banking, Housing and Urban Affairs

Senator Sherrod Brown, Ranking Member, Senate Committee on Banking, Housing and Urban Affairs

Cc: Members of the Senate Committee on Banking, Housing and Urban Affairs

From: Local Initiatives Support Corporation (LISC)

Re: Call for Legislative Proposals to Increase Economic Growth

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The Local Initiatives Support Corporation (LISC) is pleased to respond to your request for proposals that promote economic growth, and that will enable consumers, market participants, and underinvested communities to participate in the economy.

Established in 1979, the Local Initiatives Support Corporation (LISC) is a national nonprofit and Community Development Financial Institution (CDFI) dedicated to helping community residents transform distressed neighborhoods into healthy places of choice and opportunity – good places to work, do business and raise children. LISC mobilizes corporate, government and philanthropic support to provide local community development organizations with loans, grants and equity investments; technical and management assistance; and policy support.

LISC has local offices in 31 cities and partners with more than 75 organizations serving rural communities throughout the country. We focus our activities across strategic community revitalization goals, including: expanding investment in housing and other real estate; increasing family financial stability; stimulating economic development; improving access to quality education; and supporting healthy environments and lifestyles. To date, LISC has invested over $17 billion into low-income urban and rural communities.

Frequently, our investments have been augmented by funding made available through federal government initiatives. Our experience makes clear that the most effective federal programs are those than can engage the private sector and local decision makers to work together to achieve shared success on behalf of families. Government resources alone are not the sustainable solution – but they can be a catalyst for growth by attracting private capital to places it might not go on its own, and by providing critical support to help low-income families escape the cycle of poverty.

To this end, LISC offers the following five policy proposals for your consideration:

- ✓ ***Economic Mobility Corps*** – We are proposing the establishment of a new initiative at the Corporation for National and Community Service (CNCS) to place AmeriCorps members at CDFIs, in order to create a talent pool for CDFIs so that they may be better prepared to meet the needs of their communities.

- ✓ ***Transit-Oriented Development (TOD) Loan Fund*** – We are recommending that Congress provide the Department of Transportation with flexibility to enable private sector organizations, including CDFIs, to secure loan and loan guarantees for the purpose of financing infrastructure (including housing, small businesses and community facilities) located adjacent to transportation centers in underserved rural and urban communities.

- ✓ ***Neighborhood Homes Tax Credit*** – We are proposing the establishment of a new tax credit that will support the development and rehabilitation of single family homes in rural and urban communities characterized by distressed housing stock and high rates of vacancy.

- ✓ ***Credit-Building Initiatives*** – We believe that HUD programs should encourage practices that maximize the opportunity build a positive credit history, thereby supporting residents on a path towards saving and upward financial mobility.

- ✓ ***Aligning Financial Education and Workforce Development*** – We are proposing that the Department of Labor provide incentives for local Workforce Investment Boards to support the offering of financial coaching services alongside workforce development initiatives.

We appreciate this opportunity to share these recommendations, which are informed by our decades of experience in community development and partnerships with the public and private sector to provide economic opportunity. We hope that these recommendations will prove to be useful to the Committee.

Please contact Matt Josephs, LISC's Senior Vice President for Policy, if you require any additional information (mjosephs@lisc.org; 202-739-9264).

Proposal 1: Establish an Economic Mobility Corps at the Corporation for National and Community Service

Summary of Proposal:

LISC proposes the creation of an Economic Mobility Corps – a new initiative within AmeriCorps that would place AmeriCorps members at Community Development Financial Institutions (CDFIs) and other community-based organizations that focus on revitalizing distressed communities and lifting families out of poverty. This would not only create opportunities in the workforce for young talent, but would enhance the capacity of CDFIs to serve their communities and to help lift families out of poverty.

Program/Agency: AmeriCorps -- Corporation for National and Community Service

Brief Description:

Given the depth and breadth of services that CDFIs are increasingly being called upon to provide, one area of constant need for CDFIs is talent and human capacity. The dearth of qualified candidates to expand CDFI capacity, engage resident volunteers in comprehensive neighborhood investment, and provide the direct services needed to create places of choice for people to live, work, and play poses a unique opportunity for CNCS and the US Treasury to collaborate.

An interagency partnership between AmeriCorps and the CDFI Fund could be modeled after partnerships in which AmeriCorps has recently engaged with FEMA to place members in disaster recovery communities, and with the Department of Education to place members in high need schools. A small investment by either the Corporation for National and Community Service (CNCS) or the Treasury Department's CDFI Fund would be used to pilot and develop the program. Grants would be made through an open competition to state commissions, AmeriCorps National Direct programs, and certified CDFIs. As a pilot, an investment of $5M could support the direct program expenses and education award for a corps of 250 members.[1]

Members could serve in specific roles that build the capacity of the CDFIs and yet do not displace employees. For example, these roles could include, but are not limited to:

- Financial Counseling: providing economically disadvantaged individuals with financial coaching and financial education with an end goal of helping clients to improve their credit scores, enhance their income flow, and build their net worth;
- Homebuyer Counseling: to assist low- to moderate income individuals to help mitigate foreclosure and/or to become first time homebuyers;
- Access to Affordable Housing: Increasing access to affordable housing by placing Project Assistants to help in predevelopment and development financing, and other processes needed to bring affordable housing to a neighborhood;

[1] The calculation is based on a cost per full-time, 1700 hour corps Member of $19,645 ($13,830 CNCS maximum per MSY and $5,815 education award). It was rounded up from $4,911,250. This represents a direct expense calculation and does not factor in CNCS and match costs for management of the Economic Mobility Corps.

- Access to Small Business Financing: Members could be used to assist entrepreneurs and small businesses in securing financing opportunities.

AmeriCorps Members currently provide the above mentioned types of services when they are placed at strategic non-profit partners, but there is no specific focus on this range of interventions either at AmeriCorps nor the CDFI Fund. A dedicated initiative housed at CNCS but in partnership with the CDFI Fund would help to: 1) deliver valuable services to low income individuals and residents of low income communities; 2) fill the short term capacity needs of CDFIs; and 3) develop the skills, abilities and interests of individuals to serve in the field of community and economic development.

Impact on economic growth:

CDFIs play an important role in generating economic growth and opportunity in some of the nation's most distressed and underinvested communities, both urban and rural. They provide capital, credit, financial services and financial counseling to individuals and businesses. Through the CDFI Program in FY 2016, approximately 443,500 individuals have received financial literacy training from CDFI Program awardees and Native American CDFI Assistance Program awardees. Often, mainstream financial institutions overlook these communities to the detriment of residents and their ability to establish financial stability and pursue economic opportunity.

To date, the CDFI Fund has awarded over $2 billion to CDFIs and allocated over $50 billion in New Market Tax Credit investment authority to Community Development Entities.[2] Through 2016, 5,400 businesses and real estate projects have been financed – including small businesses, manufacturing facilities, charter schools, health care centers, child care facilities and grocery stores – as a result, 710,000 jobs have been created or preserved.[3] In FY 2016, 11,300 businesses were financed, 10.2 million square feet of commercial real estate developed, and 34,000 affordable housing units created.[4]

As of February 2017, there were over 1,000 Treasury-certified CDFIs and 73 Treasury-certified Native CDFIs.[5] These organizations serve both rural and urban populations, and vary in size from single branch credit unions to small microenterprise loan funds to large, national organizations with several hundred million dollars of assets. There are also several CDFI "intermediaries" that could participate in a pilot program such as Opportunity Finance Network (OFN) and the National Federation of Community Development Credit Unions (NFCDCU).

Concurrently, the AmeriCorps program provides pathways to opportunities for those willing to serve as members. Service is not considered employment, but the work experience provides a springboard for members to start or restart a new career. National service places members into intensive service positions where they learn valuable work skills, earn money for education and develop a sense of civic pride. There are over 475 "Employers of National Service" in the private, non-profit and public sectors who recognize the valuable skills and dedicated work ethic of

[2-4] "Investing in Opportunity, Fiscal Year 2016 Year in Review." CDFI Fund. Feb 10 2017. April 12 2017. https://www.cdfifund.gov/Documents/CDFI_7554_YearInReview_2016_FINAL_web%20020617.pdf

[5] "CDFI Certification." U.S. Department of the Treasury, Community Development Institutions Fund. April 10, 2017. https://www.cdfifund.gov/programs-training/certification/cdfi/Pages/default.aspx.

members who have served through the national service programs (AmeriCorps and Peace Corps).[6]

Impact on the ability for consumers to become market participants and financial companies to participate in the economy:

According to the Federal Deposit Insurance Corporation's (FDIC) 2015 National Survey of Unbanked and Underbanked Households, 7.0 percent of households or approximately 9 million households, were unbanked, and 19.9 percent of households or approximately 24.5 million were underbanked.[7] The study defines being "unbanked" as having no one in the household with a checking or savings account and being "underbanked" as having an account at an insured institution but also obtained financial services and products outside of the banking system. Use of alternative financial services or AFS (i.e. money orders, check cashing, international remittance, payday loans, rent-to-own services, pawn shop loans or auto title loans) are easy to access but often carry high costs and may limit the ability for families to accumulate assets and establish a credit history. One of the goals of Economic Mobility Corps program would be to introduce mainstream financial products as well as counseling services to residents who may not have a credit score or have poor scores that limit their options to AFS.

Economic mobility is hindered by an individual's lack of knowledge on how to manage, save and protect financial resources. LISC researchers evaluated 34 months of outcomes for 40,000 FOC clients, nearly all of whom were in the bottom 20 percent of the nation's household incomes. They found out that those who spend the most time on all three bundled services offered by FOCs (employment, coaching and public benefits) had the highest job placement rates (74%) and highest job retention rates (78% for six-month retention). Research also showed: 76 percent of clients increased their net income; more than half increased their net worth, 60 percent of either increased their credit score or acquired a credit score; and 58 percent of those who started with zero or negative net income moved to positive net income.[8]

Legislative language:

Appropriations language may be necessary to provide a small amount of funding (e.g., $2 million) to finance this initiative, either through the appropriations of the CDFI Fund or CNCS. Any funding provided for this initiative should be over and above the baseline levels of the CDFI Fund or CNCS appropriations, so that other programmatic priorities are not jeopardized.

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[6] "Employers of National Service." Corporation for National and Community Service. April 10, 2017. https://www.nationalservice.gov/special-initiatives/employers-national-service/search-network.

[7] "2015 FDIC National Survey of Unbanked and Underbanked Households." Federal Deposit Insurance Corporation. April 10, 2017. https://www.fdic.gov/householdsurvey/.

[8] Rankin.

Proposal 2: Establish a Transit-Oriented Development (TOD) loan fund to support transit-related investments in underserved communities

Summary of Proposal:

LISC, along with several other organizations, is proposing the creation of a TOD Loan Fund that would be housed at the Department of Transportation. This fund would better enable private sector entities to finance the non-transportation components of TOD proposals -- including housing, small businesses and community facilities that are located along transit corridors or rail lines – with a particular focus on smaller projects located in underserved rural and urban communities.

Program/Agency: TIFIA, RIIF -- Department of Transportation

Brief Description:

Transit oriented development (TOD) creates compact communities near transit where residents can easily access employment, services and recreation. TOD principles have gained popularity in recent decades, and are increasingly being incorporated into federal transportation policies and programs. However, there is no federal program or source of funding dedicated solely to facilitating investments in the non-transportation portions of TOD projects. And despite efforts in Congress and at the Department of Transportation (DOT), the ability to finance these investments through existing programs – particularly smaller investments and those in lower income and in rural communities -- is somewhat hampered by regulatory constraints. We believe that, with minor modifications, the Transportation Infrastructure Finance and Innovation Act (TIFIA) and the Railroad Rehabilitation and Improvement Financing (RRIF) programs at the DOT could spur significant private sector investment in TOD projects.

The FAST Act of 2015 included several changes to both TIFIA and RRIF that were intended to help finance the non-transportation portions of TOD projects. However, it remains difficult for these projects to be financed, primarily because of requirements pertaining to the minimum size of the transactions ($10 million); as well as current DOT underwriting requirements, which while appropriate for large scale transportation investments, are not well aligned to meet the needs of small scale TOD investments.

We are recommending that the DOT should create, through both TIFIA and RRIF, a loan pool that can be available to entities wishing to finance multiple eligible TOD projects in low-income communities and underserved rural communities. For the purpose of this loan pool funding, eligible projects would include those TOD projects located within a set distance of the transit investment and/or that are part of a DOT-funded transportation plan. Applicant entities, which should be expanded to include Treasury-certified Community Development Financial Institutions (CDFIs), would seek an authorization from DOT to participate as an eligible lender under this initiative. Rather than underwriting each project in the applicant’s portfolio, the DOT would underwrite the organization – making a determination as to how much the organization can draw from the fund. Once selected as an eligible lender, the applicant would then submit a draw request as projects are ready for financing. The lender can then finance a wide range of TOD projects (e.g., affordable housing, small businesses, and community facilities) of varying sizes and in varying amounts without cumbersome project-by-project approvals by DOT.

Impact on economic growth:

TOD projects can lead to economic growth for families, as well as for communities and the larger economy. Using TOD funds to support affordable housing development will mean that families will be paying much less of their income in rent, freeing up more resources for them to invest in local economies and/or to save for education, homeownership, retirement or other investments that will better enable them to escape the cycle of poverty. Furthermore, locating housing, businesses and community facilities such as daycare centers near transportation hubs can significantly reduce a family's transportation costs, reduce commuting times (which increases worker productivity and also saves on childcare expenses), relieve congestion on roads and highways, and reduce greenhouse emissions.

The combined costs of housing and transportation offers a more comprehensive look at housing affordability, according to the Center for Neighborhood Technology. An expanded view of affordability takes into consideration housing, the largest expenditure for a household, and transportation, the second largest expenditure, at no more than 45% of household income.[1] As housing market conditions change in neighborhoods, proactive affordable housing preservation is critical, and a TOD Fund would help ease displacement while also investing in neighborhood amenities in underinvested communities.

Research relating to development around the light-rail line in Minneapolis has demonstrated a positive impact around single-family residential property values. The average value home in a station area has increased more than $5,000, and the average value of a multi-family home has increased more than $15,500. Overall, the area along the line increased $47.1 million in residential property value between 2004 and 2007.[2] While larger sites in high profile locations attracted national and regional developers, smaller infill properties were developed mostly by local developers and community development corporations (CDCs), including affordable housing and other neighborhood-level planning efforts.[3]

Smart growth and TOD strategies are also making communities more walkable and vibrant, making them attractive to new companies, local businesses and entrepreneurs. Companies look to move to neighborhoods with nearby affordable housing for their employees, a mix of restaurants, entertainment venues, cultural attractions and other amenities near their homes and/or work places.[4] In this manner, a well-planned TOD investment that brings a mix of businesses and housing to a community can also significantly increase the tax base for that community.

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[1] "About the Index." Center for Neighborhood Technology's Housing and Transportation (H+T) Affordability Index. April 13 2017. http://htaindex.cnt.org/about/.

[2] Goetz, Edward G. "The Hiawatha Line: Impacts on Land Use and Residential Housing Value (Research Brief)." University of Minnesota, Center For Transportation Studies. Oct 2009. April 12 2017. http://www.cts.umn.edu/Publications/ResearchReports/reportdetail.html?id=1826

[3] "Rails to Real Estate, Development Patterns along Three New Transit Lines." Center for Trainsit-Oriented Development. March 2011. April 12 2017. http://ctod.org/pdfs/2011R2R.pdf.

[4] "Why American Companies are Moving Downtown." Smart Growth America. June 2015. April 12 2017. https://smartgrowthamerica.org/app/legacy/documents/core-values.pdf.

Impact on the ability for consumers to become market participants and financial companies to participate in the economy:

Despite efforts by Congress and DOT to open up the TIFIA and RRIF programs to finance TOD projects, these projects are generally not getting financed due to significant barriers to entry for potential program participants. Most notably, the DOT currently requires that each project financing be individually underwritten by DOT officials; that it must be at least $10 million; that the DOT investment cannot (generally) exceed 33% of total project costs; and that each funded project receive an investment grade rating from a credit agency. This limits the project pipeline to all but the very largest of TOD projects. It also strains DOT resources in that the underwriters are not likely familiar with non-transportation asset classes such as community facilities, affordable housing developments or retail establishments.

Concurrently, there are close to 1,000 Treasury-certified CDFIs in every state in the country, many of which have dedicated programs and/or expertise in financing TOD projects, as well as a mission of serving underserved communities and populations. Yet these entities are not currently permitted to apply directly to the Department of Transportation to finance TOD projects. By allowing access to these institutions so that they may aggregate smaller projects (including locally owned businesses), DOT could tap into their underwriting expertise and underlying financial strength to expedite financing and pass on some of the credit risk to experienced lenders.

CDFIs also share a common goal of promoting economic revitalization and community development in low-income communities through mission-driven, locally-informed investments. Low-income families are more reliant on the transit system; by connecting affordable housing to jobs through accessible transit helps to ensure a stable workforce. In turn, workers can access a wide array of employment opportunities, the potential for increased wages, skill development and job satisfaction.

On a household level, the reduction of housing and transit costs can free up discretionary resources for other critical needs – food, health care, and child care – and create an environment in which the household might be able to consider savings and wealth-building.[5] Due to "employment sprawl" – the distance between a worker and his/her work place – and congestion, $100 billion is lost each year in time and fuel because of workers' lengthy and inconvenient commutes.[6]

Legislative language:

It is not anticipated that any additional appropriations would be needed to fund this initiative, as there still remains sufficient credit subsidy available to support the financing of these investments. However, new authorizing language would be needed to implement recommendations pertaining to the minimum size of projects, as well as to allow CDFIs and other entities to have direct access to funding.

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[5] "The Role of Strong Housing Nonprofits in Transit-Oriented Development Policy and implementation." Housing Partnership Network. April 12 2017. http://www.housingpartnership.net/documents/HPN_Rockefeller_TOD_Paper.pdf.

[6] Schrank, David, Tim Lomax and Bill Eisele. "TTI's 2011 Urban Mobility Report." National Association of City Transportation Officials. Sept 2011. April 12 2017. http://nacto.org/docs/usdg/2011_urban_mobility_report_schrank.pdf.

Proposal 3: Create a Neighborhood Homes Tax Credit to help revitalize homes in distressed communities.

Summary of Proposal:

In markets characterized by declining homeownership rates and property abandonment, the costs of development or home repairs that are needed to bring them to market often exceed the appraised value of the home. This "appraisal gap" leaves these neighborhoods trapped in a cycle where low property values prevent the construction and renovation of attractive homes. LISC, along with many other organizations, is calling for the creation of Neighborhood Homes Tax Credit (NHTC) to fill this appraisal gap and spur homeownership in these communities.

Program/Agency(ies): Department of the Treasury

Brief Description:

Tax incentives can be very effective inducements for directing private sector capital to correct for market failures. The Neighborhood Housing Tax Credit (NHTC) would attract private capital to support blight remediation and single family homeownership in communities where the costs of developing, rehabilitating and then bringing to market vacant homes exceeds the appraised value of the home. The NHTC would provide the developer or investor with a tax credit to cover this appraisal gap. As described more fully in the attached proposal, the tax credit would work as follows:

- State allocating agencies (most likely the state Housing Finance Agencies) would receive a formula allocation of NHTCs.
- The credits would be awarded to eligible entities through an annual competition. The eligible entity would identify a strategy for developing or rehabilitating properties in eligible communities, either for new homes, existing owner-occupied homes, or for homes that are vacant and will be brought to market. The eligible entities could be developers or financial institutions, including CDFIs or other entities looking to capitalize a loan pool.
- States would allocate only the tax credits reasonably needed for financial feasibility, determined both at the time of application and again when homes are sold or owner-occupied rehabilitations are completed.
- Program limitations would ensure the credit is benefitting the right projects and communities
    - The maximum value of the credit would be 35% of construction, substantial rehabilitation, and building acquisition and demolition costs.
    - The maximum cost basis for calculating the tax credits could not exceed the national median existing home sales price or four times the area MFI, whichever is higher.
    - The credits would generally only be available to support homeownership by low-income and middle-income homebuyers.

- Only those neighborhoods characterized by some combination of high poverty, low median family income and low home values would be eligible for investments. In addition, the states would be required to further define neighborhood eligibility requirements to ensure that the program is not targeting neighborhoods where there has been a recent influx of investment marked by improving property values, higher rents or a displacement of lower-income families.

Impact on economic growth:

The NHTC addresses the need for neighborhood revitalization in communities hit with blocks of home foreclosures and vacant properties. Vacant properties inflict heavy costs on American communities: blight, crime, lowered home values, and decreased property tax revenue. There are negative spillover effects ranging from crime and safety to reduced property values and increased costs for municipal governments. RealtyTrac found that 142,462 U.S. properties in the foreclosure process were vacant, representing 25 percent of all properties in the foreclosure process. The states with the most owner-vacated foreclosures were Florida with 35,903 (25 percent of the national total), New Jersey (17,983), New York (16,777), Illinois (9,358), and Ohio (7,360).[1]

Part of the reason property abandonment becomes contagious is because it makes it harder for people to sell their homes. Also because it leads banks to lower appraisals or to deny loans entirely on blocks with abandoned properties. Vacant properties deteriorate and the underlying value of the property will decline, causing neighboring property values to also decline.[2] These neighborhoods are trapped in a cycle where low property values prevent the construction and renovation of attractive homes, and where the absence of these investments keeps property values unsustainably low. Declining homeownership rates, property abandonment, the erosion of family assets, and concentrated poverty are too often the results. Studies attempting to quantify the effect of foreclosures on surrounding property values find that foreclosures depressed the sales prices of nearby homes by as little as 0.9 percent to as much as 8.7 percent.[3]

The Federal Reserve Bank of Atlanta conducted a review of research documenting foreclosure spillover effects; the review suggests that foreclosed properties sell at a discount and nearby foreclosures appear to depress the sales of non-distressed property. [4] Literature review suggests that negative price pressure associated with foreclosure is larger when there is concentrated foreclosure on blocks of neighborhoods. According to a 2013 study of vacant and abandoned buildings in Oklahoma City, the annual citywide cost attributable to vacant buildings for police, fire, and animal welfare services is an estimated $6.5 million.[5] More than 12,000 vacant and abandoned buildings (VAB) are scattered throughout the City, draining resources, depressing nearby property values and destabilizing neighborhoods. Their research shows that Oklahoma City would lose between $18,000 and $43,000 in value if an adjacent or nearby building were

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[1] "One in Four U.S. Foreclosures are "Zombies" Vacated by Homeowner, Not Yet Repossessed By Foreclosing Lender." RealtyTrac. Feb 5 2015. April 12 2017. http://www.realtytrac.com/news/foreclosure-trends/zombie-foreclosures-q1-2015/.

[2] http://www.communityprogress.net/filebin/CCP_BaltimoreTASP_Final_Report_102616.pdf

[3] W. Scott Frame. "Estimating the Effect of Mortgage Foreclosures on Nearby Property Values: A Critical Review of the Literature." Federal Reserve Bank of Atlanta, Economic Review. Nov 3 2010. April 12 2017. https://www.frbatlanta.org/-/media/documents/research/publications/economic-review/2010/vol95no3_frame.pdf

[4] https://www.frbatlanta.org/-/media/documents/research/publications/economic-review/2010/vol95no3_frame.pdf

[5] https://www.okc.gov/home/showdocument?id=2518

abandoned. The study concludes that for each VAB re-occupied and returned to productivity, up to $1,700 and can be saved in public safety services and the property values of neighbors will increase by 12 to 29 percent.[6]

With an annual allocation of just $1.80 per capita, we estimate that the NHTC would achieve the following impacts every year:

- 50,000 homes built or rehabilitated
- $2 billion in private investment generated
- $6 billion in total development activity
- 122,000 jobs created in construction and construction-related industries
- $4 billion in wages generated
- $2 billion in federal, state, and local tax revenues and fees generated

Impact on the ability for consumers to become market participants and financial companies to participate in the economy:

As noted above and in the attached proposal, the NHTC would fill the gap between cost of construction and the appraised value of the property, with the private market bearing construction and marketing risks. Tax exempt private activity bonds and mortgage credit certificates (MCCs) do support homebuyers by reducing mortgage interest costs but these incentives cannot currently fill the gap between development or renovation costs and appraised home values.

NHTC Sponsors would utilize their capability, experience, and relevant performance history and investment strategy in order to leverage neighborhood improvements without incurring significant involuntary displacement of low-income residents. NHTC Sponsors would raise private equity investment for development use the proceeds to: 1) make loans to developers or homeowners, or 2) invest directly in home construction or rehabilitation.

Only those neighborhoods characterized by some combination of high poverty, low median family income, and low home values would be eligible for investments. In these neighborhoods, it is simply not possible for the private sector to invest in these properties without additional subsidy. By creating this incentive through the tax code, financial companies will now be able to participate in the recovery of these communities.

Legislative language:

This would require new legislative authority.

Other background materials as appropriate:

Attachment 3-A: Neighborhood Homes Tax Credit

[6] Ibid.

Neighborhood Homes Tax Credit

Poor and blighted neighborhoods present a fundamental challenge to addressing poverty, crime, education, and economic mobility.[1] Moderate- and middle-income homeowners – including teachers, first responders, civil servants, and healthcare workers – are essential to the social fabric and economic vitality of these neighborhoods.[2] However, many of the single-family homes in distressed neighborhoods are too deteriorated to retain or attract such homeowners.

These neighborhoods are trapped in a cycle where low property values prevent the construction and renovation of attractive homes, and where the absence of these investments keeps property values unsustainably low. Declining homeownership rates, property abandonment, the erosion of family assets, and concentrated poverty are too often the results.

A new Neighborhood Homes Tax Credit is needed to break this cycle. The Low Income Housing Tax Credit (LIHTC) and New Markets Tax Credit (NMTC) have successfully attracted private investment to distressed neighborhoods for affordable rental apartments and economic development, respectively. Low-income neighborhoods receiving LIHTC investments experience rising property values, lower economic and racial isolation, and reduced crime.[3] However, LIHTC and NMTC are not designed to support the moderate- and middle-income homeownership that anchors the majority of America's thriving neighborhoods.

What is the Neighborhood Homes Tax Credit?

The Neighborhood Homes Tax Credit (NHTC) would attract private capital to help revitalize poor and blighted neighborhoods. By incentivizing private investment in the building and rehabilitation of owner-occupied homes, NHTC will provide a tipping point for neighborhoods where the cost of construction or renovation currently exceeds the market value of most single-family homes.

The NHTC is designed to support:

- The construction and rehabilitation of homes sold to eligible buyers, and
- Existing homeowners undertaking substantial renovations.

[1] See, e.g., Raj Chetty and Nathaniel Hendren, "The Impacts of Neighborhoods on Intergenerational Mobility: Childhood Exposure Effects and County-Level Estimates," Harvard Working Paper, 2015.
[2] See, e.g., William Julius Wilson, The Truly Disadvantaged: The Inner City, the Underclass, and Public Policy, University of Chicago Press, 1987.
[3] Rebecca Diamond and Tim McQuade, "Who Wants Affordable Housing in their Backyard? An Equilibrium Analysis of Low Income Property Development," Stanford Graduate School of Business Working Paper 3329, July 2015.

The NHTC would bridge the financing gap between the cost of construction or rehabilitation and the amount paid for the property by homebuyers/owners.
The private market would bear the construction and marketing risks. Tax credits would be claimed only after quality construction work has been satisfactorily completed and homes are owner-occupied.

States would allocate and administer the NHTC, similar to the current process for rental housing under LIHTC. The role of federal agencies in this program would be minimal. NHTC's simple design would facilitate the kind of small-scale growth opportunities that are ideally suited to target neighborhoods.

How would the NHTC work?

States would write plans for allocating these tax credits on a competitive basis. Allocation criteria would focus on:

- Potential of the proposed investment to leverage neighborhood improvements without incurring the significant involuntary displacement of low-income residents, as reflected by increased strength of the local housing market, enhanced quality of life for residents, or related metrics consistent with any concerted revitalization plan;
- Sponsors' capability, experience, relevant performance history, and investment strategy;
- Demonstrated support from neighborhood stakeholders and local government officials;
- Sustainability of the proposed housing for long-term homeownership;
- Other factors determined by states.

NHTC Sponsors would raise private equity investment for development and use the proceeds to either: 1) make loans to developers or homeowners, or 2) invest directly in home construction or rehabilitation. It is expected that the sales proceeds (or homeowner refinancing) alone would be insufficient to repay the Sponsors' full investment, and that the NHTC tax credits would adequately offset this shortfall.

NHTC Sponsors would be accountable to investors, homeowners/buyers, and the states for managing construction work and marketing the homes. Upon successful completion of their construction/rehabilitation work (except in the case of rehabilitation by existing homeowners), the Sponsor would be required to sell the home to an eligible homebuyer within five years of receiving the allocation of tax credit authority.

How much funding would be available through the NHTC?

The maximum tax credit through NHTC would cover 35 percent of construction, substantial rehabilitation, building acquisition, and demolition costs. (Land costs are excluded.) The minimum amount allocated for rehabilitation would be $25,000 (indexed for inflation). Eligible building acquisition costs would be limited to 50 percent of rehabilitation costs.[4]

To prevent the NHTC from supporting luxury homes, the maximum cost basis for calculating the tax credits could not exceed the national median existing home sales price ($222,000 in 2015).

NHTC Financing Example:

Land	$ 20,000
Construction	$160,000
Total Development Cost	$180,000
Less: Sale price after development (appraised value)	- $130,000
Financing Gap [Target of NHTC Investment]	$50,000
NHTC allocation (up to 35% of $160,000)	**$56,000**

How would NHTC funds be allocated?

States would select and distribute allotted tax credits to various NHTC sponsors. Eligible sponsors could include:

- Local governments and their instrumentalities;
- Community development financial institutions (CDFIs) certified by the U.S. Treasury Department;
- Housing development organizations; and
- Entities (including partnerships and limited liability companies) controlled by any of the above.

Sponsors would be required to demonstrate capability in financing, rehabilitating, building or administering public funds for the construction/substantial rehabilitation of owner-occupied homes. States would allocate only the tax credits reasonably needed for financial feasibility – which would be assessed both at the time of application, and again when homes are sold or when owner-occupied rehabilitations are completed. States would also establish construction/rehabilitation standards and protocols to ensure that all proposed work is properly completed and that finished homes are fully compliant with applicable local building codes.

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[4] "Contract-for-deed" or "land contract" transfers would not qualify as sales.

When would the NHTC be claimed?

To satisfy the NHTC's credit allocation criteria, either: 1) an eligible homebuyer would need to purchase the finished home at its updated market value, or 2) an existing homeowner would refinance the rehabilitated home based on its updated market value.

Following sale or refinancing, the initial investors would be able to claim the NHTC *plus* the proceeds of the sale (or loan repayments from existing homeowners). Any forgiven loan amount would be exempt from taxation as cancelation of indebtedness.

Tax credits would not be subject to recapture from Sponsors or their investors, who would have fulfilled their responsibilities upon the completion of either: 1) construction/rehabilitation and sale to a homebuyer; or 2) rehabilitation by or on behalf of an existing homeowner. This feature will significantly simplify the NHTC.

If a homeowner sells or rents out an NHTC-supported home within five years, then upon resale, 50 percent of the gain – not to exceed the tax credit amount designated for that home – will be payable to the state for reinvestment in eligible neighborhoods.

Who is eligible to benefit from the NHTC?

Neighborhoods

Neighborhoods characterized by a combination of high poverty, low median family income, and low home values [specific thresholds TBD] would be eligible for NHTC investment.

Homebuyers / Homeowners

NHTC is designed to serve primarily moderate and middle-income homebuyers/ owners. Homebuyers/owners with incomes that are <140 percent of the area or state median family income (MFI) – with adjustments for household size – would occupy at least 90 percent of NHTC homes, of which at least 10 percent would be occupied by homebuyers/owners with incomes that are <80 percent of the area or state MFI. States may set additional criteria for homebuyer/owner income targeting.

Housing

The following types of properties would be eligible for NHTC support:

- Single-family homes with one to four units;
- Condominium units;
- Cooperative housing; and
- Factory-made housing permanently affixed to real property.

To ensure broad affordability to middle-income homebuyers/owners, the maximum home sales price could not exceed *four times* the area MFI.[5]

To protect any renter displaced from homes undergoing rehabilitation, the Uniform Relocation Act would apply.

How will the NHTC benefit America's struggling cities?

With an annual allocation of just $1.80 per capita, we estimate that a new tax credit program would achieve the following impacts every year:

- 50,000 homes built or rehabilitated
- $2 billion in private investment generated
- $6 billion in total development activity
- 122,000 jobs created in construction and construction-related industries
- $4 billion in wages generated
- $2 billion in federal, state, and local tax revenues and fees generated

For more information on this proposal, please contact:
info@neighborhoodhomestaxcredit.org

WWW.NEIGHBORHOODHOMESTAXCREDIT.ORG

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[5] The national MFI was $72,165 in 2015.

Proposal 4: Enable residents of HUD-assisted housing to build credit and increase savings

Summary of Proposal:

Many residents of public and assisted housing properties overseen by HUD have little or no credit history, and very little personal savings. Federal housing policy should encourage practices that maximize the opportunity build a positive credit history, thereby supporting residents on a path towards saving and upward financial mobility.

Program/Agency: Department of Housing and Urban Development

Brief Description:

Without access to affordable credit, residents face hurdles finding jobs, face higher costs for everything from automobiles to cell phone service, and may have problems finding housing in the private market. Credit bureaus are now equipped to collect rental payment data, and on time rental payments can help improve credit scores. But landlords' reporting of rental data to the agencies is voluntary. HUD programs should promote landlord reporting of rental payments to the credit bureaus and prudently use the resulting data in credit-related decisions. Some potential examples could include:

> **Requiring Public Housing Authorities to provide rent reporting services.** Public housing authorities are able to report rent payments, but the additional cost and administrative time create a disincentive to do so. They should be required to report rental payments (with "opt-in" participation for tenants) and should be permitted to use operating funds for the cost. Offering a rent reporting program should at the very least be a required component of supplemental programs intended to foster financial self-sufficiency, including HUD's Family Self-Sufficiency and Jobs Plus.
>
> **Incentivizing Rent Reporting in PBRA Contracts.** Private owners of properties subject to project-based rental assistance agreements should be encouraged (with "opt-in" participation for tenants) to report rent payments, and permitted to include the cost of reporting as an operating expense in the project's budget.
>
> **Informing HCV Landlords on Rent Reporting Advantages.** At the time that a Housing Choice Voucher contract is executed, landlords should be provided with information on the process for reporting rental payments and on the benefit to tenants.
>
> **Evaluating the impact of rent reporting on underwriting, and informing lenders of the findings.** The Federal Housing Administration (FHA) should evaluate the predictive value of reported rent payment data and issue guidance to FHA mortgage lenders encouraging use of such data where appropriate to expand the availability of mortgage credit. FHA should also work with credit bureaus to incorporate credit scoring innovation. Through careful analysis and guidance on how to responsibly weigh the data, HUD and the FHA can serve as thought leaders and market influencers in expanding access to homeownership.

To help encourage savings for residents of public and assisted housing, **Congress should also consider authorizing at HUD a matched savings program modeled on the Department of Health and Human Services' Assets for Independence (AFI) Program.** This program helps low-income individuals move toward greater self-sufficiency through financial education and the use of matched savings accounts, also known as Individual Development Accounts (IDAs). Every dollar that a participant deposits into an AFI IDA is matched (from $1 to $8 in combined federal and nonfederal funds) by the AFI project. AFI participants use their IDAs and matching funds for one of three allowable assets: to purchase a first home, to capitalize or expand a business, or to fund postsecondary education or training.

One model that may be replicable for HUD is the New York State Division of Housing and Community Renewal's (DHCR's) AFI program. This program, originally designed for Section 8 voucher holders who wished to pursue homeownership, seeks to help low-income residents of the state become first-time home buyers[1]. DHCR's AFI program is administered through funding from the HHS AFI grant and a non-federal match of $1 million derived from Section 8 administration fees. Scaling, replicating, and expanding the allowable use of funds in has the potential to help HUD assisted families move toward greater financial stability and economic self-sufficiency.

Short of authorizing a new initiative, HUD should be encouraged to partner with HHS to target IDA initiatives to residents of public and assisted housing, particularly those participating in HUD financial self-sufficiency programs.

Impact on Economic Growth:

A lack of access to credit has a detrimental impact on the ability for families to move out of poverty. A 2015 study released by the Federal Reserve Bank of New York found a direct correlation between low or no credit scores and reductions in economic mobility of both the consumer and their children.[2] This barrier prevented individuals from relocating to respond to local and regional employment conditions and blocked access to or significantly increased the cost of borrowing. Without access to affordable credit, it is much more difficult for entrepreneurs to finance small businesses, and for families to secure funding for higher and vocational education for their children. Economic opportunity is also limited by a lack of credit or a blemished credit history in one's ability to secure employment. A National Survey on Credit Card Debt in Low- and Middle-Income Households found that 1 in 10 survey respondents who were unemployed had been informed that they would not be hired for a job because of the information in their credit report.[3]

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[1] https://portal.hud.gov/hudportal/documents/huddoc?id=nycase-study.pdf

[2] Brown, Mazewski: Federal Reserve Bank of New York. Stepping stone or quicksand? The role of consumer debt in the U.S. geography of economic mobility. 2015

[3] http://www.demos.org/sites/default/files/publications/Discredited-Demos.pdf

Impact on the ability for consumers to become market participants and financial companies to participate in the economy:

Estimates suggest that as many as 53 million people have limited credit history.[4] These "credit invisible" consumers include approximately 26 million people, or 11 percent of the adult population, who lack credit records or scores, and 19.6 million people, or 8.3 percent, who have unscored credit records. Credit invisibility can affect a household's access to housing, utilities, and employment.

Additionally**,** residents of low-income neighborhoods are more likely than residents of moderate, middle, or upper-income neighborhoods to be credit invisible. A higher proportion of Black and Hispanic households have limited credit histories than do white or Asian households. These demographics overlap with those of subsidized housing populations, indicating that many residents of public and assisted housing may be credit invisible.

Many residents of public and assisted housing properties overseen by HUD have little or no credit history and no credit score.[5] This credit gap is exasperated by policies and practices that miss an opportunity to provide low-income and minority communities with access to financial services that would help build and maintain credit. Without access to affordable credit, residents of HUD assisted housing may be more likely to have problems finding housing in the private market, become dependent on predatory loan products with high interest rates, face hurdles finding jobs, and pay higher prices for products and services – ranging from automobiles to cell phones. Low credit scores are a barrier for many low-income people seeking access to fundamental building blocks of economic mobility.

Credit bureaus have historically collected late rental payment data from private property management companies. Beginning with Experian in 2010, credit bureaus began incorporating on-time payments into credit scoring as a means of establishing and improving credit scores. A 2014 study of the impact of this policy change on residents of subsidized housing found that 95% of residents experienced a position or neutral impact on their credit score and all residents that previously could not be scored subsequently received a credit score. [6]

Legislative language:

With the exception of the proposal for Congress to authorize HUD to establish an IDA program at the agency, it is not anticipated that any statutory language would be needed to implement these proposals.

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[4] Presentation by David Shellenberger of FICO. Expanding Access to Credit: Realizing the Promise of Alternative Data. 15 September, 2016. Washington, DC. National Press Club.

[5] https://www.experian.com/assets/rentbureau/white-papers/experian-rentbureau-credit-for-rent-analysis.pdf

[6] Ibid

Proposal 5: Establish Net Income as a Performance Accountability Indicator in WIOA programs and strategies

Summary of Proposal:

The US Department of Labor should incentivize the use of financial coaching in workforce development strategies by establishing criteria and guidance for areas where net income is encouraged as an enhanced performance indicator under programs governed by the Workforce Innovation and Opportunity Act (WIOA). Encouraging the measurement of net income will necessitate the integration of financial coaching into workforce development strategies, and effectively improve federal workforce programs outcomes such as job placement, retention, and attachment to the workforce[1].

Program/Agency: Workforce Innovation and Opportunity Act Programs, U.S. Department of Labor

Brief Description:

Programs operating under the Workforce Innovation and Opportunity Act (WIOA) encourage interagency collaboration to move people toward economic stability and self-sufficiency. States must include multiple primary indicators of performance in their WIOA Unified or Combined State Plan. Among those primary indicators are unsubsidized employment, median earnings, credential attainment, skill gains, and effectiveness in serving employers.

While the primary indicators are important measures of programmatic success, they do not adequately incentivize state and local systems to move program participants toward long-term economic stability. Our experience with integrated service delivery and the outcomes analysis data of our Financial Opportunity Center initiative (*see Attachment 5-A*) shows that net income (expenses subtracted from income) is a key indicator of financial and employment stability.[2]

What sets FOCs apart from traditional workforce development programs, and at the core of our model, is the bundling of services. The program combines soft skills training, vocational education, and job placement services with one-on-one financial coaching for as long as clients need it, as well as help accessing income supports for which they are eligible. Clients find and maintain good jobs, stick to realistic budgets, improve their credit and save for the future. Financial coaching is key to FOC participant success, and is generally seen as one of the most effective means of moving consumers toward financial well-being[3].

Tracking net income involves a level of customer engagement that is not necessarily feasible for individuals who are accessing One-Stops and similar publicly-funded programs for "light-touch" or one-time services. For this reason, LISC encourages DOL to set criteria and guidance for areas in which net income should apply as a performance indicator. For example, the enhanced

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[1] http://cfed.org/assets/pdfs/Gaining_and_Retaining_Employment.pdf

[2] Page 12, http://www.lisc.org/media/filer_public/8d/d0/8dd0ddcd-e6b4-443a-bf47-a0c67096e212/041415_srankin_foc_report.pdf

[3] https://s3.amazonaws.com/files.consumerfinance.gov/f/documents/102016_cfpb_Financial_Coaching_Strategy_to_Improve_Financial_Well-Being.pdf

performance indicator for net income could apply to workforce system customers who are accessing individualized career services such as those described in proposed §678.430(b)—in particular: §678.430(b)(2-6), customers receiving an individual employment plan, counseling and/or career planning); §678.430(b)(7) internships and work experiences; and §678.430(b)(9), financial literacy services.

Impact on Economic Growth; Impact on the ability for consumers to become market participants and financial companies to participate in the economy:

The world of community development recognizes that revitalizing a neighborhood demands a holistic approach[4]. Helping low-income neighborhoods become better places to live, work, play, and learn necessitates improving the economic prospects of residents of those neighborhoods. These residents may already have access to some workforce services: local governments and nonprofits offer an array of job skills training, soft employment skills training, vocational education, and job placement services. But placing chronically unemployed and underemployed people in decent-paying jobs that they will keep over a long period of time has always been a difficult task, and the long-term deterioration of employment prospects for lower-skilled workers makes it even more challenging[5].

Recognizing this reality, it is important for workforce programs to incentivize states and local governments to think outside of the box, and offer enhancements to traditional employment services. Economic stability is not just a matter of having a job; it requires that a person's income be enough to meet his or her expenses. Financial coaching helps clients make the most of their current income while they plan a course to increase their earnings prospects. By moving federal workforce systems in the direction of setting low-income people on a path to financial security and fiscal responsibility, we believe that we will make significant progress toward the ultimate end goal: long-term positive economic outcomes for low-income workers.

Positive net income is key to maintaining financial stability. If an individual's net income is negative, he or she is in an unsustainable situation, falling farther and farther behind financially each month. If the individual has a job, negative net income makes it harder—and less worthwhile—to keep that job. If net income is positive, even if total income is low, then the person is much better positioned to build on the current relative stability and make even more positive gains.

In instances where individuals receive financial coaching, employment and financial stability outcomes improve. An independent study by the Economic Mobility Corporation found that, compared to people in programs offering employment assistance alone, participants in LISC's Financial Opportunity Center (FOC) model clients were more likely to: be employed year-round, reduce non-asset-related debt, and build positive credit histories[6]. Additional positive outcomes for consumers include better money management, increased savings, and better perceptions of

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[4] http://www.strongfinancialfuture.org/essays/making-work-pay/

[5] According to the Federal Reserve's 2013 Survey of Consumer Finance, median incomes in the United States have been dropping since 2007, declining by 12 percent in that period. Since 2010, median income for the bottom fifth of the income distribution has decreased by 3.5 percent. Erosion of income has hit nonwhite households particularly hard; median incomes for nonwhite households have declined 19 percent since 2007 (or 9.4 percent since 2010). (Bricker, Jesse, et al. Changes in U.S. Family Finances from 2010 to 2013: Evidence from the Survey of Consumer Finances, Federal Reserve Bulletin, September 2014, with accompanying 2013 SCF Chartbook.)

[6] http://www.lisc.org/media/filer_public/1a/e2/1ae2f195-70f8-4d02-8ce5-fa3769d2d83d/16024-first-steps_summary_r4-web.pdf

financial well-being[7]. Promoting a focus on employment and financial management skills can help low-income individuals make significant, lasting progress—including expanding income.

Legislative Language:

It is not anticipated that any legislative language is needed to implement this proposal.

Attachments:

Attachment 5-A: Financial Report from the Evolution of LISC's Financial Opportunity Centers (Executive Summary)

[7] http://www.urban.org/urban-wire/does-financial-coaching-help-people-reach-their-financial-goals

First Steps on the Road To Financial Well-Being:

Final Report from the Evaluation of LISC's Financial Opportunity Centers

Anne Roder
Economic Mobility Corporation
September 2016

This report is based upon work supported by the Social Innovation Fund (SIF), which unites public and private resources to evaluate and grow innovative community-based solutions with evidence of results. The Social Innovation Fund is a program of the Corporation for National and Community Service, a federal agency that engages more than 5 million Americans in service through its AmeriCorps, Senior Corps, Social Innovation Fund, and Volunteer Generation Fund programs, and leads the President's national call to service initiative, United We Serve.

LISC also acknowledges the philanthropic contributions that, together with SIF resources, helped bring this evaluation report to fruition. Thank you to the following funders for their generous support of this report: The Annie E. Casey Foundation, Citi Foundation, JPMorgan Chase, John D. and Catherine T. MacArthur Foundation, MetLife Foundation, and Walmart Foundation.

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The Economic Mobility Corporation (Mobility) identifies, develops and evaluates programs and policies that enable disadvantaged individuals to acquire the education, skills and networks needed to succeed in the labor market so that they can support themselves and their families.

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We thank the Financial Opportunity Center program directors and staff members at Association House, Instituto Del Progreso Latino, Metropolitan Family Services, North Lawndale Employment Network, and The Cara Program for helping us with enrollment, allowing us to observe the programs, taking part in interviews, and arranging focus groups with participants. We also thank staff at the Chicago Department of Family and Support Services and at the Garfield, Mid-South, Northside, Pilsen, and Southwest Workforce Centers for allowing us to recruit job seekers at the centers to be part of the study.

We are grateful to the funders who have supported the evaluation. We thank Craig Howard, director of community and economic development at the MacArthur Foundation, for introducing us to LISC's work in this area. We thank LISC for the opportunity to work on the project. We also thank the Corporation for National and Community Service, Annie E. Casey Foundation, Citi Foundation, JPMorgan Chase, MetLife Foundation, and Walmart Foundation for making grants to LISC that have supported Mobility's work.

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Low-income families face substantial challenges to achieving financial security and upward mobility. Since the end of the recession, the real median wages of workers in the lowest-wage quintile have declined, and the number of all workers involuntarily employed part-time remains unusually high., Periods of unemployment, low wages, and part-time work make it difficult for families to cover basic expenses and to save. In 2011, 78 percent of low-income households were liquid-asset poor, meaning they did not have enough savings or other financial assets to cover basic living expenses for three months at the federal poverty level. These families must borrow to weather crises such as job loss, illness, or unexpected expenses. However, they often lack access to mainstream forms of credit due to their limited credit histories or low credit scores. About 30 percent of consumers in low-income neighborhoods are "credit invisibles"—they have no credit report with the three major credit-reporting agencies. Low-income families' lack of financial assets and lack of access to affordable forms of credit hinder their ability to accumulate assets, such as homes, vehicles, and retirement savings, as well as to afford quality education, further limiting their potential for increasing their net worth and achieving economic mobility.

Financial Opportunity Centers

In an effort to improve low-income families' financial well-being, the Local Initiatives Support Corporation (LISC) provides community organizations financial support and technical assistance to operate Financial Opportunity Centers (FOCs). The FOC model operates in over 75 centers in 30 cities around the country. Based on the Center for Working Families model developed by the Annie E. Casey Foundation, FOCs seek to increase low-income families' financial prospects by providing integrated services in three core areas: employment assistance, financial counseling, and assistance accessing public benefits. Employment services include basic job readiness training and job placement as well as connections to education and occupational skills training. Financial services include education and individual financial coaching on budgeting, saving, banking, and credit as well as assistance solving specific problems. Income support counselors help families navigate public benefit systems' complex eligibility and enrollment processes in order to access benefits to supplement income from work. The FOC model maintains that the three core services work best when they are integrated.

The Evaluation

In 2010, the Corporation for National and Community Service awarded LISC a Social Innovation Fund grant to expand and evaluate the FOC model. LISC contracted with the Economic Mobility Corporation (Mobility) to conduct an independent evaluation of the effectiveness of five FOCs in Chicago, where the network had been operating for several years and, therefore, we expected the programs would provide a fair test of the fully implemented model. The study was also supported by grants from the MacArthur, Annie E. Casey, Citi, JPMorgan Chase, MetLife, and Walmart foundations. The organizations included in the study were Association House, Instituto Del Progreso Latino, Metropolitan Family Services, North Lawndale Employment Network, and The Cara Program. We selected these organizations because (1) they built the FOC services into employment programs, which was the model we were interested in testing; (2) they served a diverse group of low-income job seekers; and (3) they represented a mix of agency types and service offerings.

Study enrollment took place from October 2011 to August 2012. Study participants were seeking the FOC's assistance with employment and training, and the FOCs sought to engage them in financial and income support counseling as well in order to help them become consistently employed, improve their credit rating, and increase their net income and net worth. To assess the FOCs' effectiveness, the study used a quasi-experimental design that compared program participants' outcomes to those of a similar group of job seekers who sought assistance with employment and training from the city's workforce centers. We used propensity score matching to select the final study sample based on participants' demographics, recent employment experience, and financial situation. Only FOC and comparison group members who were sufficiently close matches were included in the final sample. This approach produced a strong comparison group of individuals who were similar to the FOC participants in their financial situations and motivation to find employment and in the labor market they faced. The final analysis sample includes 500 FOC participants and 649 comparison group members.

Our final report presents the findings on the FOCs' impacts on low-income job seekers' employment, net income, credit, and net worth two years after entering the programs. The report uses data on participants' employment, income, expenses, assets, and debts gathered during telephone surveys as well as data on credit scores and credit activity from participants' TransUnion credit reports. This summary highlights our main findings. The full report can be found on Mobility's website.

Main Findings

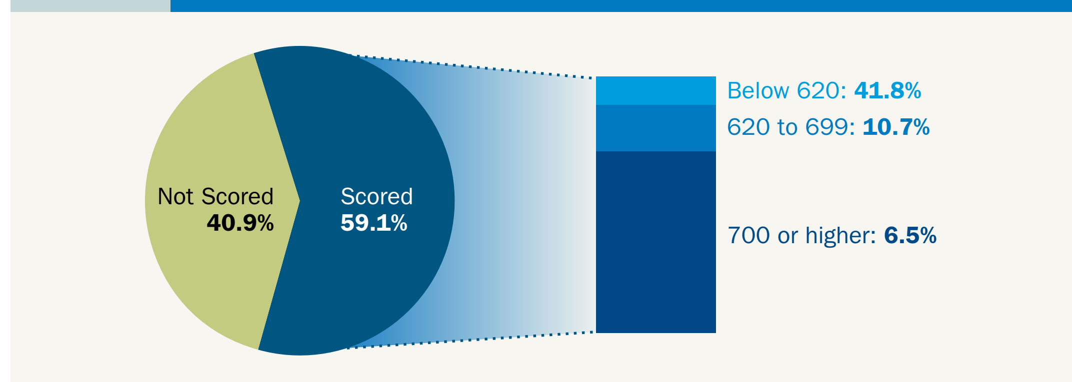
FOC participants faced substantial barriers to achieving financial stability, including low education levels, unemployment, a lack of assets, and limited or negative credit histories.

The FOCs sought to serve low-income individuals living in or near the Chicago communities in which the programs were located. Most participants were either African American or Latino (**Figure 1**). Most had only a high school diploma or GED, and 23 percent had no diploma or degree. Half had not worked at all during the year prior to program entry. Nearly 83 percent had either no credit score or a subprime score—defined as a score below 620 (**Figure 2**).

Figure 1 **FOC Participants' Characteristics at the Time of Program Entry**

Female	54.6%
African American	71.6%
Latino	24.0%
Average age	38.3
Had no high school diploma or equivalent degree	23.0%
Had a college degree	13.6%
Not employed at any time during the past year	50.4%
Had zero or negative net worth	67.6%

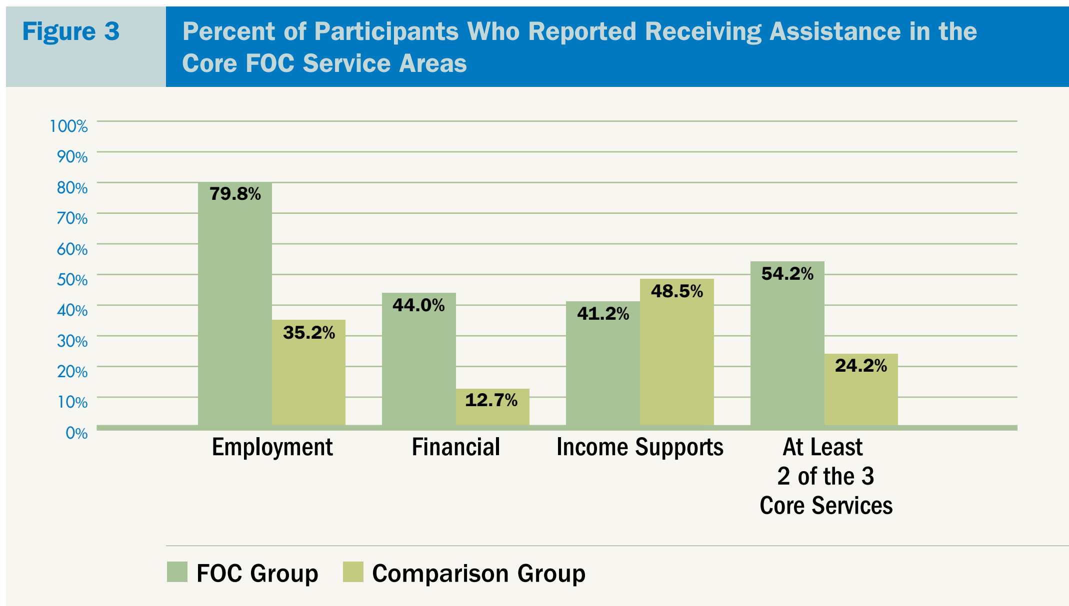
Figure 2 **FOC Participants' Credit Status at the Time of Program Entry**



FOCs increased participants' receipt of integrated services, particularly assistance with employment and financial issues.

As presented in Figure 3, FOC participants were more likely than comparison group members to report receiving assistance with finding a job and with financial issues while comparison group members were somewhat more likely to receive assistance with accessing income supports. FOC participants were more likely than members of the comparison group to report receiving integrated services; that is, services in at least two of the three core areas that the FOC model targeted.

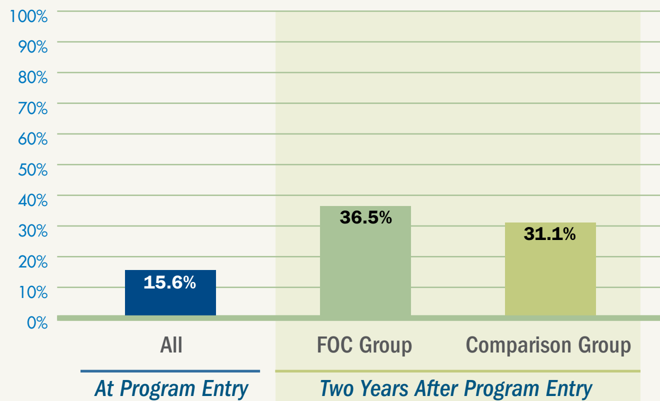
Figure 3 Percent of Participants Who Reported Receiving Assistance in the Core FOC Service Areas



FOC participants were more likely than comparison group members to work year-round in the second year after program entry, but annual earnings were similar between the groups.

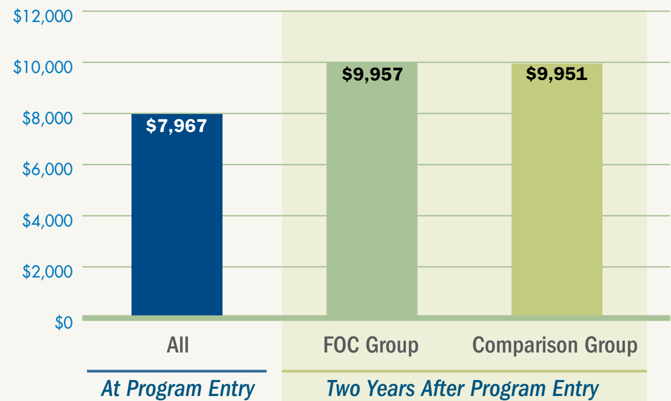
The percent of FOC group members who were employed year-round increased almost 21-percentage points from the year before to the second year after program entry—a change that was significantly greater than that among comparison group members (Figure 4). Both FOC and comparison group members experienced about a $2,000 increase, on average, in annual earnings in the second year after program entry (Figure 5).

Figure 4 Percent of Participants Employed Year Round



Note: Difference significant at p<.10 level.

Figure 5 Average Annual Earnings from Work



FOCs did not have positive impacts on net income two years after program entry, as participants' income and expenditures both increased.

The FOC model anticipated that participants would experience an increase in net income as their earnings from work and income supports increased and financial coaches helped them identify ways to reduce expenses. However, the increased employment did not translate into positive impacts on participants' net income two years after program entry. As shown in Figures 6 and 7, study participants' income and expenditures both increased two years after program entry. The small differences between the FOC and comparison groups were not statistically significant. While participants' earnings from work increased, their receipt of monetary support from family and friends and unemployment insurance benefits decreased. At the same time, participants' expenditures on basic living expenses—including rent, utilities, and food—increased.

Figure 6 Average Monthly Income

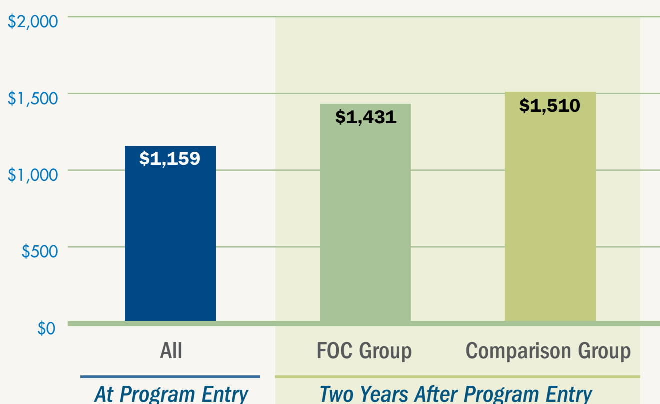
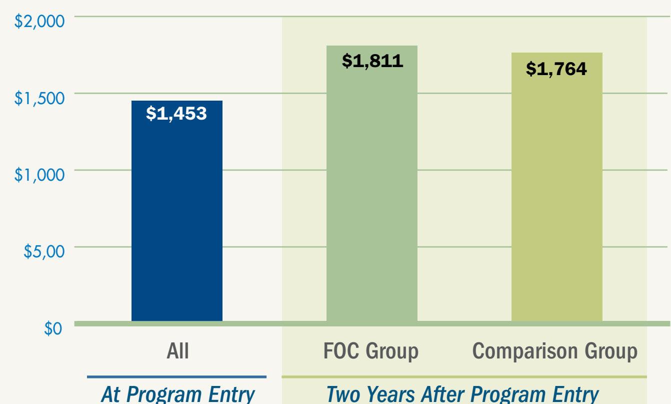


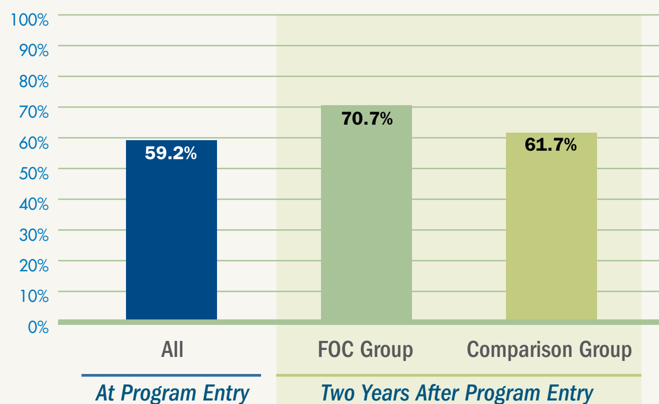
Figure 7 Average Monthly Expenses



The FOCs helped participants build positive credit histories and helped certain subgroups improve their credit status.

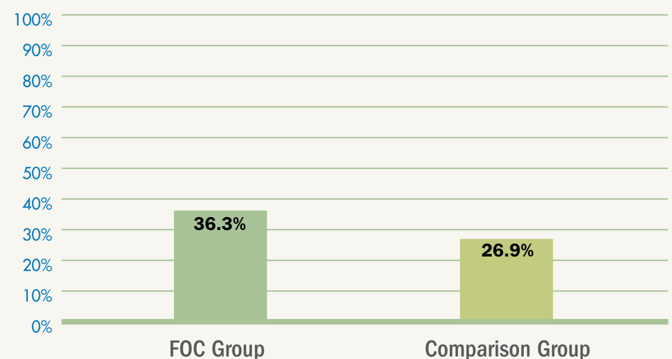
The FOCs had significant positive impacts on participants' credit outcomes. Two years after program entry, FOC participants were more likely to have positive activity on their credit reports in the form of on-time payments on loans, credit cards, and other lines of credit, as well as trade accounts with positive ratings (**Figure 8**). Among individuals who lacked a credit score at program entry, FOC group members were significantly more likely than those in the comparison group to have a score after two years—a 9.3 percentage-point difference (**Figure 9**).

Figure 8 **Percent of Participants Who Had Any Trade Accounts with Positive Ratings**



Note: Difference significant at p<.01 level.

Figure 9 **Percent of Participants Unscored at Program Entry Who Had a Credit Score After Two Years**



Note: Difference significant at p<.10 level.

Despite the progress participants made in building positive credit histories, there was no significant impact overall on average credit scores or on the likelihood that they had a prime credit score two years after program entry (**Figure 10**). Among those who had more-recent credit activity at program entry (that is, those who had thick credit files with three or more open accounts), FOC participants were significantly more likely than comparison group members to have prime credit scores after two years—a 13.8 percentage-point difference (**Figure 11**)

Figure 10 Percent of All Participants Who Had a Prime Credit Score

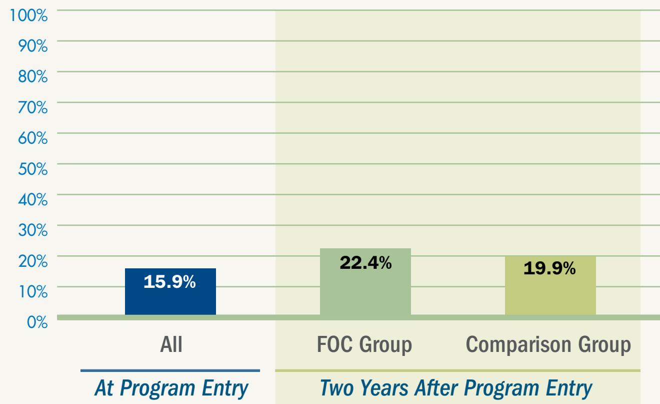
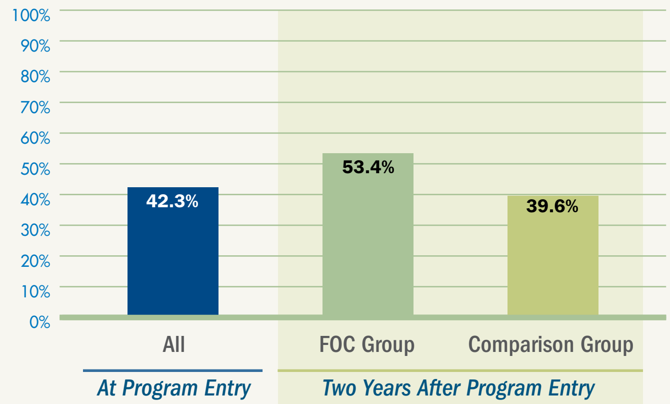


Figure 11 Percent of Participants With More-Recent Credit Activity at Program Entry Who Had a Prime Credit Score



Note: Difference significant at p<.01 level.

The FOCs did not have a significant impact on participants' net worth, but FOC participants were less likely to have certain types of debt.

There were no significant impacts on participants' net worth (the total value of assets minus the total value of debts) or on the percent of participants with net worth greater than zero (**Figure 12**). However, as shown in **Figure 13**, two years after program entry, FOC participants were less likely than comparison group members to have any debts unrelated to asset accumulation, such as medical or legal debts, child support arrears, or back taxes.

Figure 12 Percent of Participants With Net Worth Greater than Zero

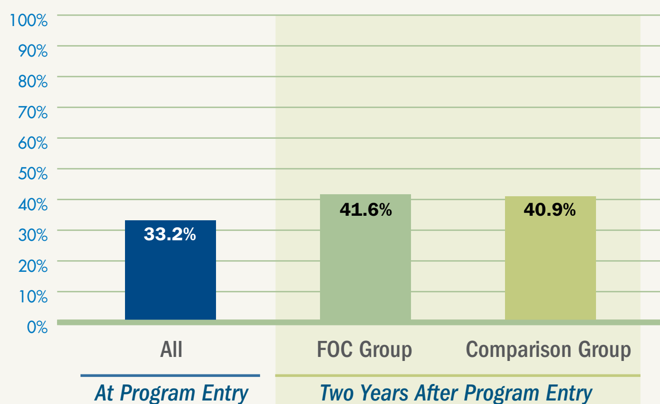
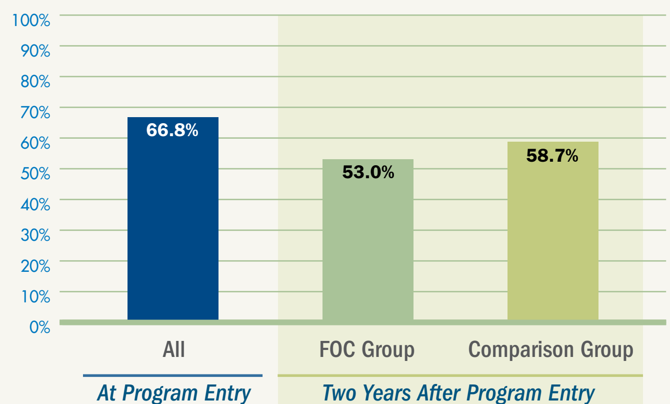


Figure 13 Percent of Participants With Debts Unrelated to Assets (e.g., Medical, Legal, Back Taxes)

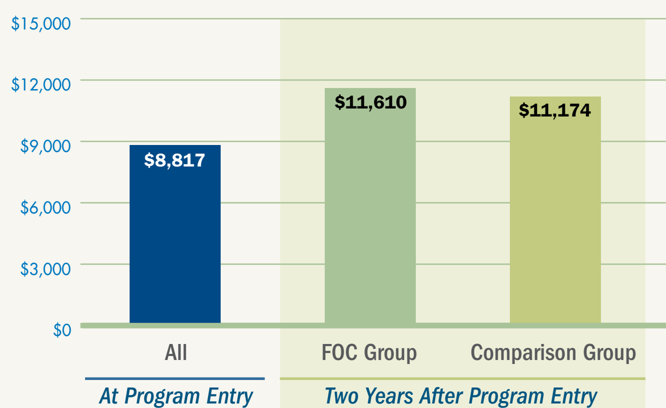


Note: Difference significant at p<.10 level.

Program impacts on employment and credit were greater among individuals who were more engaged in financial and employment counseling.

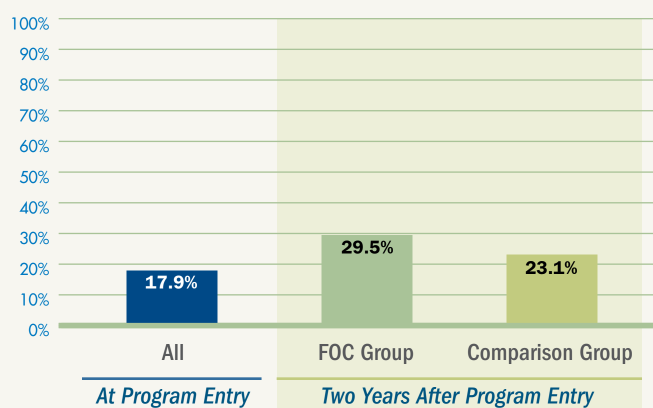
Engaging individuals in ongoing integrated services was important but challenging. Thirty-seven percent of all study participants who sought assistance from the FOCs had at least two meetings with both the financial and employment counselors. For these participants, the FOC programs produced more consistently significant positive impacts. On average, in the second year after program entry, FOC participants who had two or more meetings with the financial and employment counselors earned $436 more than comparison group members (**Figure 14**). The counseled FOC participants were also significantly more likely than comparison group members to have a prime credit score after two years—a 6.4 percentage-point difference (**Figure 15**).

Figure 14 Average Annual Earnings Among FOC Participants Engaged in Employment and Financial Counseling



Note: Difference significant at p<.10 level.

Figure 15 Percent Who Had Prime Credit Scores, Among Participants Engaged in Employment and Financial Counseling



Note: Difference significant at p<.10 level.

Conclusions

In sum, in the two years after program entry, the FOCs helped individuals take some initial steps to improve their financial stability. Relative to the comparison group, FOC participants were more likely to be employed year-round, to have reduced certain types of debt, and to have built more-positive credit histories as reflected on their credit reports. These advances had not translated into increases in net income or net worth, which perhaps was not surprising given the FOC participants' limited recent attachment to the labor market, lack of assets, and level of debt when they entered the programs.

The findings indicate that integrating financial coaching and employment services can be an effective strategy for helping low-income individuals improve their financial situations. In particular, educating individuals about credit and their own credit situations is a powerful tool for helping them take steps to build positive credit histories. Achieving financial stability and mobility is a long-term process, and programs need to structure services to promote long-term engagement with counselors. Policies that support integrated service strategies need to recognize the time needed to achieve financial goals and support efforts to establish lasting relationships between participants and program staff.

Endnotes

1. National Employment Law Project. September 2015. “Occupational Wage Declines Since the Great Recession.” *Data Brief*. New York: National Employment Law Project.
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3. Brooks et al. 2014. *Treading Water in the Deep End: Findings from the 2014 Assets and Opportunity Scorecard*. Washington, DC: CFED.
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