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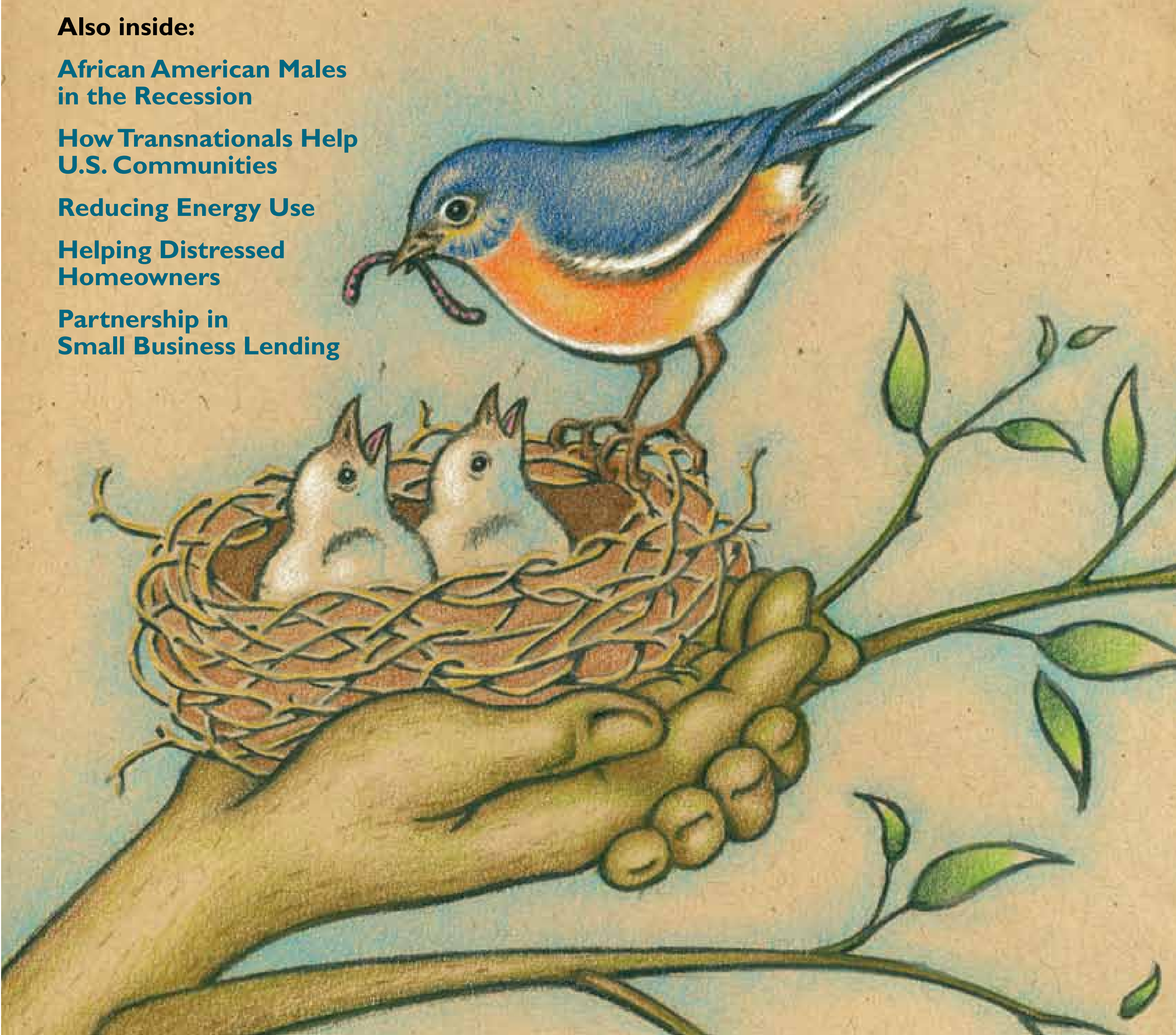
Placing a Value on Care Work

Also inside:



Communities & Banking magazine aims to be the central forum for the sharing of information about low- and moderate-income issues in New England.

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Cover illustration: Eric Westbrook

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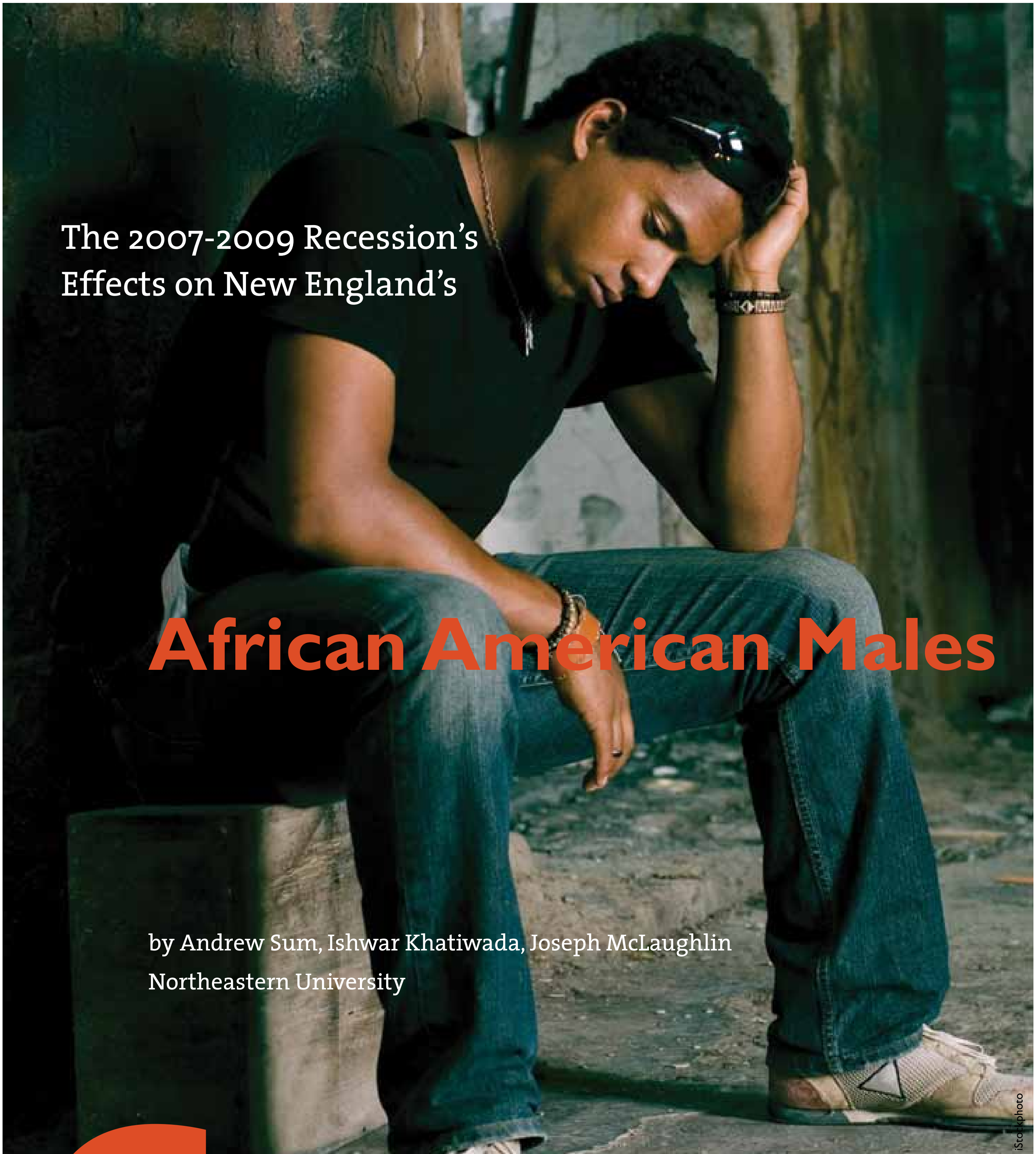

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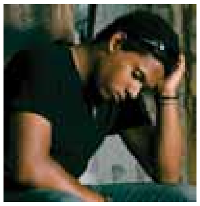
The 2007-2009 Recession's Effects on New England's African American Males

by Andrew Sum, Ishwar Khatiwada, Joseph McLaughlin

Northeastern University

Changes in labor market opportunities over time have different effects on different groups of workers. Among the biggest losers in the national labor market today have been African American males.[1]



According to the National Bureau of Economic Research, the nation entered the recession in December 2007. Aggregate civilian job losses as of this writing have far exceeded those of other post-World War II recessions, and many forecasters expect them to continue through 2009 at least. From November 2007 through May 2009, employment among civilians 16 and older is estimated to have declined by nearly 6.1 million, or 4.5 percent.[2] Male employment fell by nearly 7 percent versus only about 2 percent among women. (See “Civilian Job Losses, Working Age Adults.”) In each major race/ethnic group, the rate of male job loss was two to nearly five times that of females. Black males experienced the largest relative decline of all gender and race/ethnic groups.

Civilian Job Losses, Working Age Adults

Sixteen years and older, percent change from November 2007 to May 2009 (seasonally adjusted, except for Asians)

Race/ethnic group	Men	Women	Difference (percentage points)
All	-6.8%	-2.3%	-4.5
Asian	-5.5%	-2.0%	-3.5
Black	-9.4%	-2.5%	-6.9
Hispanic	-5.7%	-.8%	-0.9
White	-5.3%	-2.1%	-3.2

Source: U.S. Bureau of Labor Statistics web site. Tabulations by authors.
Note: Hispanics are included with the race group of which they reported themselves to be members.

The relative size of the employment losses among black males from fall 2007 through the early spring of 2009 varied by age group. With the exception of those age 55 to 64, black males in each age group encountered decreases, and all the groups under age 44 suffered double-digit declines. (See “Numbers of Employed Black Males by Age.”)[3]

Numbers of Employed Black Males by Age*

(1,000s, not seasonally adjusted)

Age group	Sep/ Nov 2007	Feb/ Apr 2009	Absolute change	Percent change
16 – 19	238	189	-49	-21%
20 – 24	821	698	-123	-15%
25 – 34	1,866	1,590	-276	-15%
35 – 44	1,922	1,667	-255	-13%
45 – 54	1,731	1,608	-123	-7%
55 – 64	736	814	78	+10%
65+	220	211	-9	-4%

Source: CPS monthly surveys, selected months 2007-2009, from BLS web site. Tabulations by authors.

From fall 2007 through early spring 2009, black males in each major educational group experienced job losses. (See “Numbers of Employed Black Males 25 and Older.”)[4] For example, although employment among all males 25 and older with a bachelor’s degree or higher declined by only 1.5 percent from October/November 2007 through February/April 2009, for black males it fell by 12 percent. Only black male adults without a high school diploma fared worse.

Numbers of Employed Black Males 25 and Older

By educational attainment, October – November 2007 to February – April 2009 (1,000s, not seasonally adjusted)

Educational attainment	Oct/ Nov 2007	Feb/ Apr 2009	Absolute change	Percent change
Less than high school/ no GED	538	455	-83	-15%
High school graduate	2,256	2,178	-78	-4%
1-3 years of college	1,938	1,823	-115	-6%
Bachelor’s or higher	1,477	1,296	-181	-12%

Source: CPS monthly surveys, public use files. Tabulations by authors.

Black Males in New England

From August-November 2007 to January-April 2009, seasonally adjusted New England employment fell from 7.338 million to 7.074 million, nearly all of it estimated to be among males.[5] (See “Changes in New England Civilian Employment Age 16 and Older.”)

Changes in New England Civilian Employment Age 16 and Older*

(1,000s, seasonally adjusted)

	Aug– Nov 2007	Jan – Apr 2009	Absolute change	Percent change
All	7,338	7,074	-264	-3.6%
Men	3,920	3,591	-329	-8.4%
Women	3,417	3,483	+66	+1.9%
Males				
Black, not Hispanic	182	154	-28	-15.3%
Hispanic	252	211	-41	-16.2%
White, not Hispanic	3,269	3,046	-223	-6.8%

Note: Local Area Unemployment Statistics monthly seasonal adjustment factors for total New England employment were used to adjust group employment levels. The Hispanic male employment figures for 2007 were revised downward proportionally for estimated adjustment to population totals for the national Hispanic population.
Source: Monthly Current Population Survey (CPS), August-November 2007 and January-April 2009, public use files, authors’ tabulations

Between fall 2007 and April 2009, black and Hispanic New England males experienced a double-digit employment decline. Although white, non-Hispanic males saw a decline of only 6.8 percent, black male employment is estimated to have fallen by 15.3 percent.

In early 2009, the black male unemployment rate averaged 16.3 percent in New England, twice as high as that of white, non-Hispanic males. The underutilization rate also was high.[6] (See “Estimated Unemployment and Labor Underutilization Rates.”) Underutilization includes underemployment (working part-time while desiring full-time work) and hidden unemployment (wanting jobs but not actively looking for them).[7] An average of nearly 56,000 black

** Data have been corrected from the first printing.*

males were underutilized in the first four months of 2009, a rate of 28 percent—55 percent among those under 25.

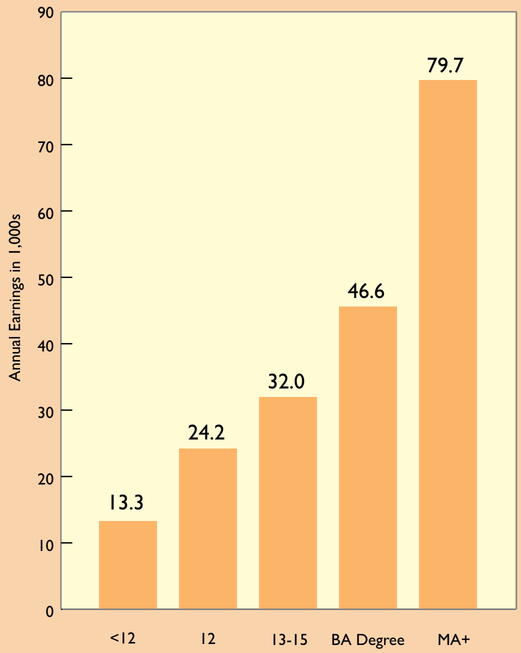
Worrisome Trends

Over the past two decades, black males' declining employment prospects have combined with declining real wages to reduce annual earnings, especially for men without four-year degrees. The lower earnings correlate with fewer taxes paid, lower rates of marriage and family formation, and higher rates of incarceration.[8]

During 2005 to 2007 in New England, the mean annual earnings for 20- to 44-year-old black males was $30,830, or only 62 percent of what New England males in this age group earned overall.[9] Earnings varied by educational attainment, ranging from a low of $13,300 among black men lacking a high school diploma or GED to $80,000 for those holding a master's or more advanced degree. The mean annual earnings of black males holding bachelor's degrees were nearly twice as high as those of high school graduates, but still one-third below those of white male college graduates. (See "Mean Annual Earnings by Educational Attainment.")

Mean Annual Earnings by Educational Attainment

20- to 44-year-old black males in New England (2005-2007 averages, in 1,000s of constant 2007 dollars)



Source: American Community Surveys, public use files. Tabulations by authors.

Estimated Unemployment and Labor Underutilization Rates

New England males, January to April 2009 (not seasonally adjusted)

	Unemployment rate	Underutilization rate
All Men (16+)	9.3%	17.1%
Asian	6.8%	11.5%
Black, not Hispanic	16.3%	28.1%
Hispanic	17.7%	33.4%
White, not Hispanic	8.4%	15.4%

Source: CPS monthly household surveys, January-April 2009, public use files. Authors' tabulations.

Correlated with low educational attainment are low marriage rates and high institutionalization rates. Institutionalization can generate substantial costs for society, as can single parenting when parents are struggling with poverty. Concerns about the social and labor-market problems of young black and Hispanic males with limited postsecondary schooling have led some states to establish public-policy task forces to boost educational and labor market outcomes for such men.[10] More will be needed.

Andrew Sum, Ishwar Khatiwada, *and Joseph McLaughlin, of Northeastern University's Center for Labor Market Studies, are based in Boston.*

Endnotes

1 See Patrick Jonsson and Yvonne Zipp, "Job Losses Hit Black Men Hardest," *Christian Science Monitor*, March 15, 2009; "For Black Men, It Has Been Our Recession," *The North Star News*, March 9, 2009; and Andrew Sum, Ishwar Khatiwada, and Joseph McLaughlin, *The Impacts of the Current Recession on the Labor Market Situation of Males, Blue Collar Workers, and Black Men* (Boston: Northeastern University Center for Labor Market Studies, 2009).

2 Approximately 400,000 of the overall employment loss was attributable to the U.S. Census Bureau's downward adjustment of the estimated size of the civilian noninstitutional population in January 2009. An earlier population adjustment in January 2008 reduced the total employment decline by another 500,000. With regard to date changes in the tables, we used three- or four-month averages when we analyzed smaller subsets of workers to improve the reliability of the estimates. Also, when the April 2009 data were made available, we decided in some cases to extend the period of analysis from March 2009 to April 2009.

3 Among all males 65 and older, the number of employed across the nation rose over this time period.

4 Algernon Austin, "Among College Educated, African Americans Hardest Hit by Unemployment," http://www.epi.org/economic_snapshots/entry/snapshots_20090422.

5 Seasonal adjustment factors for our CPS employment estimates for the entire region are based on the Local Area Unemployment Statistics (LAUS) program, http://www.bls.gov/lau. The CPS employment estimates of employment decline over this period exceed those of the LAUS (-2.7%) and the CES payroll employment survey (-2.8%).

6 The unemployment rates for New England males by race/ethnic group for the first four months of 2009 are not seasonally adjusted.

7 Andrew Sum, Joseph McLaughlin, and Sheila Palma, *The Economic Recession of 2007-2009 and the Massive Increase in Labor Underutilization Problems* (Boston: Northeastern University Center for Labor Market Studies, 2009).

8 See William Julius Wilson, *The Truly Disadvantaged: The Inner City, The Underclass and Public Policy* (Chicago: University of Chicago Press, 1987); Bruce Western and Leonard Lopoo, "Incarceration, Marriage, and Family Life," in *Punishment and Inequality in America* (New York: Russell Sage Foundation, 2006).

9 The 2006-2007 ACS surveys excluded males in jails, prisons, hospitals, etc., from the earnings analysis.

10 Ron Marlow and Andrew Sum, "A Job Crisis for Young Black Men," *The Boston Globe*, April 22, 2009.

by Randy Albelda, Mignon Duffy, Nancy Folbre, Clare Hammonds, and Jooyeoun Suh

Illustration: Eric Westbrook

Placing a Value on Care Work

In Massachusetts, as in every other place in the world, there are children needing care and education, people with physical and mental health needs, and those who require assistance with the daily tasks of life because of illness, age, or disability. The labor of meeting these needs—*care work*—is a complex activity with profound implications for personal, social, and economic well-being. Care work is not just a cornerstone of our economy—it is its foundation. Care work

We estimate that unpaid care work is worth $151.6 billion per year in Massachusetts. If it were counted as part of gross domestic product in 2007, it would account for 30.1 percent of the state's output.

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provides the basis for our human infrastructure. We need it to navigate through life as surely as we need roads and bridges.

With the help of a University of Massachusetts Creative Economy Grant, the authors have mapped this infrastructure for Massachusetts in 2007. The research examines three intersecting spheres of care work: paid care, unpaid labor, and government support for care.[1]

The Case for a Care Sector

Included in what we call the care sector are: the labor and resources devoted to the daily care of Massachusetts residents, especially children, the elderly, and the disabled; the provision of K-12 education; and the administration of health care to both the well and the sick, regardless of age.

The care sector encompasses both paid employment and family labor, and cuts across several areas that usually operate in separate spheres and sometimes compete for the same state dollars. We need to think about it as a unit, however, one that comprises a vital part of the state economy.

At least two things unite the care sector. First, the combined successful outcomes of health, education, and other types of care work define our overall well-being and allow us to function effectively as a society. In order to work, be an active part of communities, and participate in the political process, people have to be fed, nurtured, educated, and have their daily needs met. Care work accomplishes some of the most fundamental tasks of a society.

The second unique, but closely related, characteristic of care work is that its benefits extend beyond the individual directly receiving the care. Market mechanisms do not always effectively provide the quantity or the quality of care needed. Care, whether done with paid or unpaid labor, is a "public good," and public policy and government fiscal support play a critical role.

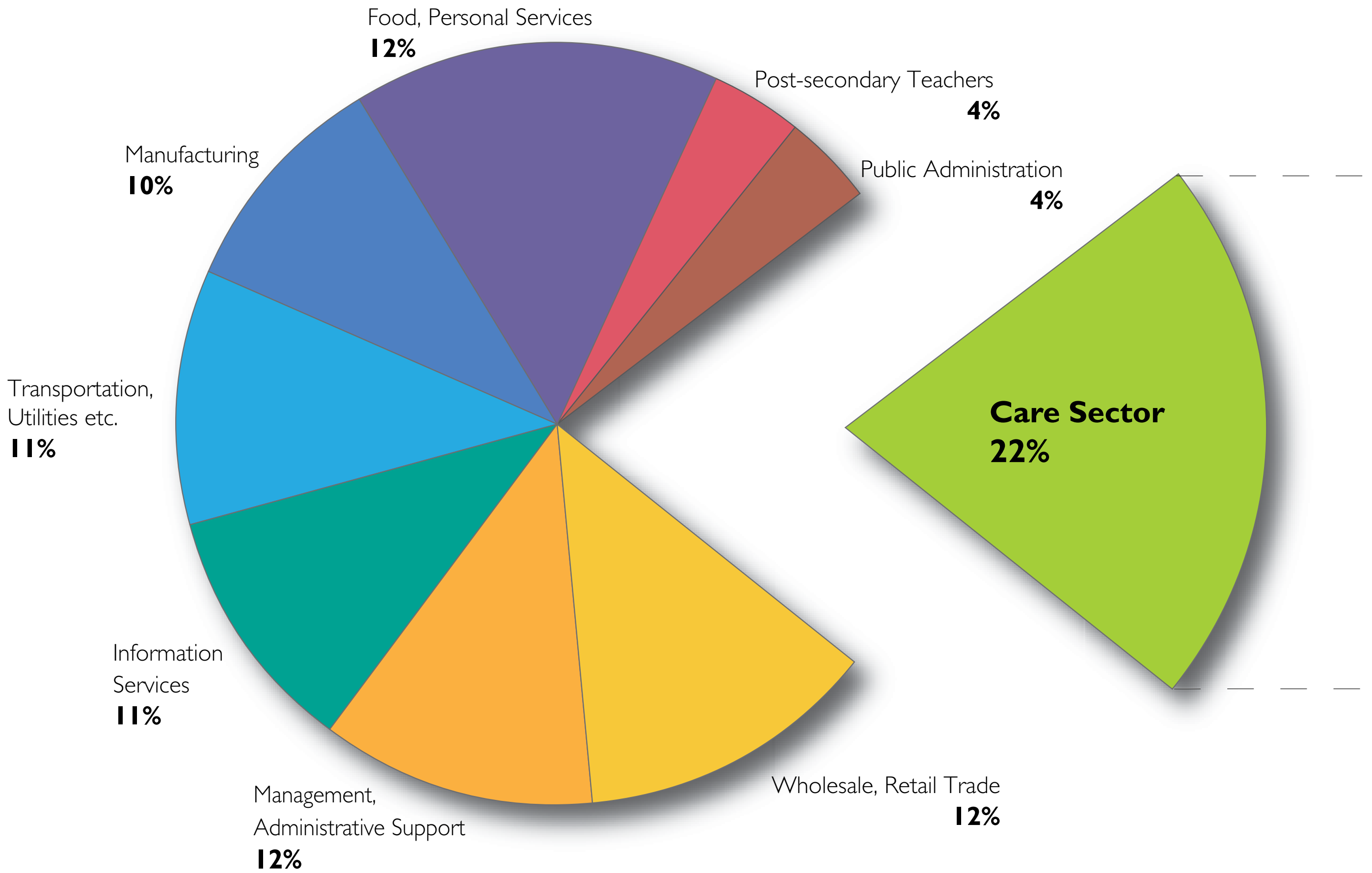
The need for care is substantial. The 6.5 million individuals who live in Massachusetts all rely on care work for their physical and mental health and to meet their daily needs. According to the 2007 American Community Survey, 1,542,000 of those residents are children under the age of 18, who need intensive care and education. Another 864,000 individuals are over 65, and 138,000 of those are over 85; both groups have particular care needs. In addition, 213,000 Massachusetts residents have significant personal care limitations.

State domestic product, the U.S. Bureau of Economic Analysis measure of goods and services produced and paid for in a state, measures health care, K-12 education, and social services as 13 percent of the total state product. However, because so much of care work is not paid for, that measure makes most care invisible. We provide measures of care work in each of three major spheres with the goal of informing policymakers, researchers, and advocates about the full value of the sector for the Commonwealth's economy.

The Paid Care Labor Force

Paid workers in health care, K-12 education, child care, and other social services are a critical part of the Commonwealth's human infrastructure. In 2007, almost 800,000 Massachusetts residents worked in those industries. The workers, who are meeting residents' essential needs, represent 22 percent of the state labor force. (See "Massachusetts Workers by Industry, 2007.") Sixty-one percent of the workers in the paid care sector in Massachusetts in 2007 were in occupations that directly involve *interactive* care: the doctors, nurses, teachers, child-care workers, social workers, and home-care aides on the front lines of caring for residents. The three largest inter-

Massachusetts Workers by Industry, 2007



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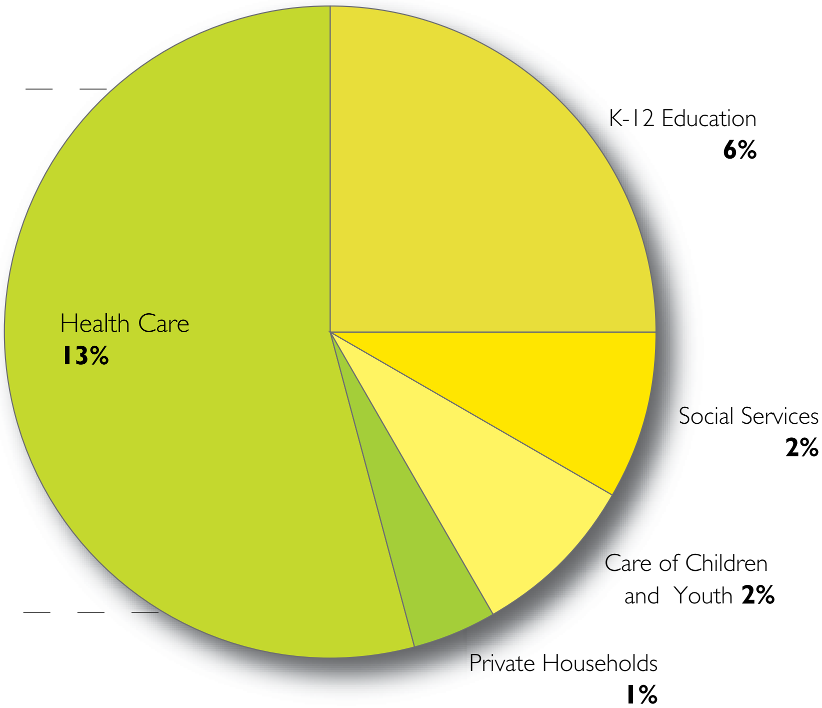
active care occupations are registered nurses; elementary and middle school teachers; and nursing, psychiatric, and home health aides. The other 300,000 workers in the care sector include the administrative assistants, janitors, technicians, managers, and maintenance workers who support and enable the many institutions involved in the interactive function.

Care work, whether paid or unpaid, is performed largely by women. In Massachusetts in 2007, 75 percent of the workers in paid-care industries were women. By contrast, women made up only 41 percent of workers in other industries. There are also significant concentrations of racial/ethnic minorities and immigrants in certain parts of the care sector. For example, although immigrants make up 18 percent of the state labor force, foreign-born workers make up almost 40 percent of nursing, psychiatric, and home health aides; 31 percent of personal and home care aides; and 23 percent of child-care workers. Black and Hispanic workers are also overrepresented in these areas.

Unpaid Caring Labor

Unpaid care helps people develop and maintain their everyday and future capabilities; strengthens human relationships; improves health; and helps people negotiate the complexities of obtaining paid care services such as getting to a doctor, finding a good child-care center, or learning about elder-care services. The American Time Use Survey collects data from a representative sample on what activities people perform, and with whom, over the course of a day. Using the survey's 2003-2007 data, we can measure unpaid care work performed in Massachusetts.

On average, every Commonwealth resident 16 years and older spent 3.7 hours a day



Care Sector Detail

Source: American Community Survey pooled sample 2006-2007.
Note: Totals do not always sum to 100% because of rounding.

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caring for children and other family members, maintaining their households, helping friends and neighbors, and/or volunteering time to community organizations. If we also include the time in which children are under the supervision of adults when the adults are pursuing other activities, the average is 4.8 hours every day. This translates to 24.9 million person hours each day. We would have to double the current labor force by hiring about 3.1 million workers on a given day—working eight-hour shifts—to provide paid replacement for the unpaid time that individuals provide, on average, to care work.

Assigning a dollar value to unpaid care work equal to that of typical care workers, we estimate that unpaid care work is worth $151.6 billion per year in Massachusetts. If it were counted as part of gross domestic product in 2007, it would account for 30.1 percent of the state's output.

The Role of State and Local Government

Care work yields important public benefits, and state and local government support is crucial to ensure the availability of quality care for residents. In fiscal year 2007 state and local governments in the Commonwealth invested $24 billion (57 percent of total combined spending) in K-12 education, health care, and in care of young children and disabled and elder adults. Since all care industries accounted for $47 billion of the Massachusetts gross domestic product in 2007, state and local governments' con tribution are substantial.

The amounts spent were split fairly evenly between K-12 education and all other care provision (mostly health care), with 49 percent of expenditures on education and 51 percent on all other care. State government spent close to two-thirds (64 percent) of its fiscal year 2007 operating budget on the care sector (including funds that go directly to local governments, mostly for K-12 education). Of state-only funds, more than 40 percent were designated for health care. Fifty-six percent of total local expenditures went toward care provision. Almost all (97 percent) of total care expenditures on the local level went toward education.

The Total Care Package

The care sector in Massachusetts is substantial. It employs one out of every five workers. Every year Massachusetts residents collectively provide 25 million unpaid hours of care, with close to two-thirds of state and local government dollars going to financing care work. The total care sector comprises 39 percent of state gross domestic product when the value of unpaid work in state output is included.

Care work is critical to both our current well-being and our future growth and development. The substantial role of public support in the care sector, however, makes it particularly vulnerable to budget cuts at both the state and federal level. Recent severe cuts place extraordinary challenges on paid and unpaid care workers and those they serve and may hurt the sector as a whole. The Commonwealth's overall human capabilities may well depend on finding a way to continue to invest in care.

Randy Albelda *is professor of economics at the University of Massachusetts, Boston.* **Mignon Duffy** *is assistant professor of sociology at the University of Massachusetts, Lowell.* **Nancy Folbre** *is professor of economics at the University of Massachusetts, Amherst.* **Clare Hammonds** *is a doctoral student in sociology at Brandeis University.* **Jooyeoun Suh** *is a doctoral student in economics at the University of Massachusetts, Amherst.*

Endnote

[1] See the full report at www.countingcare.org.


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by Kathleen Guarino and Katherine T. Volk,
National Center on Family Homelessness

child homelessness:

minimizing the impact, ending the epidemic

Each year, one in 50 American children experiences homelessness.[1] Family homelessness is caused by the combined effects of lack of affordable housing, extreme poverty, decreasing government supports, changing family demographics, the challenges of raising children alone, domestic violence, and fractured social supports. For extremely poor families and those with vulnerabilities or little safety net, even seemingly minor events can trigger catastrophic outcomes and catapult a family onto the streets.

Many children experiencing homelessness describe worries and fears about their safety and that of their caretakers.

A child's path to homelessness often includes violence and chaos, family financial stress, and serious disruptions in interpersonal relationships and education. The experience itself means a loss of place, belongings, and feeling safe and secure. Within one year, 97 percent of children experiencing homelessness move, often leaving behind familiar surroundings.[2]

Many children experiencing homelessness describe worries and fears about their safety and that of their caretakers. The constant stress puts them at risk for developing significant mental health issues.[3] By age eight, one out of three children experiencing homelessness—compared with about one out of five other school-age children—will have a diagnosable mental health disorder that interferes with daily activities. Almost half suffer from anxiety and depression, while one-third express their distress through aggressive behaviors.[4]

The mental health of a child is inextricably linked to the health and well-being of that child's caregiver, and more than 50 percent of mothers experience a major depressive episode while homeless.[5] Such episodes impede a parent's ability to bond with a child, leading to the increased likelihood that the child will struggle with developmental delays, academic problems, and health issues.[6]

Program and policy responses can mitigate the impact of homelessness on children and help end child homelessness.

Providing Child Programs

Services available for families who have experienced homelessness are often primarily focused on the adult caregiver. In light of the traumatic experiences children endure, trauma-specific children's programming in homeless service settings is vital for addressing the issues that families bring to the shelter and the problems that arise in shelter life. Trauma-specific programming for children includes:

Provider Education. To accurately identify child mental health needs, service providers working with homeless and at-risk children need adequate training. They must be able to assess whether a child's behaviors coincide with the usual patterns of development or reflect a more significant issue. Professional development for providers should involve understanding child development, including developmental milestones and the impact of traumatic stress on children at particular stages. Training should also include basic education about parent/child attachment and the impact of stress on this primary relationship.

Child-Specific Assessment and Referral. Specific questions about mental and physical health, traumatic experiences and development should be routine in the intake assessment process. Thorough child assessments allow providers to make immediate referrals for further evaluation and services. Because a subgroup of children will require more intensive services, all programs must establish local referral networks willing and able to work with homeless children and their families.

Trauma-Specific Mental Health Services. Trauma-specific services for children may include individual and family therapy services that focus on helping children to manage traumatic stress and are conducted by professionals with expertise in trauma and children. Some professionals use creative, nonverbal services such as play therapy, art, dance, and yoga for children. These outlets allow children to build coping skills to identify, express, and manage feelings associated with the stressors they face. Involving community partners in collaboration to address these needs is essential, as many homeless-serving agencies lack on-site mental health services.

Provider education, child-specific assessment and referral, and trauma-specific mental health services should also take into account the child's caregiver relationships. Children's experiences of violence and instability can result in disruption of the fundamental parent-child connection, which ought to help children learn coping skills, create relationships, and understand themselves and the world. There is a need for service models that support the family as a unit, with specific attention paid to the ways the family can regain a sense of control, safety, and stability.

Mental health and early intervention providers need to actively collaborate with shelter systems to create integrated treatment plans that involve open communication and joint service planning. Service unification can help create a treatment community that understands homeless families and serves the full range of needs, as opposed to just a few issues in isolation. Such a "service network" can give homeless families a sense of safety and predictability, instead of fragmented support.

Policy Responses

Policy responses to child homelessness and its impact must focus not only on minimizing the duration and intensity of the experience for currently homeless families, but also on ending homelessness.

Homelessness is extremely costly in both human and economic terms. Only one in four homeless children graduates from high school. Numerous studies have calculated the benefits to society of better high school graduation rates. For example, one estimates net lifetime increased contributions to society at $127,000 per student.[7] Extrapolating from that amount, The National Center on Family Homelessness calculates the loss to the United States of those three out of four homeless children as a potential $26 billion annually.

Despite the current economic circumstances, a concerted effort—by national, state, and local political leaders, funders, the White House, service providers, advocates, and philanthropic foundations—could end child homelessness. In March 2009, The National Center on Family Homelessness released *America's Youngest Outcasts: State Report Card on Child Homelessness*, which offers comprehensive state-by-state data on the status of homeless children. (See "Ranks of New England States.") The report urges federal and state action to end child homelessness and recommends strategies. Listed at www.HomelessChildrenAmerica.org, the strategies include:

- creating state and local housing trust funds to complement the National Housing Trust Fund;
- placing families directly into permanent housing rather than into motels—a safer, more stable, and less costly strategy;
- permitting Temporary Assistance for Needy Families recipients to pursue educational opportunities that could increase their future income and decrease the likelihood of their needing public assistance;
- ensuring, under the leadership of state mental health departments, that all providers serving homeless children and families have demonstrable competencies in trauma-informed and trauma-specific program models;
- improving access to primary, dental, and mental health care by incentivizing collaboration between the health-care community and agencies serving homeless families;
- strengthening schools' efforts to identify and support students experiencing homelessness; and
- including appropriate strategies to end child homelessness in all state and local 10-year planning efforts.

Children who are homeless need the same things that other children need to grow up happy and healthy: a safe and stable home; access to quality schools; affordable and reliable health care; nourishing daily meals; opportunities to play in safe neighborhoods; and strong attachments with caregivers. Unfortunately, for many children who are homeless, those experiences are infrequent. Although the effort to end this scourge begins with agencies working at the community level to mitigate the impact of homelessness on children, it also requires enlightened policymakers at city, state, and federal levels.

Kathleen Guarino *is a project manager and trauma specialist at The National Center on Family Homelessness in Newton, Massachusetts, where* **Katherine T. Volk** *is director of training.*

Endnotes

[1] *America's Youngest Outcasts: State Report Card on Child Homelessness* (Newton, Massachusetts: The National Center on Family Homelessness, 2009).

[2] *America's New Outcasts: Homeless Children* (Newton, Massachusetts: The National Center on Family Homelessness, 1999).

[3] R. Masi and J. Cooper, *Children's Mental Health Facts: Facts for Policymakers* (New York: National Center for Children in Poverty, 2006).

[4] J.C. Buckner and E.L. Bassuk, "Mental disorders and service utilization among youths from homeless and low-income housed families," *Journal of the American Academy of Child and Adolescent Psychiatry* 36, no. 7 (1997): 890-900.

[5] L.F. Weinreb, J.C. Buckner, V. Williams, and J. Nicholson, "A comparison of the health and mental health status of homeless mothers in Worcester, Mass.: 1993 and 2003," *American Journal of Public Health* 96, no. 8 (2006): 1444-1448.

[6] See "Young children develop in an environment of relationships" (Cambridge, Massachusetts: National Scientific Council on the Developing Child, 2004); J. Knitzer, K. Johnson, and S. Theberge, "Reducing maternal depression and its impact on young children: Toward a responsive early childhood framework" (working paper, National Scientific Council on the Developing Child, Cambridge, Massachusetts, 2004); and Project Thrive Issue Brief no. 2 (New York: National Center for Children in Poverty, 2008).

[7] H. Levin, C. Belfield, P. Muennig, and C. Rouse, *The Costs and Benefits of an Excellent Education for All of America's Children* (New York: Columbia University, 2007), www.cbcse.org/media/download_galleryLeeds_Report_Final_Jan2007.pdf.

Ranks of New England States

From *America's Youngest Outcasts: State Report Card on Child Homelessness*

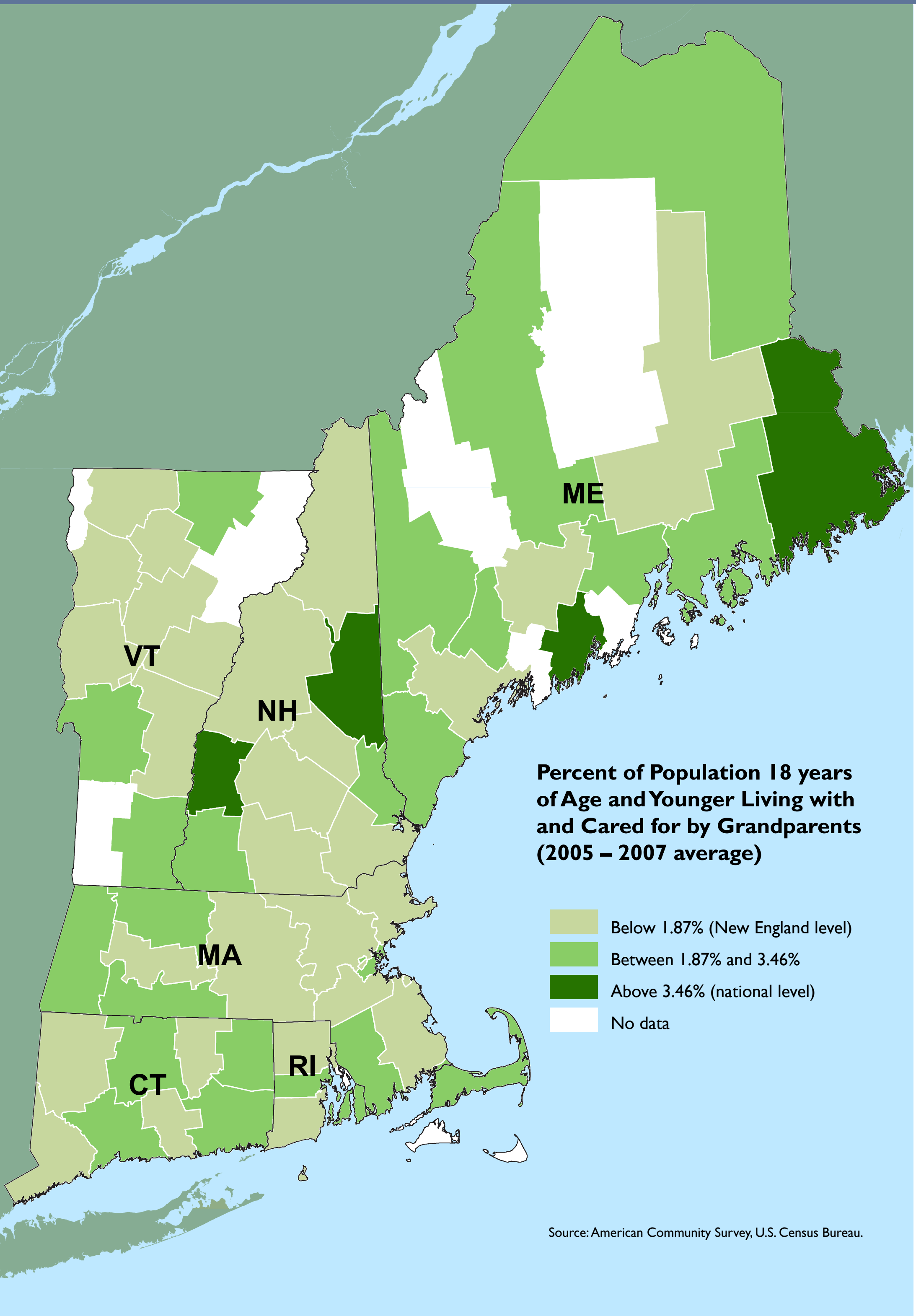
	Overall rank*	% Homeless among children living in poverty
Connecticut	1	4%
New Hampshire	2	6%
Rhode Island	4	2%
Massachusetts	8	9%
Maine	9	4%
Vermont	10	7%

* Composite of four domains.
States ranked 1-50, with 1 being best and 50 being worst.

"One in 50 children is homeless each year in the United States," says Ellen Bassuk, president of The National Center on Family Homelessness. "New England states fare better in the rankings than much of country, but the reality is that children who are homeless live in every state." See www.homelesschildren america.org.

Mapping New England

Grandparents Raising Children, by County



Increasingly, grandparents take grandchildren into their households and assume the role of primary caregiver. According to recent research, African Americans, younger grandparents, Native Americans, and grandparents in the western states are the most likely to do so, with the responsibilities often lasting for five or more years.

The map shows that, overall, children in New England are less likely to live with their grandparents and be cared for by them than children nationwide but that New England grandparents are more likely to parent grandchildren in Maine, Western Massachusetts, Connecticut, metro Boston, and Cape Cod.

Cultural differences, age distribution within families, migration patterns, racial and ethnic background, housing shortage, and living costs often influence whether grandparents take in grandchildren and raise them. Recent trends such as rising child-care cost, dominance of dual-worker families, popularity of telecommuting, and retirees' desire to seek additional income to offset higher living costs are also likely to shape the future of the grandparenting role.

Kai-yan Lee
Federal Reserve Bank of Boston

[1] See Lynne M. Casper and Kenneth R. Bryson. *Co-resident Grandparents and Their Grandchildren: Grandparent Maintained Families* (Washington, DC: U.S. Census Bureau, 1998).

[2] See *Census 2000 Brief: Grandparents Living with Grandchildren* (Washington, DC: U.S. Census Bureau, 2003).

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The case for National Children's Savings Accounts

by Barbara A. Butrica, The Urban Institute

On June 17, 2009, Senator Blanche Lincoln (D-AR) and the Aspen Institute Initiative on Financial Security launched a campaign to create Child Accounts, a savings program for every American child. In recent years, strong interest in children's savings accounts (CSAs) has emerged. The accounts are being promoted to improve financial literacy, increase the number of low-income households that are banked, and encourage saving for education, homeownership, or retirement.

What Are Children's Savings Accounts?

CSAs are savings accounts opened in children's names to help them develop a strong social and economic footing. The accounts are rooted in the idea that asset accumulation is key to improving the lives of low-income people.[1]

Although they vary in design and objective, most CSAs are established with an initial government deposit. CSA proponents prefer to provide all participants with the same seed amount, but the seed could be means-tested—for example, it might decline with income and eventually fall to zero for those with income above some threshold. Since families are not obligated to contribute, the seed encourages private saving simply by providing bank accounts and financial education.

Some CSAs also include a supplemental means-tested grant that the government would make in the initial year only or, alternatively, periodically throughout the years. Like seed funding, supplemental grants aim to improve welfare gains and require no additional private saving.

Studies suggest that matches provided against private contributions might encourage additional private saving. Accordingly, some CSAs include government matching funds, with match rates that decline with household income.[2]

Current Programs

Countries such as the United Kingdom, Canada, Singapore, and South Korea have already implemented or are considering implementing CSAs.

The United Kingdom began its Child Trust Fund in 2005. Accounts receive a government deposit of £250 (approximately $500) at birth and are administered through the private sector. Children in the poorest families receive an additional £250. The government makes another deposit of £250 to children's accounts on their seventh birthday, and an additional £250 to children in low-income families. Families and friends can make tax-deferred contributions up to £1,200 (approximately $2,400) each year. The account accrues tax-free interest until the child's 18th birthday, when it automatically becomes an adult savings account. Withdrawals before age 18 are prohibited, but there are no restrictions on how the funds can be spent once the accounts mature. As of April 2008, the program had created 3.42 million accounts valued at £1,765 million.

Canada began offering children's savings accounts in 1998. Canada's accounts are provided through Registered Education Savings Plans (RESPs), in which the savings are earmarked for postsecondary education. They are opened through financial institutions and feature lifetime tax-deferred private contribution limits of $50,000. Through the Canada Education Savings Grant (CESG), the government annually matches up to $600, depending on income level, for private contributions of at least $2,500. The lifetime limit for those grants is $7,200.

In addition, the government deposits Canada Learning Bonds (CLBs) worth $500 into accounts of children in low-income families. As long as the family is eligible, the child's account will receive annual $100 supplements up to age 15. There are no age limits for RESPs, but the savings incentives are available only to children under age 18. As of March 2007, the program had created 2.94 million accounts. The government paid $3.4 billion in CESGs and $24 million in CLBs. Combined assets in RESPs, which include accounts for people age 18 and older, were valued at $22.3 billion.[3]

Although the United States lacks a national CSA program, proposals are under consideration, including one from the Aspen Institute Initiative on Financial Security, which recommends giving every newborn a savings account of $500.[4] Families and friends could make after-tax contributions of up to $2,000 a year, and the government could make dollar-for-dollar matches of up to $1,000 a year, depending on family income. Accounts would not be accessible until age 18, after which the balances could be used for any purpose.

The New America Foundation's proposal for the America Saving for Personal Investment, Retirement, and Education Act (The ASPIRE Act) has features similar to the Aspen proposal. At birth, children would receive a $500 government deposit in a Kids Account. Depending on family income, some children would receive a supplemental contribution of up to $500. After-tax private contributions would be permitted up to $2,000 a year and would be matched by the government up to $500 a year, depending on income level. Withdrawals would not be permitted until age 18. Between ages 18 and 25, account balances could be used only for higher education. After age 25, balances could be used for homeownership or retirement in accordance with Roth Individual Retirement Account regulations.

What Can Be Achieved?

The Center for Social Development is leading a demonstration project on children's savings accounts and has some early results. The Saving for Education, Entrepreneurship, and Downpayment (SEED) demonstration, which enrolled its first participants in 2003, currently operates in 10 sites across the United States and Puerto Rico and includes 1,171 participants. All SEED accounts received an initial deposit of up to $1,000. Match dollars are available to encourage private contributions. Many programs also use benchmark incentive dollars—for example, for staying in the program or attending financial education classes—to increase account balances. By December 31, 2007, SEED account balances were $1,518 in nominal dollars at the mean and $1,093 at the median.[5]

Analysis of the longer-term effects of such policy options requires computer simulation techniques such as the Urban Institute's Dynamic Simulation of Income Model (DYNASIM3).[6] The author and co-researchers used projections from DYNA-

SIM3 to estimate the impact of CSAs on families' savings. The simulation assumes an initial federal deposit of $500 for all newborns, a supplemental grant up to $500, private contributions up to $1,000 per year, and as much as a dollar-for-dollar government match on private contributions. Government grants and interest earnings are not taxed. They find that such CSA account balances will be modest.[7] Considering inflation, their purchasing power will average only $2,413 in 2008 dollars at age 18.[8]

More important, however, are three observations relevant for any asset-building program. First, a government match significantly increases both the rate and level of private contributions to CSAs. Second, a significant portion of CSA means-tested benefits will accrue to higher-income families because of economic mobility. Two-thirds of children born into the lowest income group will end up in an income group above that when their accounts mature. Third, exempting CSA savings from taxation will distribute significantly more benefits to higher-income groups than to lower-income groups.

Undoubtedly, CSAs can increase savings. However, the benefits accruing specifically to low-income children will depend on such design features as matching contributions, targeting, and taxability. Some people may question why CSAs are even being discussed in the midst of a recession. But every dollar saved makes a difference. Compound interest alone can have a significant impact on the size of future account balances.

Although CSA balances will likely be modest and not enough to pay for college, a house, or retirement, such accounts can serve important purposes. They can improve financial security by helping young adults weather emergencies, job losses, and even future recessions. They also can improve financial literacy by getting children, especially in low-income families, into financial instruments which, in demonstrating the value of saving and compound interest, may actually encourage them to save more.

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Endnotes

[1] See Michael Sherraden, *Assets and the Poor: A New American Welfare Policy* (Armonk, New York: M.E. Sharpe, 1991).

[2] Esther Duflo, William Gale, Jeffrey Liebman, Peter Orszag, and Emmanuel Saez, "Saving Incentives for Low- and Middle-Income Families: Evidence from a Field Experiment with H&R Block," *Quarterly Journal of Economics*, forthcoming.

[3] "Review of Registered Education Savings Plan Industry Practices" (Informetrica Limited report, prepared for Human Resources and Social Development Canada, Ottawa, Ontario: 2008).

[4] Lisa Mensah, Pamela Perun, and Elena Chavez Quezada, "The Case for Child Accounts" (Washington, DC: Aspen Institute, 2007).

[5] Lisa Reyes Mason, Yunju Nam, Margaret Clancy, Vernon Loke, and Youngmi Kim, *SEED Account Monitoring Research: Participants, Savings, and Accumulation* (St. Louis: Center for Social Development, 2009).

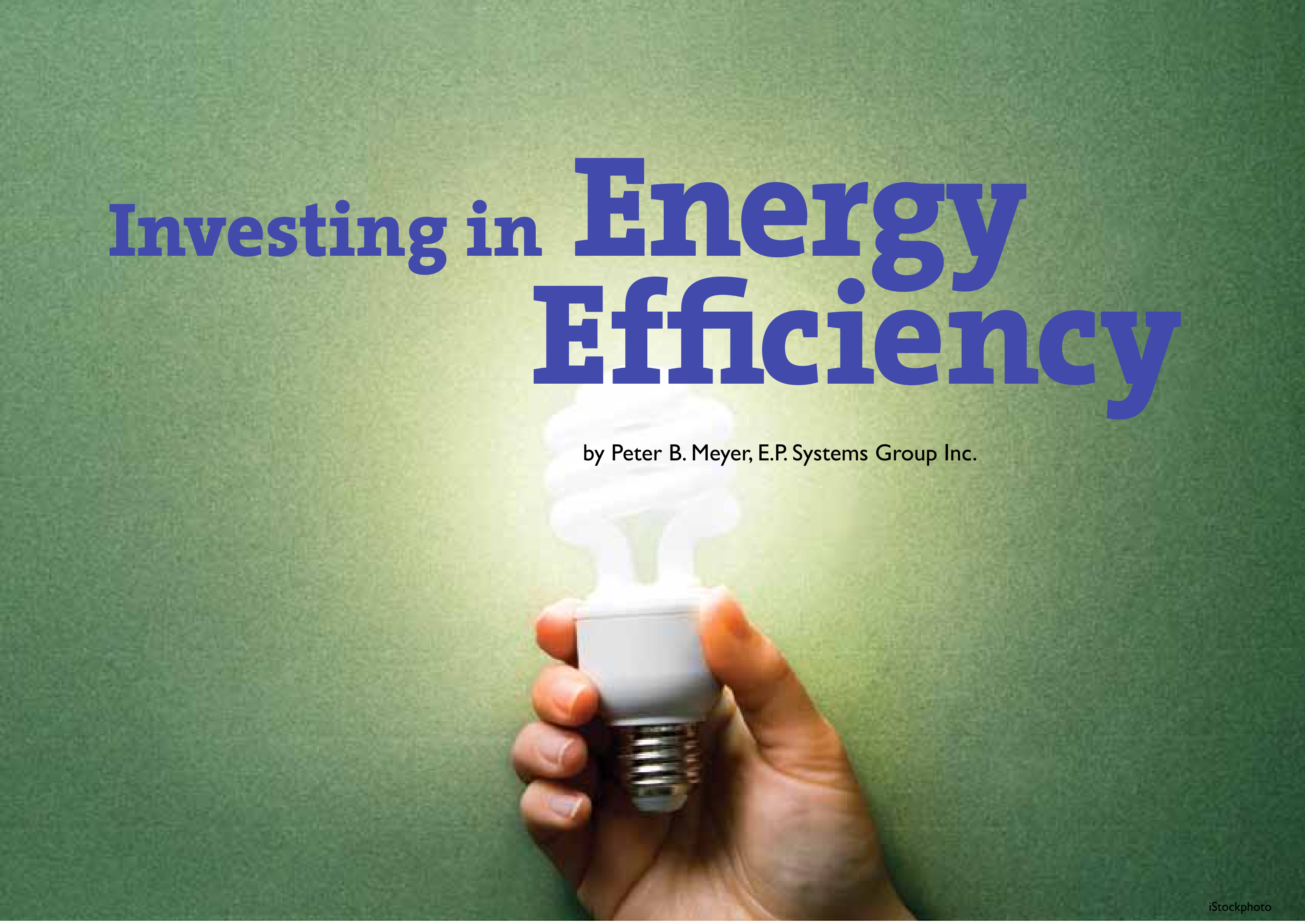
[6] See Melissa M., Favreault, and Karen E. Smith, "A Primer on the Dynamic Simulation of Income Model (DYNASIM3)," (The Urban Institute Retirement Project discussion paper 02-04, Washington, DC, 2004). DYNASIM3 uses a representative U.S. population, starting with individuals from the 1990-to-1993 Survey of Income and Program Participation. It ages the sample in yearly increments to 2080, using parameters estimated from longitudinal data sources, and integrates important trends—in birth, death, schooling, leaving home, first marriage, remarriage, divorce, disability, work, and earnings. DYNASIM3 also simulates major sources of wealth and income, and federal and state income tax liabilities.

[7] Barbara A. Butrica, Adam Carasso, C. Eugene Steurele, and Desmond J. Toohey, "Children's Savings Accounts: Why Design Matters" (The Urban Institute Opportunity and Ownership Project Report 4, Washington, DC, 2008).

[8] This assumes a nominal interest rate of 5.8 percent and inflation of 2.7 percent for a real growth rate of approximately 3.0 percent.

Investing in Energy Efficiency

by Peter B. Meyer, E.P. Systems Group Inc.



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As more homeowners lose jobs and fall behind on mortgages, high energy costs become increasingly burdensome, especially for low-income households. The Low Income Home Energy Assistance Program (LIHEAP) has not kept up with fuel oil prices and in any case treats only a symptom (unaffordable energy bills), not the cause (household energy consumption). Municipalities looking into helping low-income households through energy efficiency investments, meanwhile, are finding that reduced property values have given them less tax revenue to work with.


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Nevertheless, opportunities to tackle such challenges are emerging, and forward-looking policymakers are starting to plan for the future.

Striking at Causes

Investing in energy efficiency and reducing consumption can help low- and moderate-income households more than LIHEAP, producing a return over time and promoting stability of residential tenure for homeowners and renters alike.

Without cost reduction, some properties end up vacant or abandoned. The National Vacant Property Campaign cites a 2000 estimate that such properties occupy about 15 percent of a typical large city.[1] They generate four serious costs: the cost of municipal services to keep properties from becoming threats, the cost of decreased property values and tax revenues, the costs to nearby homeowners, and the cost of blight creep.[2]

The loss of tax revenue often causes governments to tax occupied properties at higher rates, a vicious cycle that can lead to additional foreclosed and abandoned properties. One way to break the cycle is to make energy-efficiency investments in low- and moderate-income communities for both occupied and vacant properties. Doing so can lower total housing costs for existing residents and benefit municipalities, too. The reason: communities stand a better chance of attracting taxpayers when they can offer new affordable housing in the convenient, walkable, and mass-transit-served locations. Although future purchasers of improved vacant properties may want to rehab them for new purposes, the reason they are not currently usable is often that they have obsolete or broken heating and cooling systems, or because faulty insulation, windows, and the like are generating high energy costs. Investment in energy efficiency could bring such buildings back into use more quickly.

The push for energy efficiency and jobs such as weatherization in the American Recovery and Reinvestment Act, or ARRA, should have a positive effect on the supply of energy-efficient low- and moderate-income households.[3] Moreover, energy-efficiency improvements to existing buildings are low-hanging fruit, tasks can be pursued quickly and may provide investment-grade financial returns. Although large corporations have routinely harvested such fruit, lack of scale has held back smaller entities. Nevertheless, numerous studies demonstrate that when states invest in energy efficiency, they reduce usage and costs and generate efficiency-related jobs.[4]

Energy Services Companies

The continued expansion of "energy services" as an economic sector is a testament to energy efficiency's return on investment. Energy service companies (ESCOs) guarantee property owners that operating-cost savings will at least equal the costs of debt service on the funds borrowed to finance the improvements.[5] In effect, ESCOs guarantee that *the combined cost of clients' future utility bills and ESCO payment will be lower than their previous utility bills.*

It should be noted, however, that ESCOs are providing assurances of minimum future savings over a baseline utility-service consumption level that *assumes no ncrease in utility bills*. They are not providing efficiency that matches the steady upward trends in annual energy costs. Despite the recession and tight budgets, governments should consider that taking a longer view—for example, by replacing heating or cooling systems or a building's windows—could be beneficial.[6] With energy costs increasing at an accelerating rate, the number of years before payback is decreasing.

How might energy improvements work for low- and moderate-income people, given that the large engineering firms that predominate in the ESCO industry generally service large clients, not small commercial buildings or individuals? State and local governments should think about structuring a program that could enable individual building owners—including low- and moderate-income households and those renting to them—to enjoy the same efficiency gains.

Investment in the rehabilitation of centrally located and underutilized buildings—and in energy retrofits for economically distressed homeowners—can make sense long-term. Today's stricter private-lending requirements have meant that small businesses, small residential and commercial landlords, and ordinary homeowners cannot fund the investments that will save them money over time. But a state or local government's use of public sector capital for ESCO-type energy projects in a portfolio of smaller buildings could work well.

A Possible Approach

The recession's hardest hit locales, perhaps unable to float bonds now, might nevertheless want to consider energy-efficiency investment down the road.

Tax-exempt bonds could keep down the carrying costs by providing funds at a lower interest rate and with a longer term than otherwise available. Publicly owned abandoned buildings and small local government premises could be included in a program along with privately owned structures, enabling savings similar to a larger-scale job. Private building owners who opted to participate could be required to let the government entity assess them for their expected utility cost savings or the share of the total contract cost at the end of each year, obviating any complex new debt collection system.

The push for energy efficiency and jobs such as weatherization in the American Recovery and Reinvestment Act should have a positive effect on the supply of energy-efficient low- and moderate-income households.

With a change of ownership, the voluntary assessment could flow with the property so the seller would not have the sale's proceeds reduced by additional debt. Moving would be easier and the buyer would have an incentive to maintain the efficiency. Any savings on reduced energy and utility usage above those in the agreed-upon work plan and assessment would accrue to the

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property owner. The monthly savings—and the expected savings at year's end—might even help some property owners avoid foreclosure.

Additionally, a bidding process for serving a multimillion dollar project would likely draw project assessors and contractors with higher qualifications than small property owners could attract by themselves. Risk of construction problems would be spread across many installations, lowering total risk to contractors and compensating partly for the cost of planning and executing retrofits on many small buildings.

Even if companies bidding on the work were national, local governments could include requirements that local construction contractors and workers be used on-site. Landlords receiving the benefit of the program might be required to constrain rent increases or potential displacement of existing limited-income tenants.

Another option: the contracting government could move beyond the use of a constant historic price as the baseline for guaranteeing cost savings and instead factor in higher future energy prices. That could make the efforts even more affordable.

A variant of this financing structure was developed by Berkeley, California, for homeowners who wanted to put photovoltaic solar power generators on rooftops, and at least two states have passed measures to help local governments provide such funding to property owners. Similarly, the Environmental Protection Agency's Environmental Finance Advisory Board is preparing to recommend that the EPA promote a tool called *voluntary environmental improvement bonds*.[7]

Although the array of green jobs envisioned in the early 1970s have not materialized, weatherization and other energy-efficiency jobs have increased, as have attitudes more favorable to conservation. Today energy-efficiency improvements are helping to reduce consumption, lower the cost of owning buildings, improve buildings' investment possibilities, make homeownership more affordable, and hold down rental costs. It just takes local willingness to use existing tools in an innovative manner.

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Endnotes

[1] M.A. Pagano and A. Bowman, *Vacant Land in Cities: An Urban Resource* (Washington, DC: Brookings Institution Center on Urban and Metropolitan Policy, 2000). See also http://www.vacantproperties.org.

[2] *Vacant Properties: The True Costs to Communities* (Washington, DC: National Vacant Properties Campaign, 2005), http://www.vacantproperties.org/latestreports/True%20Costs_Aug05.pdf.

[3] Additionally, in an August 6, 2009, report on the Federal Housing Administration's 203(k) Home Rehabilitation Mortgage Insurance Program, the Office of the Comptroller of the Currency encouraged bankers to make loans for rehabilitation of foreclosed properties. See http://www.occ.gov/cdd/203k_Loan_Program_Insights_Jul09.pdf.

[4] Compare Roger Bezdek, http://www.ases.org/images/stories/ASES-JobsReport-Final.pdf; Howard Geller, John DeCicco, and John A. Laitner, http://www.aceee.org/pubs/ed922.htm; John A. Laitner and Martin Kushler, http://www.aceee.org/pubs/e07x.htm; and John A. Laitner, R. Neal Elliott, and Maggie Eldridge, http://www.aceee.org/pubs/e076.htm.

[5] See National Association of Energy Service Companies, http://www.naesco.org.

[6] See http://www.ClimateChangeEcon.net; and http://www.finehomebuilding.com/how-to/articles understanding-energy-efficient-windows.aspx.

[7] The author serves as an expert witness to the Environmental Protection Agency's Environmental Financial Advisory Board, which is debating whether to recommend that the EPA encourage state and local governments to float Voluntary Environmental Improvement Bonds for energy-efficiency initiatives. See http://www.epa.gov/efinpage/publications/VoluntaryEnviroImprovementBondsReports.pdf. See also http://www.dps.state.ny.us/07M0548/workgroups/WGVI-On_Bill_Financing_Final_Report.pdf; and Stacy Ho and Satya Rhodes-Conway, *A Short Guide to Setting Up a City-Scale Retrofit Program* (Oakland and Madison: Green for All and the Center on Wisconsin Strategy, 2009), http://www.cows.org/pdf/rp-retrofit.pdf.

The Stimulus and Rural Families

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by Marybeth J. Mattingly, University of New Hampshire

To meet their basic needs, many low-income families rely on tax credits. The American Recovery and Reinvestment Act of 2009 (ARRA) has significantly expanded the Earned Income Tax Credit and the Child Tax Credit, while introducing, the Making Work Pay Tax Credit. As a result, an estimated 85 percent of American families with children will see more dollars in their pockets. Although these benefits accrue to families across the United States, the credits have the greatest impact on those residing in cities and—perhaps counterintuitively—rural places. Rural America is not always recognized as benefiting from such programs.

Earned Income Tax Credit

The Earned Income Tax Credit (EITC) began in 1975 as a program to aid the working poor. Expanded several times since then, it provides low-income tax filers with a refundable credit that can supplement their wages. Although a small credit is available to childless workers who are low-earning, the EITC provides much greater support to workers with children. The benefits accrue with each dollar of earnings until the maximum benefit is reached; they phase out as earnings increase. The accrual (or phase-in) rate, the phase-out rate, the earnings thresholds, and the maximum benefit vary by marital status and family size.

ARRA's expanded tax credit improves benefits in two ways.[1] First, by increasing the range of incomes eligible for the tax credit for married tax filers, it reduces the so-called marriage penalty for dual earners.[2] Second, for families with three or more children, it increases the rate at which benefits accrue and the maximum benefit amount. Although the changes bring only a very small percentage of new families into the EITC program, ARRA substantially increases the benefit amount for married filers and families with more than three children.

In rural America, an estimated 39 percent of families with children are eligible for the EITC. Forty-three percent of that group will see increased benefits, as will 47 percent of eligible urban families and 45 percent of eligible suburban families. There are some regional variations. The numbers for the Northeast are slightly lower than the national average, at 40 percent for rural families, 39 percent for urban families, and 36 percent for suburban families. Rates of increased benefits are generally highest in the South and West.

The EITC increase also varies by family structure. In rural America, the average increase in EITC benefits for a low-income but childless married couple will be only $21 per year, whereas married couples with one or two children can expect an average increase of $80 per year. Married families with three or more children can receive an additional $416 per year. Rural single-parent families with three or more children will be eligible for an average of $342 additional EITC dollars annually. Single tax filers with fewer than three children will not be eligible for increased benefits. Although a smaller proportion of suburban families are eligible for the EITC, suburban and urban families with increased benefits will typically see larger increases than their rural counterparts will.

Child Tax Credit

The Child Tax Credit, introduced in 1997, was designed to provide financial relief to families raising children. Families are eligible for up to $1,000 in CTC per qualifying child.[3] Funds are first applied to reducing a family's taxes. Families then qualify for a refund if their credit exceeds their taxes and they meet earnings requirements. ARRA reduced the earnings threshold at which the CTC could be refunded. Previously, a family had to earn at least $12,550 to receive any CTC refund. After passage of ARRA, the threshold was dropped to $3,000. Families are now eligible to receive—after taxes are satisfied—15 percent of every dollar earned above $3,000 up to their child tax credit. This expands the child tax credit to families whose very low earnings previously rendered them ineligible.

Nationwide, more than 900,000 rural children in 500,000 families are newly eligible for the CTC given the lowered threshold. However, most of these families will not be eligible to receive the full $1,000 per child CTC because their earnings are too low. Families with one child need to earn $9,667 to receive the full $1,000 CTC refund. Only about 41 percent of all newly eligible U.S. families with one child earn that much.[4] None of the newly eligible families with more than one child earn the necessary dollars to claim the full CTC for two or more children because, by definition, newly eligible families earn less than $12,550. In order to receive the $2,000 CTC for two children as a refund, earnings must meet or exceed $16,333. Therefore, the benefit per child does not increase as much for the larger families who are newly eligible. Among all rural families with children newly eligible for the CTC, the median anticipated credit is $774.

Making Work Pay

The Making Work Pay (MWP) tax credit is a new program introduced with passage of ARRA. It allows tax filers to receive up to 6.2 percent of their earned income—up to $400 for single filers and up to $800 for married couples—to offset their income taxes. MWP is targeted to low- and moderate-income filers and phases in with each dollar earned. It begins to phase out when income reaches $75,000 ($150,000 for dual-earner filers). Thus it is available not only to virtually all working poor families but also to most middle class families currently feeling pinched.

In rural America, an estimated 78 percent of families with children are eligible for the full MWP credit. An additional 7 percent do not have sufficient earnings for the full credit but are eligible for a partial credit. Three percent of rural families have earnings that are too high for a full MWP credit but may claim a partial one. Nine percent are ineligible as a result of having no earnings, and 6 percent are ineligible because their earnings are too high. In contrast, 74 percent of suburban families are eligible for the full credit, with an additional 11 percent eligible for a partial credit. Seventy-two percent of families residing in central cities can claim the full credit, with an additional 10 percent eligible for a partial one. The Internal Revenue Service has issued new tax withholding tables to reflect MWP, and Recovery.gov, a government web site established to explain and track ARRA, estimates that families will be seeing an additional $65 per month minimum in their take-home pay.

In sum, ARRA provisions expand tax relief to the vast majority of American families. Unclear at this writing, however, is whether the expansion of the tax credits will be included in the next budget after ARRA expires in 2010. President Obama has proposed making the expansion permanent, but it remains to be seen whether Congress will agree.

Although the tax credits provide important work supports, much more can be done to help make work pay off for America's lowest earners. Expanding the EITC to childless workers is often viewed as a crucial antipoverty measure. Additionally, families would benefit from a further decrease in the marriage penalty for dual-earner couples. And although people who are responsible for children and who have earned income receive important relief from the child tax credit, tying benefits to earnings means that the ones most affected by the rise in unemployment get left out. Policymakers need to consider helping those people, too.

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Endnotes

[1] Findings presented in this article are based on 2007 income values, reported in the 2008 Annual Social and Economic Supplement to the Current Population Survey and inflation-adjusted to 2009 dollars. See http://www.carseyinstitute.unh.edu/publications/PB-EITC-09.pdf; http://www.carseyinstitute.unh.edu/publications/PB-EITC-09.pdf; and http://www.carseyinstitute.unh.edu/publications/FS-MWP-09.pdf.

[2] Married couples are "penalized" because EITC eligibility is based on joint earnings and is not sufficiently higher for couples with two incomes: that is, the threshold is less than double the single threshold.

[3] Note that the Child Tax Credit phases out with high earnings.

[4] The percent is the same for rural families.

A Proposal to Help Distressed Homeowners

by Chris Foote, Jeff Fuhrer, Eileen Mauskopf, and Paul Willen

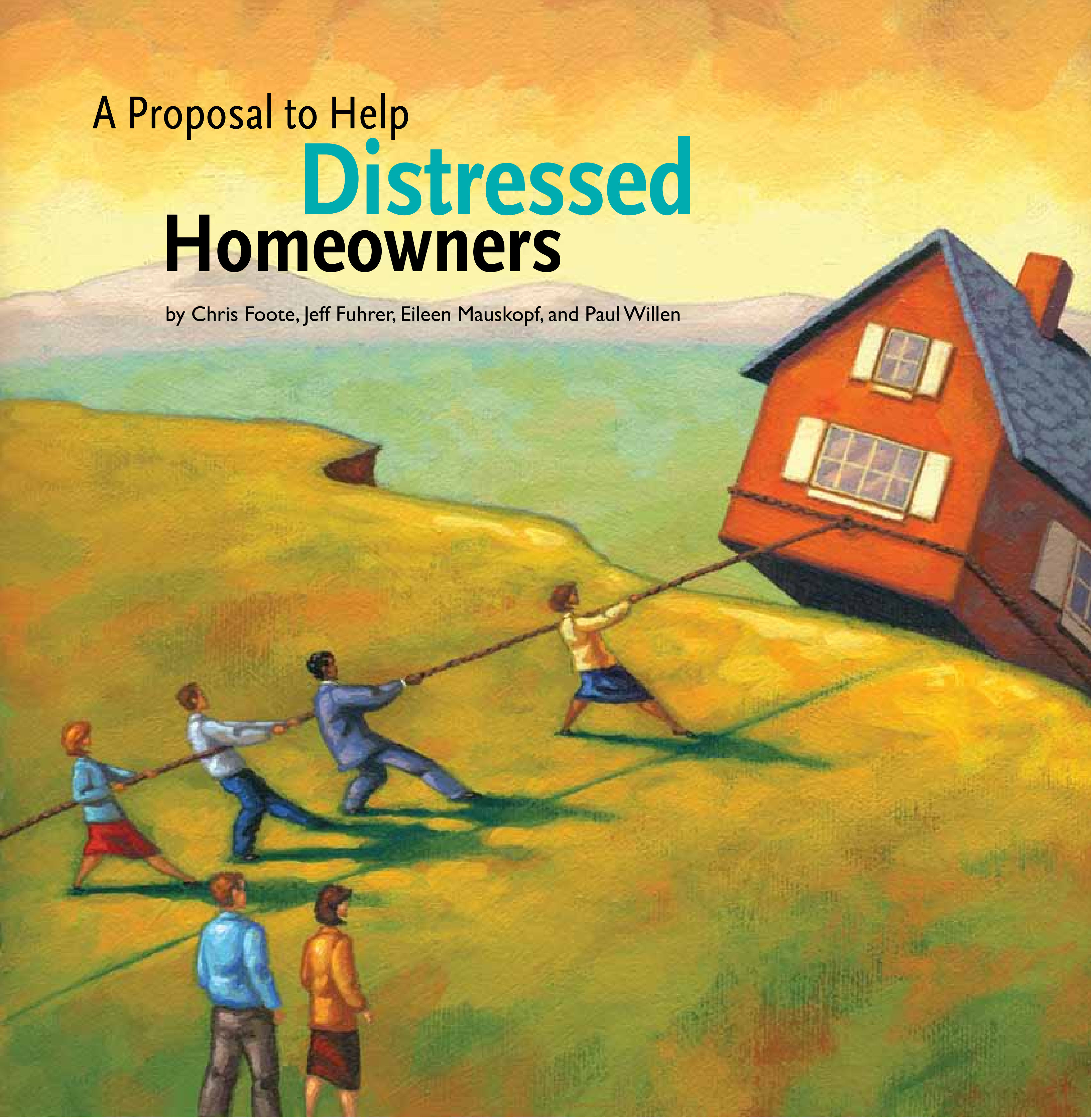


Illustration: Eric Westbrook

Homeowners who have previously been up-to-date on their mortgage often stumble after a significant income disruption. That is especially true if they have negative equity—in other words, if they owe more on the mortgage than their home is worth.

With job losses generating more mortgage delinquencies, policymakers might consider whether foreclosure-prevention efforts should help homeowners with payments for a while. We propose a government payment-sharing arrangement that would work with the homeowner's existing mortgage and significantly reduce monthly payments while the homeowner is unemployed. We believe a payment-sharing plan stands a better chance of preventing foreclosures than longer-term but less significant payment reductions achieved through loan modification.[1] More broadly, payment sharing could not only benefit participating homeowners, but also could protect the housing industry from escalating foreclosures and could stabilize financial markets and the economy.

In our view, previous plans based on long-term loan modifications, have been stymied because (a) contrary to the common wisdom, lenders and mortgage servicers will not always find a modification to be in their best interest, and (b) extant plans are generally unable to offer modifications to those who become unemployed.[2]

The payment-sharing plan we propose has neither of those drawbacks. It could take the form of either a loan or a grant. In both versions, the homeowner would have to provide proof of job loss—or other significant income disruption—and proof of the home's negative equity.

Plan Features

Negative equity does not by itself lead to default unless the amount is extremely high.[3] Owners with negative equity who have not suffered adverse life events (for example, job loss, divorce, or illness) generally stay current on their mortgages.[4] Negative equity is, however, a necessary condition for default.[5] Borrowers who have positive equity usually can sell or refinance. The reason that foreclosures are rising today is that falling housing prices have increased the prevalence of negative equity at the same time that unemployment is rising—the so-called *double-trigger* effect.

The best way to prevent foreclosures right now is by the government offering borrowers who have experienced income disruption some temporary but significant assistance. The two versions of our proposal have five features in common. First, the government pays a significant share of the household's current mortgage payment (25 percent and up) directly to the mortgage servicer. Second, the government's share of the mortgage payment is equal to the percentage decline in family earned income. Third, proof of a recent and significant income disruption is required. Fourth, the assistance ends upon resumption of the borrower's normal income stream—or after two years. Fifth, the plan caps the maximum government payment (say, at $1,500 monthly).[6]

The reason that foreclosures are rising today is that falling housing prices have increased the prevalence of negative equity at the same time that unemployment is rising.

Addressing Challenges

The most difficult design challenge is to avoid attracting homeowners who don't need help and inadvertently letting them game the system (a phenomenon called *moral hazard*). Eligible homeowners would have to prove that their equity is either essentially zero or negative. In the loan version, program participants would pay an interest rate reflecting the elevated risk the government is assuming. And the grant version would explicitly exclude homeowners having enough income (or wealth) to continue making mortgage payments despite negative equity.

The Loan Version

In the loan version, the government's payments accrue to a loan balance to be repaid with interest at a future date. Government payments end when the homeowner's income stream has been restored, or after two years, whichever is sooner. Because the household's mortgage payments may rise (for example, with an adjustable-rate mortgage), the government's payment is capped at a predetermined amount. When borrowers stop receiving government payments, they begin repaying them. They have five years to do so. If the home is sold for more than the value of the mortgage balance, the government has first claim on any remaining equity, up to the value of the loan balance, including accrued interest.

If after the payment-assistance period, the homeowner still cannot afford the monthly payment on the original mortgage, the foreclosure process may begin. The government might then seek loan repayment as it would for education loans—for example, by placing liens on future income.

The Grant Version

In the grant version, the government would provide at least 25 percent of the monthly mortgage payment for up to two years without requiring repayment. Homeowners whose adjusted gross income (average income in the two years prior to income disruption) exceeds a to be specified multiple of median family income in 2008 would not be eligible, a useful if imperfect means of excluding very high-income homeowners who likely have accumulated significant wealth to self-insure against temporary income loss.

Advantages and Disadvantages

The plan provides a significant but temporary reduction in the homeowner's payment during the period of income loss—an advantage over loan-modification programs, which do not always lower payments sufficiently and sometimes even raise them—by adding missed payments to the outstanding loan balance.

For lenders, servicers, and second-lien holders, the plan contains a more realistic recognition of their incentives and no pressure to do mortgage modifications. Even if foreclosure cannot be avoided when the government aid terminates, the housing market is likely to have recovered enough that disposal of the property will garner a higher price.

On the downside, the plan probably cannot stop homeowners who have extreme negative equity—say, 40 percent or greater—from defaulting when government aid ends. Indeed, the plan may merely delay foreclosure without any guarantee of economic or social benefit. Another concern is that the borrowers who should get help may choose to default rather than pursue a government loan. Meanwhile, the grant version raises the potential for moral hazard.

Finally, administering the program does require some cooperation from mortgage servicers—for example, giving applicants their outstanding loan balances and some home-price information. If the government chose to offer payment for such assistance, that would add cost.

Estimating Costs

The cost of the grant version is easier to estimate than the cost of the loan version. The civilian labor force is about 155 million persons. With the unemployment rate at 9.4 percent in July 2009 and continuing high, more than 14 million workers will be unemployed. An upper bound on the share of unemployed persons who are likely to be homeowners is the national homeownership rate of about 68 percent. That suggests 9.5 million unemployed homeowners.[7] A very high upper bound on the share of unemployed homeowners likely to have negative equity is 35 percent, which implies that about 3 million persons would be eligible for the program. According to nationwide data on individual mortgages, the average mortgage balance of those who are 60-plus days delinquent is approximately $200,000, with an average interest rate of 7.7 percent.[8]

Assuming a 30-year amortization schedule, the average yearly payment is $17,111. If the government pays 50 percent of the yearly cost on average, then the cost of providing help to 3 million homeowners is about $25 billion annually, perhaps $50 billion overall.[9] That amount is lower than the costs of other foreclosure prevention plans.

The loan version's cost would be smaller. Indeed, if all participants paid back their government loans, the program would cost virtually nothing in present value. Some borrowers, however, will default, and the government may therefore incur unrecovered costs. It is hard to estimate the degree of default, but the number is likely lower than in existing programs.

Although no program for preventing foreclosures is perfect, we believe that ours has the best chance of success because it addresses two of the leading causes of current foreclosures in a way that other plans cannot. Policymakers may decide the plan needs tweaking, but the spillover effects of escalating foreclosures call for urgency.

Chris Foote, Jeff Fuhrer, *and* **Paul Willen** *are research economists at the Federal Reserve Bank of Boston.* **Eileen Mauskopf** *is a research economist at the Board of Governors of the Federal Reserve System.*

Endnotes

[1] The views and recommendations expressed here do not represent an official position of the Boston Fed, the Board of Governors, or the Federal Reserve System.

[2] See Manuel Adelino, Kristopher Gerardi, and Paul Willen, "Why Don't Lenders Renegotiate More Home Mortgages? Redefaults, Self-Cures, and Securitization," Federal Reserve Bank of Boston Public Policy Discussion Paper P09-4 (2009).

[3] Our proposals do not address defaults arising only from dramatically reduced equity positions.

[4] See Christopher Foote, Kristopher S. Gerardi, and Paul Willen, "Negative Equity and Foreclosure: Theory and Evidence," *Journal of Urban Economics* 64, no. 2 (2008): 234-245, which finds that more than 90 percent of Massachusetts owners with negative equity at the end of 1991 avoided foreclosure over the next three years.

[5] By negative equity we mean that the value of the home after paying the transaction costs for refinancing or selling is less than the outstanding balance of the mortgage.

[6] This cap is based on data suggesting that the average loan balance on seriously delinquent loans is about $200,000 with an average interest rate of about 7.7 percent.

[7] The number of houses/mortgages involved would be smaller if both spouses lost their jobs.

[8] The interest rate estimate of 7.7 percent is the average interest rate on loans that are currently 60 or 90-plus days delinquent, according to a Lender Processing Services Inc. loan-level dataset. The FDIC estimates an outstanding balance of seriously delinquent loans of $200,000—close to average the balance we find in LPS data.

[9] A $500 payment for each of 3 million loans would increase the cost by $1.5 billion.

Illustration: Kevin Ghiglione/www.i2iart.com

Transnationalism:
What It Means to Local Communities

by Alvaro Lima, Boston Redevelopment Authority

Much has been written about transnational immigrants—people who move to a new country but keep strong economic, social, and political connections with their countries of origin. Not enough has been understood, however, about transnationals' contribution to their local communities.

Some migration scholars have explained how easier and cheaper air travel, better telephone access, personal computers, and other communication innovations have enabled sustained interpersonal contacts between immigrants and the people in their homelands, increasing transnationalism. Others have focused their studies on the importance of remittance flows—$300 billion sent to home countries annually. Sociologists, for their part, have explored social remittances, or the ways that ideas, customs, social norms, and consumption patterns learned in the new environment are transmitted to the folks back home. Political scientists, in turn, have focused on the influence of transnational immigrants when elections are held in their cities and villages of origin.[1]

But what is the economic, social, and political impact of these immigrants on their host communities and how does it differ from that of "traditional" immigrants?

Unfortunately, a persistent perception among many scholars is that transnational ties are antithetical to immigrant incorporation in new nations. This perception is strong even among researchers and activists who believe the contributions of immigrants are net positive to their host communities.[2] Abundant data and research, including research by this author, show that transnational immigrants actually tend to be more integrated than traditional immigrants and do better for themselves, while contributing more to their host communities.

Research that I conducted in 2008 among Brazilian immigrant entrepreneurs in Boston shows that entrepreneurs in particular are more likely than the general Brazilian immigrant population to have ties with their home country, obtain U.S. citizenship, participate in U.S. elections, and contribute economically to the United States.[3]

These transnational entrepreneurs maintain close business, civic, and social relationships with host communities and their communities of origin in Brazil. They live intense transnational lives. Although overall only 10 percent of Brazilian immigrants travel to Brazil once or more every year, 53 percent of Brazilian entrepreneurs visit Brazil that often. Thirty-seven percent stay for a month or more, compared with about 7 percent for the general population.

Brazilian entrepreneurs also maintain contact by phone or e-mail. Sixty-nine percent call home two or more times a week (versus about 61 percent for the Brazilian population in Boston); 17 percent call once a week (versus 17 percent for the Brazilian population). Eighty-three percent of Brazilian entrepreneurs use e-mail, compared with 72 percent for the Brazilian immigrant population overall. They are slightly less tuned to radio and TV broadcasts from Brazil. About 81 percent listen or watch such broadcasts, compared with 88 percent of Brazilians in Boston overall.

Fifty-eight percent of Brazilian immigrant entrepreneurs provide help other than remittances to their families in Brazil, compared with 37 percent for Brazilians in Boston. Eighty-six pecent contribute to their retirement accounts in Brazil (versus 15 percent of the general Brazilian immigrant population in Boston). Twenty-nine percent of them pay for student loans in their home country, compared with roughly 6 percent of the Brazilian immigrants in Boston. And they maintain other economic activity in Brazil, financing properties (14 percent), capitalizing microenterprises (11 percent), and lending money to their families there (25 percent).

Possibly because of their civic engagement in Brazil, they also are more engaged in the civic life of Boston than the

Abundant data and research show that transnational immigrants actually tend to be more integrated than traditional immigrants and do better for themselves, while contributing more to their host communities.

The author in his U.S. office and back in his home country, Brazil.

Photographs: Courtesy of Marie McGinley and the author.

majority of the local Brazilian immigrants. Thirty-three percent are involved in some form of philanthropic endeavor, compared with about 12 percent for Brazilians in Boston. They also contribute financially to charities in larger proportions (38 percent compared with about 11 percent for the overall Brazilian community in Boston). Their greater civic engagement is expressed at the political level, too. Whereas only 24 percent of Brazilians vote in Brazilian elections, 56 percent of Brazilian entrepreneurs do so. Those who vote in Brazilian elections tend to have greater political participation in Boston's political process.

My ongoing research on transnationalism and integration using a sample of Dominican immigrants from New York points to the mutually reinforcing process in which ties to the home country actually improve ties to the host country. For example, among New York Dominican immigrants, 86 percent of those with higher degrees of transnational activity have annual incomes greater than $35,000, whereas none of those with lower degrees of transnational activities earn as much as $35,000. For the host community, the higher incomes produce numerous direct and indirect benefits, including increased local productivity and more tax revenue.

The group with a higher degree of transnationalism has a greater proportion of children born in the United States but a smaller household size (2.5 persons against 4.25 in the group with a lower degree of transnationalism). The group also has been in the country longer (about 34 years against 17 years). Fifty percent of the group own their homes and pay local property taxes, whereas the Dominicans with a lower degree of transnationalism do not. Eighty percent of the immigrants in the higher transnational group have become American citizens; only about 63 percent of those in the lower transnational group have American citizenship.

The financial profiles of the groups also diverge: the higher transnational group has average annual savings of more than four times the average of the lower transnational group ($17,500 compared with $3,750) and is more likely to use U.S. banks. Only immigrants in the higher transnational group have certificates of deposit held in U.S. banks. Moreover, 57 percent of that group has investments in the United States; only 13 percent of the lower transnational group does. Differences in the number of financial obligations the two groups have in the United States—credit card loans, home mortgages, and the like—follow a similar pattern.

Civic participation profiles of the two Dominican groups go against the expectations of observers who emphasize assimilation. The group with a higher degree of transnationalism has a greater proportion of members who vote in U.S. elections (86 percent, compared with 63 percent for the lower transnational group), are members of U.S. political parties, and report that they write letters to Congress (71 percent compared with 50 percent). Additionally, on a self-rating scale, the higher transnational group were more likely to express the belief that they belong to the United States than the lower transnational group.

Most migration has a positive impact on communities in both the sending and host countries and on the migrants themselves. Transnational migration is especially desirable in that it expands the benefits of migration exponentially.

Alvaro Lima *is director of research for the Boston Redevelopment Authority. He also is director of Innovation Network for Communities, where he develops the network's transnational practice.*

Endnotes

[1] The term "social remittances" was coined by Wellesley College Professor Peggy Levitt in her book *The Transnational Villagers* (Berkeley: University of California Press; 2001).

[2] A 1997 study on the economic, demographic, and fiscal effects of immigration by the National Research Council (NRC) concluded that "immigration produces net economic gains for domestic residents." See *The New Americans: Economic, Demographic, and Fiscal Effects of Immigration* (Washington, DC: National Academy Press, 1997), p. 3. NRC estimates that the immigration-related domestic gain "may run on the order of $1 billion to $10 billion a year."

[3] My methodology involves a scale relating the degree of transborder activity to transnationalism. The scale shows high levels of such activity at one end and low levels at the other.

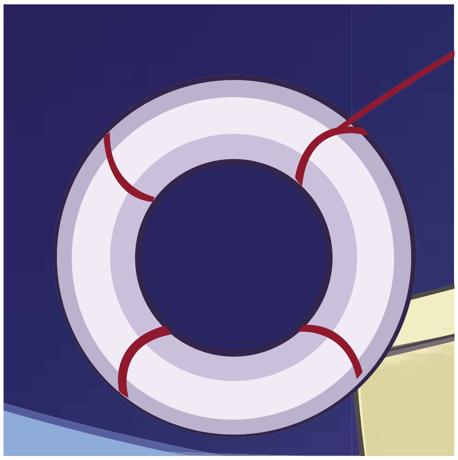
Lending to Small Business

The Evolving Bank-Nonprofit Lender Relationship

Illustration: David DeSouza

by Geoff Smith and Sean Zielenbach
Woodstock Institute

Understanding the collaborative and competitive relationships between nonprofit community development financial institutions (CDFIs) and mainstream banks in small business lending has always been critical when examining how entrepreneurs in underserved markets access business financing. Today, given the fallout from troubles in the financial services industry and the more restrictive lending policies employed by many mainstream banks, CDFIs can play an important role in lending to business owners beyond the markets they have traditionally served.[1] Understanding the interactions between these types of financial services providers can help policymakers find ways to ensure access to small business capital.



Banks refer depositors who cannot qualify for bank financing to CDFIs that specialize in less sophisticated small businesses. Similarly, CDFIs send bankable CDFI "graduates" to mainstream banks for other services.

Community Development Financial Institutions

CDFIs, particularly nonprofit loan funds, are a primary provider of credit for a subset of small business owners in underserved markets who lack the experience, collateral, or credit history to obtain financing from conventional banks. With their explicit focus on community economic development and lending to underserved populations, CDFIs are able to attract funding from a range of public and philanthropic sources.

Although mainstream banks traditionally have had less interest in working with small business owners in underserved markets, that attitude has changed as competition has increased for the potentially large market of unbanked but bankable borrowers and depositors, both individuals and businesses.[2] But because small businesses in low-wealth communities frequently require much more intensive, relationship-based underwriting and technical assistance than conventional lenders are willing to provide, banks are learning to work with CDFI small business loan funds to build and sustain a base of new customers.

Here's how it works. To address the business's financing needs but retain the customer, a bank will refer depositors who cannot qualify for bank financing to CDFIs that specialize in less sophisticated small businesses. Similarly, CDFIs will send bankable CDFI "graduates" to mainstream banks for small business lending services. Additionally, mainstream banks provide CDFIs with low-interest loan and investment capital, operating grants, and technical assistance in the form of board and loan committee members as well as training in lending and underwriting. The banks receive Community Reinvestment Act (CRA) credit for their CDFI-related work and also may partner with the CDFIs in making direct loans to more-stable small businesses needing larger amounts.

Such collaborative relationships do not come without costs to the CDFIs, however. Many have noted the bank partners' growing emphasis on ensuring that their grants and investments in CDFIs ultimately improve the banks' bottom line. For example, banks increasingly require financial returns on their capital investments in, and formal referral agreements from, CDFI partners. In some cases, the banks' capital comes with a requirement that a bank member be seated on the CDFI's board of directors. These conditions could limit the CDFI's ability to work with a variety of financial institutions and to maximize funding opportunities. Yet, thus far, the benefits of working with banks appear to outweigh the costs.

Loan Funds vs. Depositories

There are notable differences in the relationship between banks and CDFI loan funds—such as Cooperative Business Assistance Corporation in Camden, New Jersey, and the Colorado Enterprise Fund—and the relationship between banks and CDFI-insured depositories—such as Chicago's Shorebank or Santa Cruz Community Credit Union. The former tend to be more collaborative, the latter more competitive. As regulated institutions, community development banks and credit unions have less flexibility in their lending because of regulator concerns about financial soundness and safety. Thus, although they may do some lending to small businesses deemed too costly or risky by mainstream institutions, they must supplement those transactions with loans to more-stable companies, many needing larger loans. That often places CDFI depositories in competition with more conventional lenders trying to carve out a niche in the local market, expand their activities, or satisfy both CRA and internal lending benchmarks.[3]

The competition affects both lending and deposits. To attract borrowers and depositors, many CDFI depositories seek to exploit their emphasis on relationship-based lending and financial services, their flexibility in addressing customer needs, their in-depth knowledge of the local market, their community development mission, and the technical assistance they are willing to provide. Their relatively small size, however, often limits their competitiveness in attracting capital. Larger banks frequently invest more in internal technology, which lets them offer sophisticated cash-management services and automated consumer loans in addition to basic checking and savings accounts. They also tend to have broader branch networks and thus a greater range of potential depositors.

Looking Forward

How the weak economy will affect the CDFI-bank relationships remains to be seen. On one hand, stricter bank underwriting standards may well drive formerly bankable borrowers toward CDFIs as declining real estate values undermine the worth of collateral. On the other hand, CDFIs may have to tighten their own underwriting standards in response to the economy and, for depositories, changes in regulatory accounting standards. That could limit their lending to previous small business markets.

A potentially greater problem for CDFIs is acquisition of loan capital. To meet the potential increase in demand for financing, and to expand the borrower base, CDFIs must be able to build their loan pools. To continue offering affordable pricing and technical assistance to higher-risk borrowers, they need a fair amount of low-cost capital. Yet the sources of such capital are nowhere near as plentiful as they were in the late 1990s and early 2000s. Until recently (until the American Recovery and Reinvestment Act), the federal CDFI Fund's budget was less than half of its 2000 budget. Some foundations that had been supportive of CDFIs have cut back their grants to CDFIs and program-related investments. Similarly, banks have sharply curtailed the amount of equity-like investments they make in CDFIs, opting for term loans with rates closer to what the market bears. For depository CDFIs, regulatory changes requiring increased capital cushions are also posing challenges.

The current banking and credit crisis is exacerbating the capital acquisition problem. Mergers and acquisitions of financial institutions such as Wachovia, Washington Mutual, and National City have reduced the number of large financial institutions that were active sources of capital to CDFIs. It is unclear how these acquisitions will affect overall levels of bank funding to CDFIs, but history indicates that consolidated banks fund community development financial institutions at levels below what the banks provided separately. In addition, the global financial crisis has caused capital markets to seize up, likely making access to capital extremely challenging and more costly for CDFIs.

As one response to the shortage of low-cost capital, CDFIs have attempted to streamline operations to become less reliant on operating grants, allowing them to focus their outside support on building their loan funds. In the past, although community development banks and credit unions had to break even or generate a profit to satisfy regulators, most small business loan funds thought themselves fortunate to cover 75 percent of their operating costs with earned revenues. Indeed, in fiscal year 2006, the average microenterprise loan fund covered only 47 percent of its operating costs with earned revenues.[4]

CDFIs have differed in strategies to reduce reliance on operating grants. ACCION Texas, for example, has attempted to automate as much of its lending as possible and has focused on loan volume to compensate for the relatively small amount of income generated from individual loans. In effect, CDFIs taking that approach have minimized the amount of "high-touch" technical assistance provided to borrowers. Other CDFIs have actively sought to make larger loans (in the $70,000 to $100,000 range), with the intent of using the greater interest and fee income to subsidize less lucrative microlending.

That approach threatens to bring CDFIs into more direct competition with conventional banks, a showdown in which the banks have distinct advantages in pricing loans and offering accompanying financial services. Both strategies also run the risk of shifting the CDFIs away from those fledgling small businesses that they were initially designed to serve—another example of the tension between the financial bottom line and social mission goals. If policymakers value what CDFIs bring to economic development in distressed communities, they need to make low-cost capital available for operations like technical assistance, and they need to help CDFIs build their capital pools.

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Endnotes

[1] CDFIs make loans to support development in economically distressed communities. See http://www.cdfi.org/index.php?page=info-1a.

[2] The Community Reinvestment Act has contributed to heightened competition in low-income areas, yet direct financing is only one manifestation of the competition. Banks work diligently to attract small businesses as depositors. Not only do the deposits help increase the bank's low-cost capital base, but they also offer the opportunity for current and future cross-selling opportunities-major sources of bank revenue.

[3] It is not uncommon, however, for CDFI depositories to lend in partnership with conventional banks to companies that require larger loans than either of the participating institutions is willing to make by itself. Conventional lenders may also support or cosponsor financial literacy outreach efforts with community development banks and credit unions.

[4] See *Community Development Financial Institutions: Providing Capital, Building Communities, Creating Impact* (Philadelphia: CDFI Data Project, 2008), http://www.opportunityfinance.net/store/trackURL.asp?Doc=cdp_fy2006.pdf, which analyzes fiscal year 2006 data collected through the CDFI Data Project from 505 CDFIs.

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