POLICY POINTS

Southern Bancorp Community Partners

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THE STATE OF ASSET BUILDING IN ARKANSAS

An Analysis Based on the 2012 CFED Assets and Opportunity Scorecard

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EXECUTIVE SUMMARY

This past January, the Corporation for Enterprise Development (CFED) released its annual *Assets and Opportunity Scorecard*[1]. The Scorecard provides a comprehensive look at Americans' capacity to accumulate wealth by examining how well residents prosper in the 50 states and District of Columbia. Further, the Scorecard then assesses state policies focused on helping its residents develop and protect assets across 52 measures in the following issue areas: Financial Assets & Income, Businesses & Jobs, Housing & Homeownership, Health Care, and Education. As the Lead State Organization in Arkansas for CFED's Assets and Opportunity Network, Southern Bancorp Community Partners ("Southern") decided to further probe into the five issue areas of the Scorecard and underline the asset building policy triumphs, deficiencies, and recommendations for the state.

Overall, Arkansas fared poorly. According to the 2012 Scorecard, Arkansas ranks 44th in the country for the asset poverty of its residents. According to CFED, asset poverty measures both income and vulnerability to financial shocks. CFED defines "asset poor" as people who have insufficient savings or the inability to cover expenses for three months if they lose their consistent stream of income. Over a quarter of Arkansas households live in asset poverty.

OVER 1/4 OF ARKANSAS HOUSEHOLDS LIVE IN ASSET POVERTY.

The dichotomy between Arkansas' enacted policies and its policy outcomes is rather intriguing: although Arkansas ranks 44th in the nation in terms of outcomes, the state places 11th in its aggregate policies. Hence, there is a weak relationship between Arkansas' policies and outcomes; the state has strong policies yet still poor outcomes for families. CFED states the reason for the divergence is a variety of historical and entrenched issues; however, none of the issues identified have been thoroughly defined or researched.

Over the years, Southern has supported a number of asset building policy changes focused on financial stability and independence of Arkansans, including a state match for Individual Development Accounts (IDAs), a statewide housing trust fund, and the termination of payday lending practices. However, the need for sound and effective asset building policy is still critical to ensuring a family's economic security in Arkansas. Furthermore, support for implementation of the policies Arkansas has in place must also be secured. Given the limited resources available for effective family security programs, Southern's policy team recognizes the ongoing need to prioritize asset building policy to assist Arkansans in attaining and sustaining financial stability. The release of the 2012 Scorecard helped inform Southern's asset building policy agenda based on what will have the most collective impact in Arkansas. For this reason, it is with intention a greater analysis of the Scorecard was the focus of Southern's first edition of Policy Points for 2012.

Unless cited otherwise, all of the research presented in this analysis is from the CFED 2012 Assets and Opportunity Scorecard

FINANCIAL ASSETS & INCOME

Arkansas ranks 3rd nationally for average credit card debt

The average amount of credit card debt for an Arkansan is $6,231, more than $4,000 less than the national average ($10,852). Credit card debt reported in the Scorecard is for individual borrowers rather than for households or families. This measure is indicative of how much debt from credit cards, private label cards and lines of credit the typical Arkansas borrower has. This relatively low amount of individual debt may be due to Arkansans' low credit scores and consequential inability to incur larger amount of unsecured debt. The average credit score in Arkansas is 634, the second lowest in the country.[2] Residents with low credit scores cannot obtain lines of credit; therefore, they are not able to accrue credit card debt.

BUSINESSES & JOBS

Unemployment and underemployment rates lower than national average

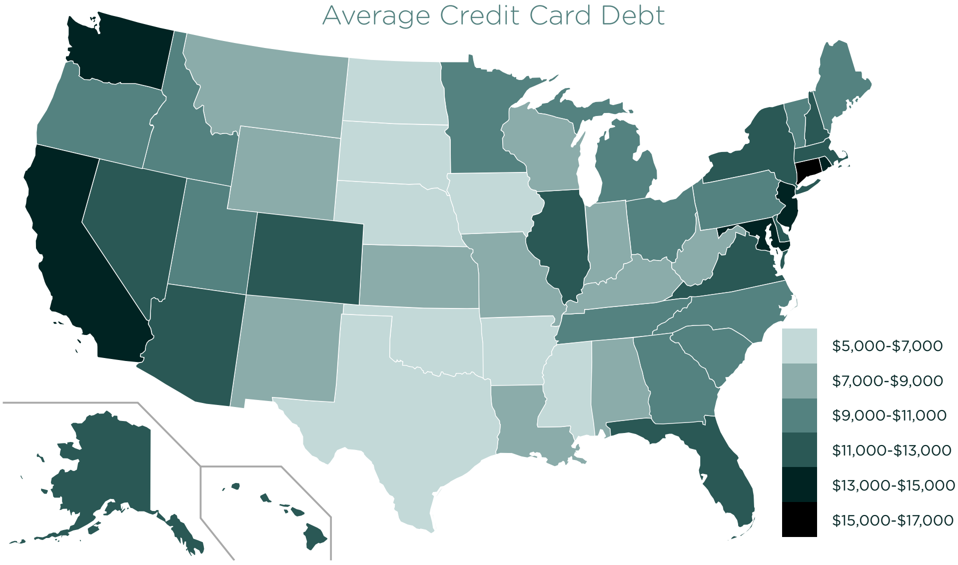
Arkansas has an unemployment rate of 8.6 percent and underemployment rate of 14.5 percent (compared to the national statistics of 9.6 percent and 16.7 percent). According the U.S. Department of Labor, a person is defined as unemployed if they do not have a job, are available to work and have been actively looking for a job in the prior four weeks., Nevertheless, the classification does not encapsulate any findings about the number of daunted Arkansans who have ceased actively seeking work, nor does it reflect instances when a part-time worker would prefer to be employed full-time. Simply put, the unemployment rate is not an accurate representation of how many Arkansans' are actively employed and contributing to their family economic stability with earned income.

HOUSING & HOMEOWNERSHIP

Direct correlation between high homeownership rate and home affordability

The state has a 67.4 percent homeownership rate, which is 2 percent higher than the national average. The above average homeownership rate in Arkansas can be attributed to its affordability of homes, where the state ranks 11th in the nation. The measure used to calculate the affordability of homes is the median housing value ($102,300) divided by the median family income ($39,367), which is 2.8.[3] This estimate assesses housing affordability relative to wages. Although wages in Arkansas are lower, the prices for homes are also lower, making homeownership a much greater possibility than in other states like California or Nevada. However, what the home affordability estimate does not consider is the safety and quality

Average Credit Card Debt



Source: Trend Data. Chicago, IL: TransUnion, 2011.

of the homes. Although many houses in Arkansas may be moderately priced, a number of them are in serious need of repairs to make them livable. By participating in an Individual Development Account (IDA) program, eligible Arkansans may save money to purchase a home or make home repairs through matched savings.

HEALTH CARE

Low percentage of uninsured low-income children

Children have the lowest uninsured rate of any population throughout the country. The uninsured rate of children holds true for Arkansas, except it is actually almost 4 percent lower than the national average (7.8 percent). Nearly 10 percent of Arkansas's children use ARKids First, a health insurance plan offering low-income families a comprehensive package of benefits.[4] The full implementation of ARKids First in 1997 and the removal of its asset limits test ten years later are the most significant causes behind the state's higher insurance coverage of its low-income children.[5] More insured low-income children means better health outcomes for children making them more productive later in life, less of a financial burden on low-income families and care providers and more protection of the household's assets.

EDUCATION

State ranks 6th in country for early childhood education enrollment

One of Arkansas's greatest triumphs is the state's high enrollment in early childhood education. Currently, 42.1 percent of Arkansas's three and four year olds are enrolled in Head Start, state pre-K or special education, compared to only 27.2 percent nationally. The first years of a child's life are imperative to cerebral development and future academic achievement. Furthermore, high quality education at a young age is especially beneficial to children of low-income families for it significantly increases their chances of academic success. Arkansas is successful in its early childhood education enrollment largely because of its Arkansas Better Chance (ABC) Program. The program makes early childhood education possible for families whose incomes are below 200 percent the federal poverty or experience other high risk factors. Due to Arkansas's comprehensive pre-K approach, more than half of ABC programs function through public schools with the other programs running through Head Start and private cooperatives.

WHERE ARKANSAS FALLS BEHIND

FINANCIAL ASSETS & INCOME

High proportion of unbanked and underbanked households

Arkansas ranked 43rd in the country for unbanked households (10.1 percent), and 44th for underbanked households (22.3 percent). Approximately one out every ten Arkansas households spends a significant amount of money on financial services for which most Americans pay little to nothing. The average full-time worker without a bank account can spend $40,000 over the course of his or her lifetime only to cash paychecks. Moreover, households without an account don't have a safe place to keep their money or a way to build a nest egg and turn savings into asset investments. When combined with the rate of underbanked households, almost a quarter of Arkansans still rely on costly alternative financial service providers for basic transaction and credit needs, including check cashers, payday lenders and pawn shops. Although all 250+ physical payday lending storefronts closed in Arkansas in 2009, residents are still able to acquire payday loans online.

BUSINESSES & JOBS

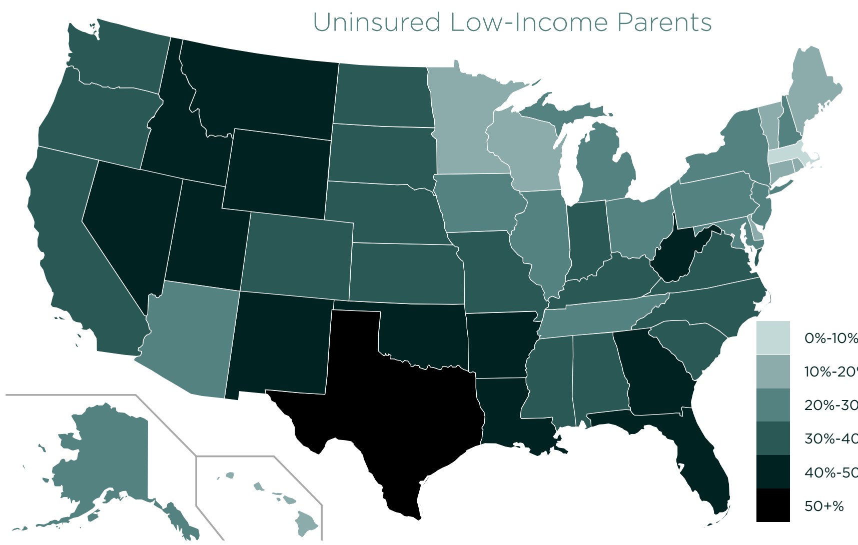
Low wage jobs = Lower average annual pay

Arkansas is 45th in the country for low-wage jobs. The state ranks 40th in adjusted average annual pay, which is $41,759. Over 32 percent of Arkansans have low-wage jobs, which is 10 percent higher than the national average. Moreover, the minimum wage in Arkansas is an entire dollar less than the federal wage at $6.25 per hour.[6] With that said, an employee is usually covered by the Fair Labor Standards Act (FSLA) minimum wage and overtime pay, whether the employee is classified as "exempt" or "nonexempt."[7] The FSLA ensures all nonexempt workers are paid at least the federal minimum wage of $7.25 an hour. Employees generally classified as nonexempt include clerical, blue-collar, maintenance, construction, and semi-skilled workers, as well as technicians and laborers. Therefore, a higher number of Arkansans with low-paying jobs combined with an insufficient minimum wage results in lower average annual pay for the Arkansas resident.

HOUSING & HOMEOWNERSHIP

State tops charts for number of subprime mortgage loans

Almost 10 percent of Arkansas's home loans are considered high-cost, which places the state at 49th in the country for subprime loans. The increase of high-cost mortgage loans parallels with a growth in abusive lending. Although the last payday lender in Arkansas shut its doors in 2009, credit is still being provided to borrowers with poor credit histories, usually elderly, minority, and poor families. According to research by the Center for Responsible Lending, one in five subprime loans end in foreclosure – more than eight times the rate for mortgages in the prime market. Additional research indicates subprime loans are costly, applied unjustly and prone to foreclosure. However, in Arkansas, the foreclosure rate does not seem to be too strongly tied to its high percentage of subprime loans. The state has a much lower foreclosure rate (1.85 percent) when compared to the national foreclosure percentage (4.43 percent). One reason why the rate does not coincide with the percentage of high-cost mortgage loans is because of the affordability of Arkansas' homes.



Source: 2010 American Community Survey. Washington, DC: U.S. Department of Commerce, Census Bureau, 2010. Data calculated by the Bay Area Council Economic Institute.

HEALTH CARE

High numbers of uninsured low-income parents

Arkansas has one of the highest rates for uninsured low-income adults in the country. The state ranks 42nd in the U.S. with 43 percent of its low-income adults without insurance coverage, which is 10 percent higher than the national average. The term uninsured adults includes all 18 to 64 year olds without health insurance. Similar to uninsured children, uninsured adults face the possibility of having to spend down long-term savings or go into serious debt if they have to undergo serious medical treatment or suffer from a chronic illness. However, if the Affordable Care Act is fully implemented, this rate is expected to decrease significantly by 2014.

EDUCATION

Very low attainment of two-year and four-year college degrees

Arkansas ranks second to last in the nation in percentage of adults with two-year and four-year degrees, with only 19 percent of its population 25 years old and over having a post-secondary diploma. Research shows individuals with a college degree earn substantially more money and are therefore then able to build assets throughout their life. The 2007 Survey of Consumer Finances indicates the net worth of a family whose head of household has a college degree is more than four times that in families where the head of household has only high school diploma.

HOW WE CAN MAKE ARKANSAS BETTER

FINANCIAL ASSETS & INCOME

Lift asset limit tests

Arkansas has asset limits in place on all three of the states' public benefit programs: Supplemental Nutrition Assistance Program (SNAP), Temporary Assistance for Needy Families (TANF) and Medicaid. Asset limits are problematic because they force families with assets exceeding the state's limit to exhaust longer-term savings to receive short-term public assistance. Presently, Arkansas's asset limit is $3,000 for TANF; $1,000 for Medicaid; and $2,000 for SNAP. Fellow southeastern state Alabama has eliminated asset limits entirely, and Mississippi has removed all of its assets limits except for TANF. Arkansas must significantly raise, eliminate or modify its asset limits to incentivize its low to moderate income citizens to save money and eventually exit all public assistance programs All of three restrictions are counterproductive to an individual or family trying to become self-sufficient.

Increase uptake of tax credits

In addition to lifting the state's asset limits on its public benefit programs, Arkansas also needs to focus on increasing the uptake of the federal Earned Income Tax Credit (EITC) and the Child and Dependent Care Tax Credit (CDCTC).

The primary purpose of these tax credits is to supplement low wages for low-to-moderate income families. The key objectives of the tax credits are to lessen the regressive tax burden on working poor families, put more money in citizens' pockets, and

enable saving for the future. Currently, less than 30 percent of low-income tax filers received the federal EITC in 29 of the Arkansas's counties.[8] Over $700 million was brought into the state in 2009 from the EITC; however, if less than a third of the eligible population takes advantage of the credit, over $1.6 billion is left on the table each year.[9]

BUSINESSES & JOBS

Improve job quality standards

Arkansas needs to raise the minimum wage to $8.00 per hour or annually index the rate for inflation. The last time Arkansas raised its minimum wage was in 2006, when it went from $5.15 to $6.25. Additionally, regardless of the elimination of exclusions from state labor laws, gaps often exist permitting employers to pay particular kinds of employees below the minimum wage. Presently, Arkansas does not extend full minimum wage protection to agriculture, domestic, home care and tipped workers. Arkansas must ensure protections and laws are properly enforced for all classes of workers. Aside from the increasing low wages, Arkansas also must focus on its overall job conditions. The state does not require employers to offer paid medical, family or sick leave.

HOUSING & HOMEOWNERSHIP

Fund our housing trust fund

Arkansas established its housing trust fund in March 2009 when Governor Beebe signed SB396 into law. The law, now Act 661, was the first phase in making affordable housing possible for low-to-moderate income Arkansans. However, the housing trust fund was not funded. Funding for the housing trust fund could also benefit first-time homebuyers, tackle homelessness, afford emergency repair, and assist with foreclosure prevention. Other states, such as Oregon, have been able to secure a continued funding source for their housing trust funds through increasing the document recording fee on real estate related documents by $15 per document. Arkansas must act to fund the housing trust fund in order to support housing development and redevelopment.

HEALTH CARE

Ensure eligible children receive health coverage

As of 2010, two-thirds of Arkansas's 65,000 uninsured children who qualified for ARKids First were prevented from receiving health coverage because of difficulties with renewal and enrollment. Presently, approximately 20,000 eligible kids are expelled from ARKids First because of insufficient paperwork each year. As a state, Arkansas must restructure and simplify its enrollment and renewal procedures so all eligible children have health insurance.[10]

EDUCATION

Create more college savings incentives

To increase the number of adults with post-secondary degrees, Arkansas must deliver more college savings opportunities. While the Arkansas Scholarship Lottery provides significant funding, it is not sufficient to cover every child in the state. Presently, Arkansas offers some college savings incentives through the state's 529 plan and its matching grant program, Aspiring Scholars. However, Aspiring Scholars was only enacted to be a pilot program, and there is no dedicated funding source for it. Hence, there is still plenty of room for improvement. Policymakers should find a permanent funding source for Aspiring Scholars. Alternatively, Arkansas could automatically enroll all children born in the state in 529 plans at birth, making it one of the first states to do so.

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1 CFED, 2012 Assets and Opportunity Scorecard, January 2012. Available at http://scorecard.assetsandopportunity.org/2012/state/ar.

2 White, Martha (2012). "5 States with the Worst Credit Scores." Time: Moneyland. Available at http://moneyland.time.com/2012/02/24/5-states-with-the-worst-credit-scores/.

3 2010 American Community Survey. Washington, DC: U.S. Department of Commerce, Census Bureau, 2010.

4 Arkansas Department of Human Services, Available at http://www.arkidsfirst.com/home.htm

5 Arkansas Department of Human Services, Medical Services Policy Manual, Section 16000. Available at https://ardhs.sharepointsite.net/DHSPolicy/DCOPublishedPolicy/MS16000.pdf.

6 Wage and Hour Division,"Minimum Wage Laws in the States, January 1, 2011," United States Department of Labor. Available at www.dol.gov/whd/minwage/america.htm.

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8 Duran, Angela (2011). "The Impact of the Earned Income Tax Credit and Refund Anticipation Loans on Low-Income Families." Paychecks and Politics. No. 53. Available at http://www.aradvocates.org/assets/PDFs/Tax-and-budget/TB-AACF-PP52-EITC-2011-web.pdf.

9 Arkansas Advocates for Children and Families, Analysis of Internal Revenue Service data

10 Arkansas Advocates for Children and Families, "Let's Cut the Tape in ARKids First." Available at http://www.aradvocates.org/assets/PDFs/ARKids-First-red-tape2.pdf.

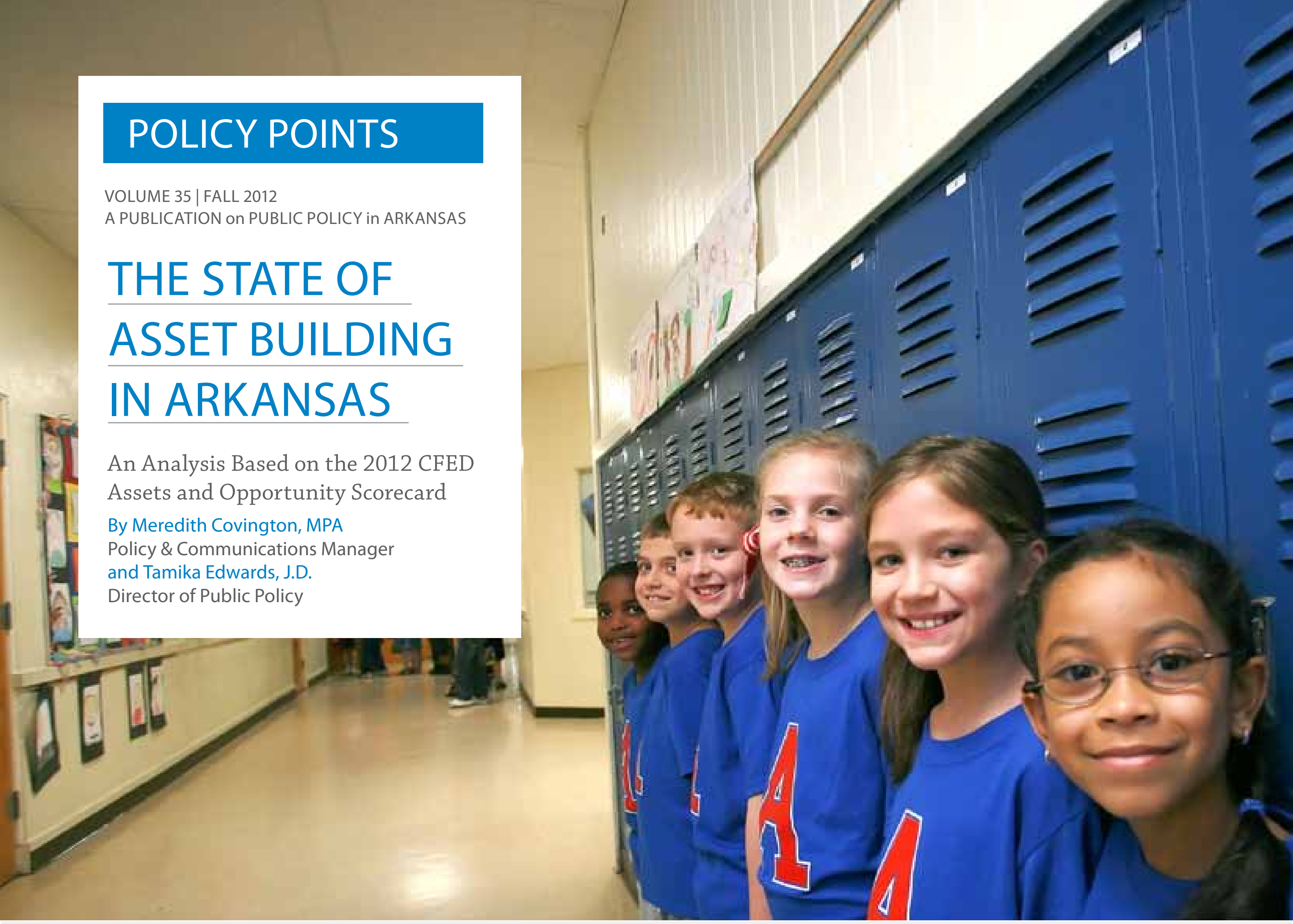
CONCLUSION

Arkansas has come a long way, but it still has a long way to go to provide all Arkansans with a fair chance at economic stability and independence. Undeniably, we have made significant progress in the areas of early childhood education and health insurance coverage for children, but we continue to fall to the bottom in job quality standards and asset-building opportunities.

Hence, there are a number of questions mounting for policymakers in Arkansas. Do we play defense on the battles won in the past, like ending payday lending and increasing the minimum wage? Do we look to challenges only lightly explored in the past like improving job standards or increasing the homeownership rate? Or, do we continue to focus on enabling post-secondary education opportunities for all residents and increasing educational attainment? Most importantly, what problems are we trying to solve?

In Arkansas, one of the main problems policymakers need to solve is the divergence of the state's actual policies (11th) and the real outcomes of those policies (44th). We need to delve into the reasons behind this significantly wide gap. A key goal of Southern's policy team is to determine the most efficient and effective ways to close the gap, and confirm Arkansas's policies are as excellent on paper as they are in practice. As a state, it is our responsibility to ensure the policies enacted are executed to benefit the citizens of Arkansas.

The public policy agenda of Southern consists of a variety of initiatives, but includes efforts to improve the incomes and assets of low wealth individuals and families. Southern seeks to continue playing both a protecting and pioneering role in asset building policy. Southern's policy team understands it will have to protect key family economic security policies such as funding for IDA programs and the ban on predatory lenders, just as it will have to be innovative in securing a consistent funding source for the state's matching 529 program, *Aspiring Scholars*. We look forward to sharing our policy agenda for the 2013 legislative session in the upcoming months.



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