Assets in Arkansas:
Building Wealth for Economic Security

A report of the Arkansas Assets Coalition

When thinking about poverty, we usually think of it in terms of the amount of income that a family has. But it is also important to consider their assets as well. By assets, we mean things like homes, retirement accounts, and business ownership. A new report by the Corporation for Enterprise Development (CFED), the *State Asset Development Report Card*, shows how all fifty states fare on a range of indicators related to asset outcomes and policy.

Arkansas Fared Well on Some Measures of Asset Outcomes...

The *State Asset Development Report Card* presents data on 30 asset outcome variables. They include data on financial assets, homeownership capital, human capital, business capital, and asset protection. Arkansas fared well in comparison to other states on some of these indicators. In terms of private loans to small businesses, Arkansas ranked 10th. Arkansas also did well in terms of business ownership value by gender, ranking 13th. This means that women's businesses in Arkansas take in more than women-owned businesses in most other states.

Arkansas also ranked in the top 20 states in terms of asset poverty by race and gender, ranking 2nd for asset poverty by race and 13th for asset poverty by gender. This means that in terms of asset poverty, the difference between the races and the genders is smaller in Arkansas compared to other states.

And in the Middle on Others...

Arkansas ranked in the middle on several homeownership measures such as homeownership rate (33rd), homeownership by race (29th), and homeownership by income (33rd). Sixty-nine percent of Arkansans own their own homes.

Arkansas also ranks in the middle on at least several measures related to higher education, ranking 24th on college attainment by race and 35th on college attainment by income.

But There is Room for Improvement...

But there is much room for improvement in terms of asset outcomes for Arkansas families. While Arkansas fares well in terms of asset poverty measures related to race and gender, it is because, overall, families in Arkansas are asset poor. Arkansas ranks 44th on mean net worth, 49th in terms of asset poverty, and 49th on households with zero net worth. Net worth is the sum of all assets such as interest earning assets, stock and mutual funds, real estate, businesses, and cars minus all liabilities such as debts secured by assets, credit card or store bills, bank loans, and other unsecured debts. Arkansas' asset poverty score reveals that 31% of the population does not have enough assets to get by at the poverty level for three months. And the zero net worth ranking shows that 22% of the population has a net worth of zero or less than zero.

The mid-level scores on college attainment by race and income are balanced with lower rankings on overall college attainment (49th). Only 16% of the population has at least four years of college.

On small business ownership, there are also several areas for improvement, related to business ownership by women and minorities. Arkansas ranks 47th on women's business ownership. Arkansas also does poorly on minority entrepreneurship, ranking 49th. This measure compares minority and non-minority owned firms relative to the overall minority and non-minority populations.

Arkansas Has Made Strides to Increase Assets

Over the past several years, Arkansas has made several policy changes that make it possible for lower-income families to increase their assets.

Individual Development Accounts—During the 1999 legislative session, an Individual Development Account (IDA) demonstration was passed into law. Through this demonstration, low-income and low asset individuals receive $3 for every $1 they save up to a maximum match of $2000. Their savings and matches can be used for one of three assets—homeownership, small business ownership, or higher education. There are three programs operating under this demonstration—Economic Opportunity Agency in Springdale, Good Faith Fund in Pine Bluff, and Healthy Connections in Mena. To date 600 individuals have participated in the program. One hundred seventy (170) people have purchased their assets. $196,000 has been saved and matched with $578,000 for a total savings of $774,000.

Removal of the Assets Test on Medicaid for Children—During the 2001 legislative session, a new law was passed to remove the asset test on Medicaid for children. Prior to its passage, there were two different policies for low-income families needing help with health insurance. Any family with incomes up to 200 percent of the poverty line could qualify for ARKids B, and they did not have to be subject to an assets test. However, to be eligible for ARKids A, which has more generous health benefits and no co-pay, families could have incomes no higher than 100 percent of the poverty line, and they had to pass an assets test. They could have assets no higher than $3000. And any equity value in a car in excess of $1500 had to be counted toward this limit. The result is that a family who had savings and a car worth more than about $4500 could not qualify for ARKids A. These low limits made it impossible for families to have a reliable car for getting to work and savings for weathering everyday financial crises like the refrigerator breaking down. Now there is no assets test on either the ARKids A or ARKids B programs.

Expansion of the Home to Own Program—The Arkansas Development Finance Authority (ADFA) sells tax-exempt mortgage revenue bonds to make funding available for low- and moderate-income households to purchase homes. The funds are used to lower the interest rates that participating lending institutions are able to offer homebuyers. To be eligible, an applicant must be a first time homebuyer or be from one of 31 counties specified by ADFA. These counties are primarily in lower income parts of South and East Arkansas. The borrower's income cannot exceed specific limits, which vary by county. The maximum limits range from $33,800 for a single person household to $59,920 for a family of three or more. The purchase price of the home cannot exceed $98,000 for new construction or $80,000 for existing housing. In the past, ADFA issued bonds once a year, and the funds ran out fairly quickly. A couple of years ago, they decided to run a continuous lending program. All families who qualify for the program can now access it.

But There is More That We Could Do…

<u>Increase Support for IDAs</u>—Under the current demonstration, about 600 individuals have participated. Thousands more families could qualify. This program is a proven success. Families are increasing their assets by becoming homeowners, starting their own businesses, and going back to school to increase their skills so they can qualify for higher paying jobs. More funding would allow more families to take advantage of this program.

<u>Make Asset Ownership Easier Under Other Programs</u>—Arkansas could build on the step taken to remove the assets test from the Medicaid program by removing or loosening the assets test on other programs. Several programs for low-income families make it difficult for those families to qualify if they have more than a negligible amount of assets. For example, the state Transitional Employment Assistance (TEA) program does not allow a family to have more than $3000 in assets, minus some exclusions such as house. The federal government does not set these restrictions; it is up to each state to set the policy. Another issue is that the various programs such as TEA, Medicaid, and Food Stamps are not consistent in the way that they count assets, which makes things confusing for families and sends conflicting messages about the importance of asset accumulation.