Arkansas Assets and Opportunity

Scorecard 2005

Education | Business Development | Homeownership | Financial Security

Southern Good Faith Fund

Building communities. Changing lives.

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Southern Good Faith Fund, a 501(c)(3) non-profit organization, is an affiliate of Southern Bancorp, Inc. and is committed to increasing incomes and assets of low-income and low-skilled residents in rural communities.

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Funding and research for the *Scorecard* was provided by CFED, a non-profit organization that expands economic opportunity. They work to ensure that every person can participate in, contribute to, and benefit from the economy by bringing together community practice, public policy, and private markets. They identify promising ideas; test and refine them in communities to find out what works; craft policies and products to help good ideas reach scale; and foster new markets to achieve greater economic impact.

Established in 1979 as the Corporation for Enterprise Development, CFED works nationally and internationally through its offices in Washington, D.C.; Durham, North Carolina; and San Francisco, California.
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Executive Summary

Asset building plays a key role in helping individuals and families escape poverty and eventually realize the American Dream. Assets move families beyond living paycheck to paycheck and give them the tools to plan for the future. "Getting by" may require only a paycheck, but getting ahead requires a variety of assets, such as an education, a small business, a home, and a financial safety net.

The need to improve incomes gets a fair amount of attention in Arkansas, given the widely known fact that Arkansas is one of the poorest states in the nation. The need to improve assets gets much less attention, despite the fact that assets are as critical to individual and family prosperity as incomes. Arkansas, like other states with high poverty, needs to focus more attention on asset building if it is going to significantly improve the social and economic conditions of the state.

Although the lion's share of responsibility for building assets rests with individuals and families, the public sector, in particular the policies government establishes, contributes significantly. Government policy can provide opportunities to acquire assets, such as the immensely successful federal home mortgage interest deduction which has helped millions of families achieve homeownership.

The *Arkansas Assets and Opportunity Scorecard 2005* looks at various outcomes or measures of how well Arkansans are doing in building assets. The *Scorecard* also examines Arkansas state policy from the perspective of providing asset building opportunities, especially for individuals and families with low incomes. Unfortunately, too many of the opportunities government provides are not within reach of lower-income populations. Based on an analysis of both outcomes and current state policy, the report offers specific recommendations for changing state policy to provide greater opportunities for asset building. Those recommendations are summarized below, as well as some key measures of asset accumulation in Arkansas.

The outcomes and policies examined in this report are organized into several asset categories: education, business development, homeownership, and financial security. These categories represent the basic kinds of assets that are key to helping individuals and families achieve the American Dream. This report highlights the most prominent outcomes and policies from a broad review of data that was conducted to prepare this report. A complete listing of all the data can be found at:
http://www.southerngoodfaithfund.org/pub/pub_policy.html

Arkansas' outcomes and policies are compared specifically with six neighboring states—Louisiana, Mississippi, Missouri, Oklahoma, Tennessee, and Texas—to provide a regional perspective. Arkansas' national ranking is also provided. The highest possible ranking is No. 1 and the lowest is No. 51, representing all 50 states and the District of Columbia.

Most of the research was compiled by CFED, a national nonprofit organization with a mission of expanding economic opportunity. Other data was gathered by Southern Good Faith Fund's Public Policy program.

Measures of How Well Arkansans are Doing in Building Assets

Education

- Only 4.6 percent of Arkansans older than 25 have an associate's degree. Arkansas ranks No. 7 in the seven-state region and No. 50 nationally.
- Only 17.8 percent of heads of households in Arkansas have at least four years of college. Arkansas ranks No. 7 regionally and No. 50 nationally.
- Only 3 percent of heads of households from the poorest one-fifth of Arkansas households have at least four years of college, compared with 40 percent for the wealthiest one-fifth of households. Arkansas ranks No. 6 regionally and No. 50 nationally.

Business Development

- Arkansas has a small business ownership rate of 12.8 percent. Arkansas ranks No. 2 regionally and No. 19 nationally.
- Arkansas provides $2,089 per worker in private business loans under $1 million. Arkansas ranks No. 2 regionally and No. 8 nationally.

Homeownership

- Arkansas has an overall homeownership rate of 69.6 percent. Arkansas ranks No. 4 regionally and No. 34 nationally.
- The homeownership rate for the poorest one-fifth of Arkansas' families is 44 percent, compared with a homeownership rate of 89 percent for the wealthiest one-fifth of Arkansas' families. Arkansas ranks No. 7 regionally and No. 42 nationally.
- Arkansas has a home value—housing affordability relative to wages—of 2.85. Arkansas ranks No. 3 regionally and No. 6 nationally, which means homes in Arkansas are relatively affordable.

Financial Security

- 16.9 percent of Arkansas households have zero or negative net worth. Arkansas ranks No. 4 regionally and No. 33 nationally.
- 24.7 percent of Arkansas households are asset poor—meaning they do not have sufficient net worth to subsist at the poverty level for three months. Arkansas ranks No. 4 regionally and No. 35 nationally.
- Arkansas' bankruptcy filing rate is 8.8 per 1,000 people. Arkansas ranks No. 6 regionally and No. 45 nationally.
- Only 9.7 percent of all mortgage loans are classified as subprime loans, which are loans, usually with high interest rates, to borrowers with weakened credit histories. Arkansas ranks No. 1 regionally and No. 17 nationally.

To address some of the challenges identified above, as well as some of the key weaknesses of current state policy in Arkansas, the report makes the following recommendations for changing state policy to provide greater opportunities for Arkansans to build assets. A detailed analysis of the strengths and weaknesses of current state policy in providing asset building opportunities is provided in the report.

Key State Policy Recommendations

Education

Increase state funding for need-based financial aid by enacting a 529 College Savings Plan match contribution for low-income families.

Business Development

- Increase Community Development Block Grant (CDBG) support for microenterprise by providing CDBG funds for IDAs.
- Increase funding for the Arkansas Department of Economic Development Small Business Loan Program.

Homeownership

- Establish a state fund to guarantee innovative mortgage products such as nonconforming loans that better meet the needs of low-income home buyers.
- Expand access to IDAs (see specific policy recommendations below).

Financial Security

Expand access to IDAs statewide by:

- Increasing Temporary Assistance for Needy Families (TANF) funding for IDAs.
- Changing TANF contracting rules for IDAs to allow annual lump sum allocations of TANF funds to program providers for a specified number of IDA accounts.
- Changing TANF contracting rules for IDAs to allow more funds for program operation.
- Providing CDBG funds for IDAs.
- Initiating a statewide marketing campaign to spread the word about IDAs to potential participants and program providers.

Improve payday lender regulation by:

- Repealing the Check Cashers Act of 1999, if the Arkansas Supreme Court ultimately does not, and enacting further protections that prevent the "rent-a-bank" and other methods that payday lenders use to circumvent the Arkansas Constitution's usury provision.
- Requiring the Division of Check Cashers to develop a comprehensive licensing system of all businesses that make payday loans, including tracking the number of payday loans, total payday loan volume and total fees charged.

Improve access to basic financial services for low-income consumers by:

- Encouraging financial institutions to develop innovative basic financial services that better meet the needs of unbanked, low-income consumers, such as low cost checking and savings accounts and stored value cards.
- Encouraging financial institutions to develop innovative short-term loan products that provide alternatives to payday loans.

Introduction

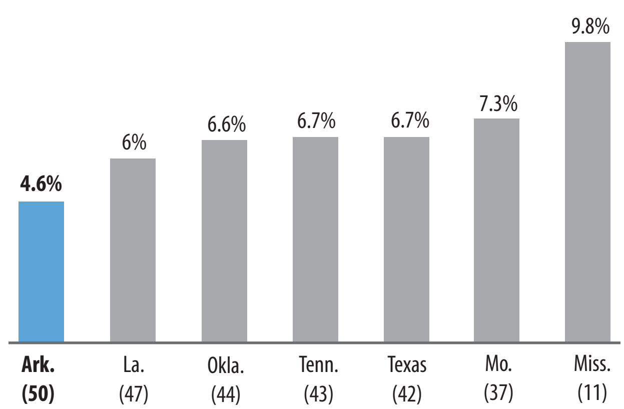
Education, business development, homeownership, and financial security are the basic kinds of assets that are key to helping individuals and families achieve the American Dream. The *Arkansas Assets and Opportunity Scorecard 2005* is broken into sections that examine each of these kinds of assets. Each section provides certain measures of how well Arkansans are doing building a particular asset. Each section also examines Arkansas state policy from the perspective of providing asset building opportunities, especially for low-income individuals and families. Finally, based on an analysis of both outcomes and current state policy, each section offers specific recommendations for changing state policy to provide greater asset building opportunities for Arkansans.

Education

Educational attainment is the most basic foundation from which assets are built. Educational attainment, particularly a college degree, produces the knowledge and income that are needed to build all other assets: business ownership, homeownership, and financial security, to mention only those highlighted in this report.

The relationship between education and income is strong. In 2003, the median earnings of someone who had less than a high school diploma were $18,334; those who graduated from high school earned $25,900; and those who completed college earned $41,800. [1] Moreover, data from the Survey of Consumer Finances indicates that the relationship between education and wealth is equally strong; in 1998, families in which the head of household had a college degree had twice the net worth at the median as families whose head of household had only some college.[2]

Two Years of College



SOURCE: U.S. Department of Commerce, Bureau of the Census, Current Population Survey data tapes from 2000, 2001, and 2002. State ranks are based on full number. Two states might therefore have different ranks even though the measures here appear the same.

Measures of Educational Attainment in Arkansas

Two Years of College

The chart depicts the percentage of a state's population older than 25 with an associate's degree as the highest degree. Each state's national rank is in parentheses.

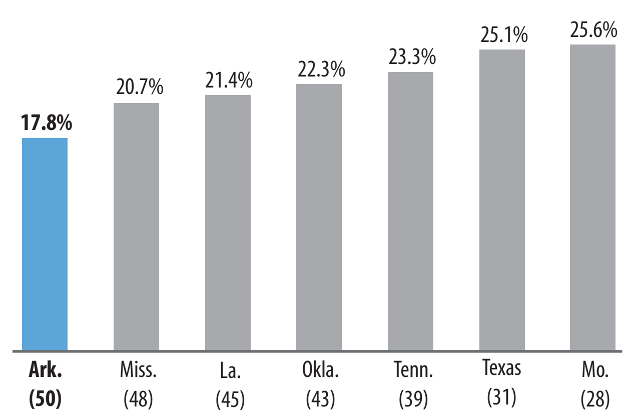
Arkansas is the lowest ranked state in the region in this measurement, and the second-lowest in the nation (No. 50), with just 4.6 percent of Arkansans older than 25 holding an associate's degree as the highest degree.

Four Years of College

The next chart shows the percentage of heads of households in each state with at least four years of college.

Again, Arkansas ranks at the bottom regionally and next to the bottom nationally (ranked No. 50), with just 17.8 percent of household heads having at least four years of college. West Virginia is the lowest, with 15.8 percent.

Four Years of College



SOURCE: U.S. Department of Commerce, Bureau of the Census, Current Population Survey data tapes from 2000, 2001, and 2002.

Degrees by Income

This measurement breaks down college attainment by household income level. The following chart illustrates the percentage of households in the wealthiest 20 percent of the population with at least four years of college compared with the percentage of households in the poorest 20 percent with at least four years of college.[3]

State	Top fifth	Bottom fifth	Ratio	National rank
Missouri	46 %	12 %	4	4
Tennessee	54 %	9 %	6.1	33
Texas	54%	8%	6.8	35
Oklahoma	45 %	6 %	7.4	38
Louisiana	49 %	6 %	8.7	43
Arkansas	**40 %**	**3 %**	**13.7**	**50**
Mississippi	46 %	3 %	13.8	51

SOURCE: U.S. Department of Commerce, Bureau of the Census, Current Population Survey data tapes from 2000, 2001, and 2002.

The disparity in postsecondary educational achievement between the richest and the poorest Arkansas households is striking. For every household in the poorest one-fifth that completes four years of college, there are almost 14 households in the wealthiest one-fifth that do so. The only state with a more pronounced gap in this outcome is Mississippi.

Summary Analysis and Policy Implications

Arkansas ranks No. 50 nationally in both the percentage of residents with an associate's degree and the percentage of heads of household with at least four years of college. Furthermore, there is a striking disparity between the attainment of a college degree by high-income households and low-income households. Only 3 percent of the poorest households have attained at least four years of college. In sharp contrast, 40 percent of the wealthiest households have attained at least four years of college.

There is a critical need for state policy not only to encourage college enrollment and completion, but to do so in a manner that provides improved opportunities for the state's lowest-income households.

The disparity in postsecondary educational achievement between the richest and the poorest Arkansas households is striking.

Arkansas Policy Strengths and Weaknesses

Need-Based Financial Aid

Access to college is significantly affected by households' ability to pay for college. The level of need-based assistance provided is a critical basic measure of a state's commitment to increasing access to college, especially for lower-income families.

The chart depicts estimated need-based aid provided by states to undergraduates per undergraduate enrollment.

State	$ per enrollment	CFED Rating
Texas	429	favorable
Tennessee	233	standard
Arkansas	**218**	**standard**
Oklahoma	155	standard
Missouri	118	substandard
Mississippi	12	substandard
Louisiana	8	substandard

SOURCE: National Association of State Student Grant and Aid Programs. 34th Annual Survey Report on State-Sponsored Student Financial Aid. 2002-2003 Academic Year. Retrieved February 1, 2005 from www.nassgap.org.

Arkansas' "standard" rating on this measure suggests that the state can be doing more to provide need-based aid. Although Arkansas is doing better than many of its neighbors, it has significant catching up to do as it has fewer college graduates than most of its neighbors.

Another basic measure of the extent to which Arkansas state policy is providing need-based financial aid is the amount of federal need-based aid received by the state compared with the amount of need-based aid provided by the state. Arkansas provides need-based aid that equals only 24 percent of federal need-based resources received by the state, which ranks Arkansas No. 24 among all states.[4]

Recently, Arkansas has initiated significant policy changes to increase access to need-based aid and otherwise increase the attainment of college credentials among low-income residents. But more needs to be done.

Workforce Improvement Grant Program

Arkansas recently created the Arkansas Workforce Improvement Grant (WIG) program which provides scholarships to working adults who are at least 24 years old, demonstrate financial need, have been accepted at a state-approved higher education institution to pursue a certificate or degree and are enrolled for at least three credit hours. The program was designed to complement the Pell Grant program by filling in various student eligibility and need gaps not covered by Pell Grants.

$3.71 million in each of the next two fiscal years was appropriated for WIG, compared with the $500,000 appropriated in each of the last two fiscal years. This represents a significant increase in need-based financial aid for adult students in Arkansas.

Arkansas Career Pathways Initiative

Recognizing that improved access to college must be complemented by improved completion of college, Arkansas recently provided $16 million in state Temporary Employment Assistance (TEA) funds to initiate the Arkansas Career Pathways Initiative.

This two-year initiative is aimed at stimulating fundamental changes in the way postsecondary training is delivered to adult students, especially low-income students who face a variety of barriers to enrollment and completion. Participating colleges are expected to develop innovative remedial curriculums that improve student completion and develop comprehensive student support systems that address other key barriers students often face in successfully completing college. Funding for financial aid and various other support services such as child care and transportation also has to be provided. Half of the state's two-year colleges (11 colleges) are participating in the initiative the first year.

By comprehensively addressing the many barriers that most two-year college students face in enrolling in and completing college, this initiative has the potential to significantly impact college completion in Arkansas.

Despite these encouraging policy efforts, more needs to be done to increase college attainment in Arkansas. To improve its next-to-last rank among all states in the proportion of college graduates, Arkansas must continue to enact policy change that supports access to and completion of college. One notable gap in its efforts is encouraging college aspirations and making it more affordable for the children of low-income families.

Arkansas Policy Recommendations

Enact a 529 college savings plan match contribution. Although Arkansas has several notable state financial aid programs for high school students, including Academic Challenge and Governor's Distinguished Scholars, all of them are merit-based to some degree. As such, these programs are not as accessible to low-income students, many of whom are still in underperforming public schools, as a strictly need-based program. Furthermore, Arkansas' primary exclusively need-based program, WIG, targets adult students only. To address this gap in need-based aid for school age children, Arkansas should establish a policy that matches low- and moderate-income families' contributions to Arkansas' 529 college savings plan. A few states have such a policy not only to make college more affordable but to encourage secondary academic achievement and college aspirations and planning among lower-income parents and children. The success of matched IDA programs across the nation demonstrates that provided the right incentives, low-income families can and will save for the purchase of major assets including a college education.

In the seven-state region, Louisiana is the only state that provides matching grants to the college savings plans of low- to moderate-income families. The other states that do so nationwide are Maine, Michigan, Minnesota, Rhode Island, and Utah.

In these states, family contributions are matched by state funds from various sources including fees from out-of-state participants in the plan, state administrative fees, and state revenues. Eligibility for 529 matching plans in those states, and in some cases the level of the match, is based on family income.

A forthcoming Policy Points by Southern Good Faith Fund will articulate a recommended design for a 529 college savings plan match policy for Arkansas, including estimated costs.

Business Development

Business development is another fundamental engine for asset building and wealth creation. Business ownership has helped many Americans achieve the incomes and assets that are part of the American Dream.

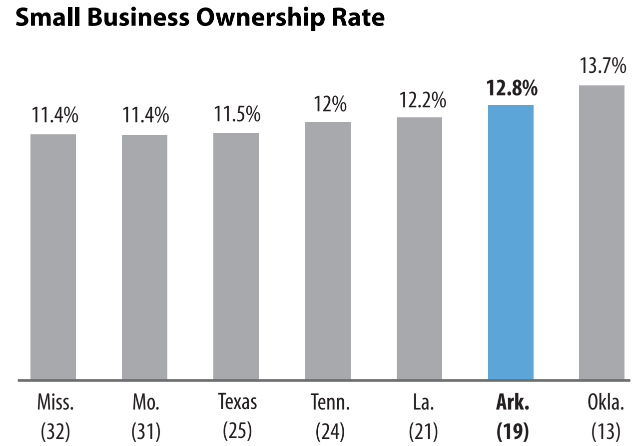
Measures of Business Development in Arkansas

Small Business Ownership Rate

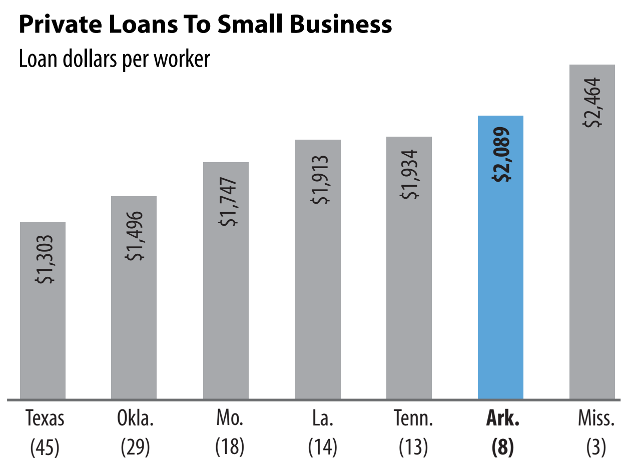
The chart shows the percentage of the state's employed labor force that owns businesses – a basic indicator of entrepreneurship. Arkansas ranks No. 19 in the nation with a small business ownership rate of 12.8 percent. This places Arkansas second in the region behind Oklahoma.

Private Loans to Small Business

The next chart provides another measure of the opportunity to build wealth through small business ownership: the number of private business loans under $1 million to small businesses. Arkansas ranks No. 8 in the nation with $2,089 in loans per worker, second regionally behind Mississippi.



SOURCE: U.S. Small Business Administration, Office of Advocacy. (2003) Small Business Economic Indicators. (Washington, D.C.) Number of decimal places are limited for presentation purposes. State ranks are based on full number. Two states might therefore have different ranks even though the measures here appear the same.



SOURCE: U.S. Small Business Administration, Office of Advocacy, Office of Economic Research. (2003) From 2002 Community Reinvestment Act (CRA) data. (Washington, D.C.)

Summary Analysis and Policy Implications

Arkansas ranks well on key measures of small business development. However, state policy could be more supportive of entrepreneurship given its importance to the development of assets among Arkansans and the development of the state's economy.

Arkansas Policy Strengths and Weaknesses

Arkansas is one of 26 states that operate a state-funded Individual Development Account (IDA) program, which are matched savings accounts to help low-income individuals and families save for several types of asset purchases including starting a small business. (See the Financial Security section of the report for more details on IDAs).

In Arkansas since 1999, IDAs have provided equity investments in over 100 microbusinesses across the state. These businesses also have received much-needed economic skills training, assistance putting together business plans, and entrepreneurial training and technical assistance.

Despite the impact, IDAs are not accessible statewide or in every county, which was the intent of the Arkansas Legislature in creating the state IDA program.

Arkansas Policy Recommendations

- **Increase Community Development Block Grant (CDBG) support for microenterprise development by providing CDBG funds for IDAs.** Exploring the use of CDBG funds for IDAs was included in the state's most recent U.S. Department of Housing and Urban Development (HUD) Consolidated Plan. The state needs to take the next step and actually provide CDBG funds for IDAs, which is a proven strategy for promoting entrepreneurship.

  Including CDBG funding for IDAs is one component of a broader policy agenda to make IDAs accessible in every county of Arkansas. For a complete discussion of this agenda, see the policy recommendation in the Financial Security section of this report.

- **Increase funding for the Arkansas Department of Economic Development Small Business Loan Program.** This program encourages community lenders to make small business loans by providing 50 percent of the loan amount. This program could be more attractive if the state's share of risk was increased to 85 percent, which is the same percentage as some of the U.S. Small Business Administration loan programs. Furthermore, the program is only funded at $200,000. The program not only needs increased funding, but also should be expanded to include traditional lenders and better targeted to serve higher risk borrowers who cannot access more traditional sources of funding.

Homeownership

Homeownership is another key foundation for asset building. The family home is not only the chief asset of many American households. It is a foundation from which other key assets are built, such as equity and other forms of financial security.

Measures of Homeownership in Arkansas

Home Value

The chart presents home value ratios, which are a basic measure of housing affordability. The higher the ratio of housing value to wages, the less accessible homeownership becomes. The home value measurement for each state is the median housing value divided by annual average wages. [5]

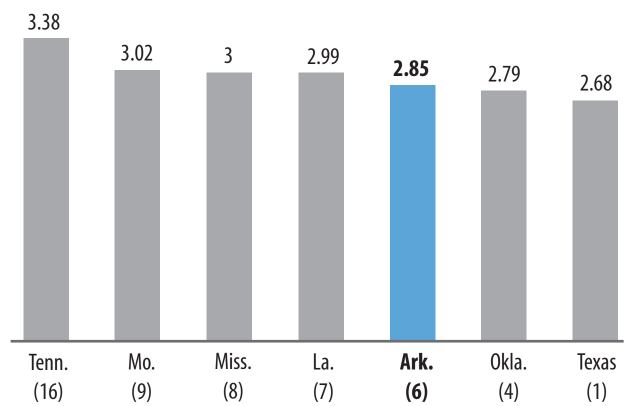
Arkansas, with a home value rating of 2.85, shows the third best home value in the region and a national ranking of No. 6.

Homeownership Rate

The next chart provides homeownership rates—a basic measure of how many families in a state own a home. Arkansas' home ownership rate (69.6 percent) is ranked No. 34 nationally.

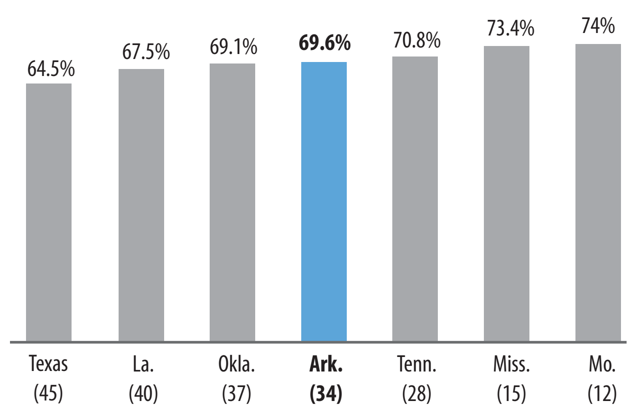
Home Value

Ratio to wages



SOURCE: Median housing values: U.S. Department of Commerce, Bureau of the Census, Current Population Survey data tapes from 2000, 2001, and 2002. Average annual wages: Bureau of Labor Statistics. Average annual wages for 2002 for all covered workers by state. Retrieved February 1, 2005 from http://bls.gov/cew/state2002.pdf.

Homeownership Rate



SOURCE: U.S. Department of Commerce, Bureau of the Census. Current population survey. Retrieved April 21, 2005, from www.census.gov.

Homeownership by Income

The table breaks down homeownership by household income level. It compares the homeownership rate among household heads in the wealthiest one-fifth of families to the homeownership rate among household heads in the poorest one-fifth of families.

Arkansas lags well behind the rest of the region in this important measurement, with more than twice as many families in the wealthiest category owning homes as families in the poorest category. Eighty-nine percent of the wealthiest families own homes, while only 44 percent of the poorest families own homes.

State	Top fifth	Bottom fifth	Ratio	National rank
Mississippi	88 %	62 %	1.42	2
Missouri	91 %	58 %	1.57	8
Louisiana	90 %	56 %	1.6	9
Tennessee	89 %	52 %	1.73	17
Texas	84 %	49 %	1.73	18
Oklahoma	92 %	53 %	1.76	20
Arkansas	**89 %**	**44 %**	**2.04**	**42**

SOURCE: U.S. Department of Commerce, Bureau of the Census, Current Population Survey data tapes from 2000, 2001, and 2002. Number of decimal places are limited for presentation purposes. State ranks are based on full number. Two states might therefore have different ranks even though the measures here appear the same.

Summary Analysis and Policy Implications

With the sixth-best home value ratio in the country, housing is relatively affordable in Arkansas. This provides an opportunity that many states do not have to expand homeownership to lower-income families, which is a critical need because the homeownership rate among poorer households is only 44 percent—less than half the rate for wealthier households. Clearly, state policy needs to be doing more to promote homeownership among Arkansas' lower-income families, especially given the relative affordability of homes.

Arkansas Policy Strengths and Weaknesses

Individual Development Accounts

Arkansas is one of 26 states that operate a state-funded Individual Development Account (IDA) program, which are matched savings accounts to help low-income individuals save for several types of asset purchases including buying a home. (See the Financial Security section of the report for more details on IDAs.)

Since 1999, the IDA program in Arkansas has had the following impact on homeownership: 82 homes have been purchased for a total of $4,984,508 in mortgage loans, and 115 homes have been renovated.

In Arkansas 89% of the wealthiest families own homes, while only 44 % of the poorest families own homes.

Despite the impact, IDAs are not accessible statewide or in every county, which was the intent of the Arkansas Legislature when it created the state IDA program.

Arkansas Policy Recommendations

- **Expand access to IDAs.** See the next section on Financial Security for detailed policy recommendations for providing statewide access to IDAs.
- **Establish a state fund to guarantee innovative mortgage products such as nonconforming loans.** To further expand homeownership among low-income households, state policy should promote the development of innovative mortgage loan products such as nonconforming mortgage loans. Nonconforming loans are loans with no down payments required and available to homebuyers with challenging credit records. One proven way to encourage the development of nonconforming loan products is to establish a fund to guarantee such loans.

  An example of a nonconforming mortgage loan program that provides such a guarantee is Self-Help of Durham, North Carolina. Self-Help, a community development lender, has partnered with Fannie Mae and the Ford Foundation to offer a national Secondary Market program for affordable home loans. Self-Help purchases nonconforming loans from lenders across the nation and sells them to Fannie Mae. The Ford Foundation provided Self-Help with a $50 million grant to guarantee the loans so that they can be sold. To date, Self-Help's Secondary Market Program has provided financing for over $3.3 billion in affordable mortgage loans, helping more than 38,000 families. [6]

Financial Security

In addition to education, business development, and homeownership, financial security is a basic kind of asset.

Financial security includes net worth and savings and access to adequate financial services, which provide the tools and incentives to earn, save, invest, and maintain assets that have been built.

Measures of Arkansans' Financial Security

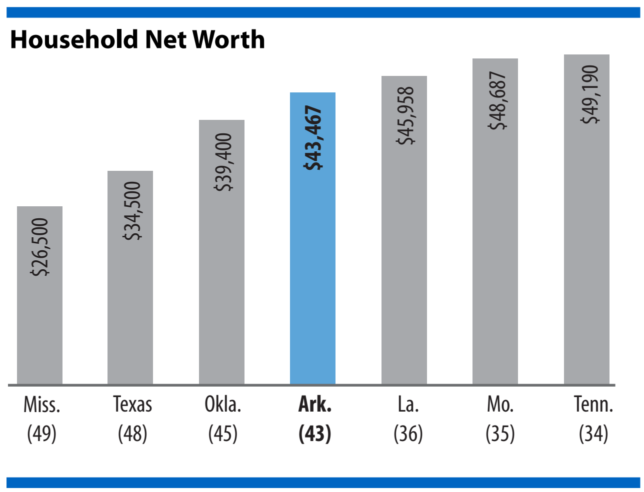
Household Net Worth

The chart provides a basic measurement of financial security: median household net worth.[7] Arkansas' household net worth of $43,467 (national rank No. 43) is higher than Mississippi, Texas, or Oklahoma, but lower than Louisiana, Missouri, or Tennessee.

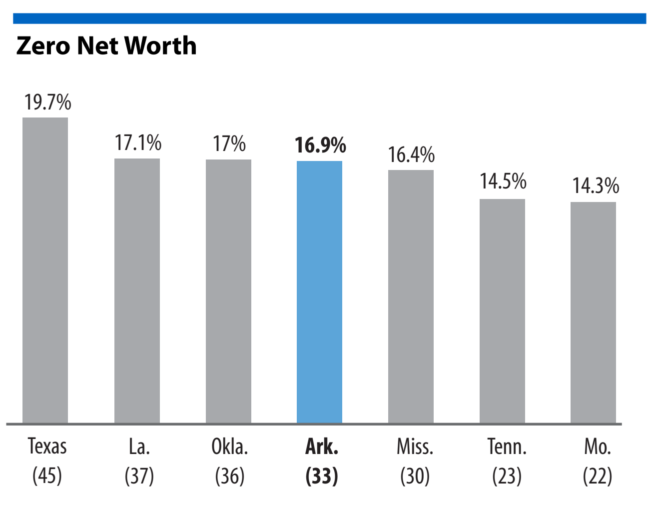
Zero Net Worth

The next chart shows the percent of households that have zero or negative net worth—meaning in many cases these families owe more than they own. In Arkansas, 16.9 percent of households have zero net worth, which translates to a national rank of No. 33.

The proportion of Arkansas households with zero or negative net worth is lower than Texas, Louisiana, or Oklahoma, but higher than Mississippi, Tennessee, or Missouri.



SOURCE: U.S. Department of Commerce, Bureau of the Census. Survey of income program population [Electronic data tape]. (2002). Washington, D.C.



SOURCE: U.S. Department of Commerce, Bureau of the Census. Survey of income program population [Electronic data tape]. (2002). Washington, D.C.

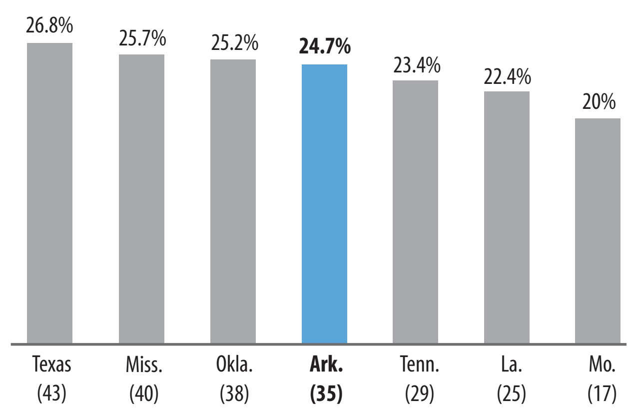
Asset Poverty

The chart shows the proportion of households that are asset poor, meaning they lack sufficient net worth to subsist at the poverty level for three months should their sources of income be eliminated.

Asset poverty expands the notion of poverty to include a minimum threshold of wealth needed for both security and mobility. Three months is a rather conservative cushion for a family that loses its income. Asset poverty exceeds income poverty in all 50 states and the District of Columbia.

In Arkansas, about a quarter (24.7 percent) of households are asset poor, which ranks No. 35 nationally.

Asset Poverty



SOURCE: U.S. Department of Commerce, Bureau of the Census. Survey of income program population [Electronic data tape]. (2002). Washington, D.C.

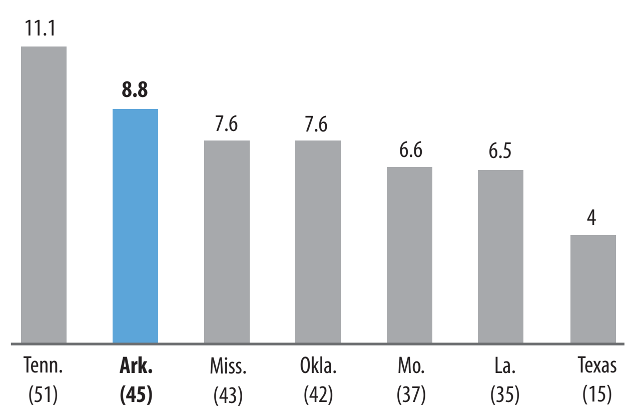
Bankruptcy

The next chart provides bankruptcy rates, which in part capture the plight faced by families who have some measure of wealth—jobs, homes, and/or savings—but their debt becomes overwhelming. The rates reflect consumer bankruptcy filings per 1,000 people.

Most of the states in the region scored relatively poorly in consumer bankruptcy. Arkansas' bankruptcy rate of 8.8 per 1,000 people translates into a national rank of No. 45 and is the second highest regionally. Tennessee shows the most consumer bankruptcies regionally and nationally.

Bankruptcy Rate

Per 1,000 people



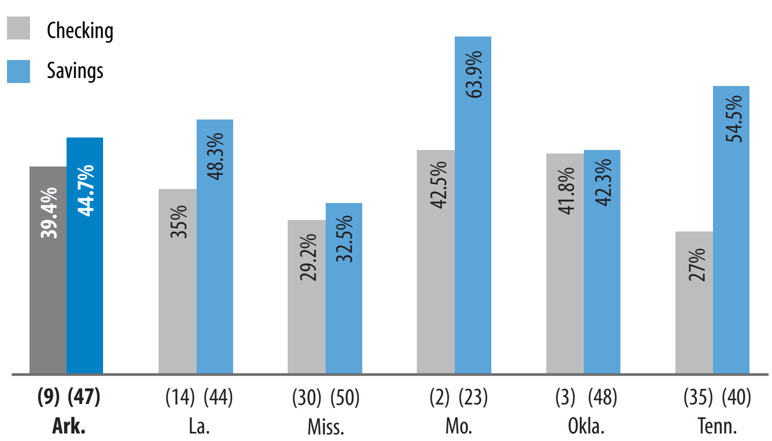
SOURCE: Annual US Bankruptcy Filings by State, 2000-2003. Retrieved Jan. 26, 2005, from www.abiworld.org. Number of decimal places are limited for presentation purposes. State ranks are based on full number. Two states might therefore have different ranks even though the measures here appear the same.

Checking and Savings Accounts

The chart shows the extent to which Arkansans have basic checking and savings accounts. Financial security is built upon access to basic financial services such as checking and savings accounts. Research shows that at every level of income, “unbanked” households are worse off financially than their "banked" counterparts.

In Arkansas, 39.4 percent of households hold non-interest-bearing checking accounts, while 44.7 percent have interest-bearing checking, savings, or money market accounts.

Households With Checking and Savings Accounts



SOURCE: U.S. Department of Commerce, Bureau of the Census. Survey of income program population [Electronic data tape] (2002). Washington, D.C. The checking account measurement is of non-interest bearing checking accounts. The savings account measurement includes interest-bearing checking, savings and money market accounts.

Subprime Mortgage Loans

Financial security is also built upon access to basic financial services such as mortgage loans. A measure of the quality of financial services available to low-income families is the percentage of mortgage loans that are classified as subprime. Subprime loans have relatively high interest rates and penalties and are typically made to borrowers with weakened credit histories.

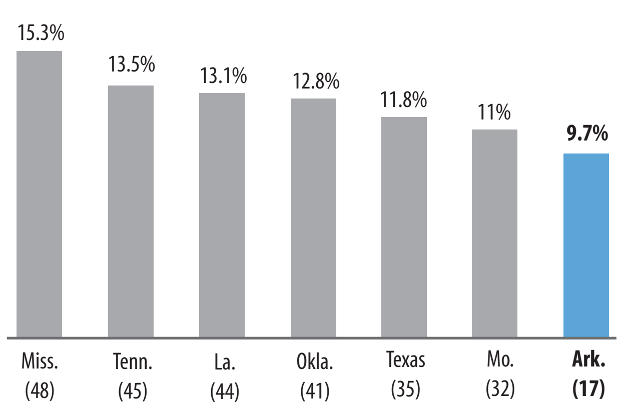
This chart measures the percentage of all mortgage loans in each state that are subprime.

In this measurement, Arkansas’ Top 20 national ranking is significantly higher than any of its six neighbors. In the other data measurements in which Arkansas ranks in the Top 20 (small business ownership, private loans to small businesses, home value, and households with checking accounts), at least three of the six neighboring states also rank in the Top 20.

Arkansas’ high ranking in subprime lending is likely a reflection of the state’s anti-predatory lending policy, which is discussed below.

Unfortunately, the data presented does not capture other kinds of high interest loans, such as payday loans. The next section attempts to measure to what extent these kinds of loans are impacting Arkansans.

Subprime Loans
Percentage of mortgage loans



SOURCE: Mortgage Bankers Association. National Delinquency Survey, Third Quarter 2004, p.5.

Payday Loans

Payday lending or "cash advance" is the practice of using a check dated in the future as collateral for a short-term loan.

Plenty of data exists to demonstrate payday loans are high interest loans. Depending on the terms of the loan, the annual percentage rate for an initial payday loan typically ranges from 391 percent to 443 percent, according to CFED. A key aspect of the payday lending business model is repeat borrowing, which is intended to keep borrowers in debt.

According to the Center for Responsible Lending (CRL), borrowers who receive five or more loans a year account for 91 percent of payday lenders' business. Other key facts from an April 2005 CRL Fact Sheet on payday lending:

- 99 percent of payday loans go to repeat borrowers.
- The average payday borrower has loans rolled over—extended on payday if the consumer is unable or unwilling to pay the balance in full, with additional fees incurred—eight times by a single lender.
- The average payday borrower pays $800 to borrow $325 because of rollovers.

Research shows that payday lenders are disproportionately located near military bases and in African-American neighborhoods. [8] Industry business plans describe targeting customers who are disproportionately minority or low-income. [9]

Advance America, a publicly traded company, touts itself as the largest payday lender in the nation. The company's 2004 annual filing with the U.S. Securities and Exchange Commission (SEC) reports that the average amount of its payday loans is $328, with average fees of $52 over an average time period of 15.4 days. This is equivalent to an annual interest rate of approximately 413 percent.

Data on the extent to which payday loans are being used in Arkansas is harder to obtain. Detailed figures for payday loan sales volume, transactions and fees are not maintained by the Arkansas Board of Collection Agencies' Division of Check Cashers, which is the state agency that is charged with regulating payday lenders. This is a problem in and of itself that state policy needs to address.

One measure of the scope of payday lending is the number of payday lending offices. There are more payday lending offices in the United States than McDonald's restaurants—22,000 payday offices versus 12,434 McDonald's. [10] In Arkansas, there are 183 state licensed payday lending outlets compared with 127 McDonald's restaurants. [11]

In Arkansas , there are 183 state licensed payday lending outlets compared with 127 McDonald's restaurants.

Furthermore, the number of licensed payday lenders is by no means a comprehensive picture of the total number of lenders actually operating in the state. The most comprehensive study of payday lending in Arkansas to date found that approximately one-third of the payday lenders surveyed were not licensed with the Division of Check Cashers.[12] If this ratio applied statewide, the actual number of payday lending outlets in Arkansas would total 243.

Advance America in its most recent SEC report states that it has 2,408 "payday cash advance centers" in 34 states, including 30 in Arkansas. However, none of those Arkansas stores is licensed by the Arkansas Division of Check Cashers.

A reasonable estimate of the extent to which payday loans are being accessed can be generated using the number of licensed stores and other industry data.

According to Advance America's SEC filing for last year, the company made 11,586,000 payday loans through its 2,408 centers. Based on this data, the average number of loans per center is 4,811.

Assuming Advance America centers make roughly the same number of loans as other payday lenders, and knowing that Arkansas has 183 licensed payday lending businesses, it can be conservatively estimated that there are 880,413 payday loans made in Arkansas each year.

Payday loans take potentially $45,781,476 annually from Arkansas households.

In comparison, a total of 116,944 mortgage loans were originated by lending institutions to Arkansas borrowers in 2003. [13] Consumers who take out mortgages in Arkansas are protected by Arkansas' anti-predatory lending law (Act 1340 of 2003) and regulations enforced by two state agencies—the Arkansas Bank Department and the Arkansas Securities Department. In contrast, as noted above, some payday lenders are not even licensed by the Arkansas Division of Check Cashers, the only state regulatory entity for payday loans.

Another measurement of the financial impact of payday loans can be estimated by multiplying the number of estimated payday loans in Arkansas (880,413) by the average fee per loan reported by Advance America ($52). This suggests that payday loans take potentially $45,781,476 annually from Arkansas households—money that could be put to better use building assets.

Summary Analysis and Policy Implications

On several basic measures of financial security, such as household net worth and asset poverty, Arkansas ranks in the bottom third of all states and Arkansas has the seventh highest bankruptcy rate in the nation. There is a need for state policy to encourage greater financial security in such basic forms as savings and net worth.

Additionally, well over half of all Arkansans do not use or have access to basic financial services of checking and savings accounts. This is a serious concern given that savings and checking accounts are entry points to a variety of mainstream financial services such as credit cards, loans, and retirement products.

More needs to be done to "bank" the unbanked, and the role of state policy in encouraging this outcome needs to be considered. The next section discusses some efforts by mainstream financial institutions to provide innovative financial services aimed at banking the unbanked, which is a start toward addressing this important need.

Arkansas does well in the measurement of the proportion of mortgage loans that are subprime, which likely can be attributed to the protections state policy provides against these types of loans.

Finally, payday lending is a growing concern in Arkansas. There are more payday lenders in the state than McDonald's restaurants, making an estimated 880,413 payday loans per year. A volume of research indicates how high the effective interest rate is on most payday loans—typically ranging from 391 percent to 443 percent for an initial loan.

Astonishingly, despite the scope of the industry, not all payday lenders are even licensed in the state, and virtually no data is collected on those that are. There is an obvious need for state policy to better regulate payday lending.

Arkansas Policy Strengths and Weaknesses

Individual Development Accounts (IDAs)

Arkansas is one of 26 states that operate a state-funded IDA program. IDAs are matched savings accounts to help low-income individuals and families establish a pattern of regular savings for the purchase of one of three allowable assets. For every $1 saved a match of $3 is made to purchase a home or make improvements on an existing home; start or expand a business; or pay for postsecondary education.

Since 1999, the IDA program has had the following impact on savings and asset building in Arkansas:

- Participants have saved over $259,071 and used over $700,000 in matching funds to purchase assets.
- 82 homes have been purchased; 115 homes have been renovated; 100 small businesses have been started or expanded; and 136 participants have used their IDA funds for postsecondary education.

  There are nine organizations in the Arkansas Assets Coalition that offer IDA accounts around the state, currently covering 45 of the state's 75 counties. Despite the impact, IDAs are not accessible statewide or in every county, which was the intent of the Arkansas Legislature when it created the state IDA program.

Mortgage Loan Norms and Standards

Arkansas is one of 11 states (along with California, Georgia, Illinois, Massachusetts, New Jersey, New Mexico, New York, North Carolina, South Carolina, and West Virginia) that received a favorable rating from CFED for enacting laws that curb predatory mortgage lending.

Arkansas' Act 1340 of 2003 defines and regulates high-cost home loans; prohibits lenders from making high-cost home loans without due regard for the borrower's ability to repay; and prohibits "flipping" into high-cost loans.

Short-term Loan Protections

Arkansas has a usury provision in its Constitution that caps annual interest rates at 17 percent on consumer loans and credit sales. Unfortunately, the Check Cashers Act of 1999, the Arkansas law governing payday lending, effectively circumvents the Arkansas Constitution by stating that fees charged by payday lenders "shall not be deemed interest."

The Arkansas Supreme Court in a unanimous decision on March 22, 2001, found that the Arkansas General Assembly in passing the Check Cashers Act made an "invalid attempt to evade the usury provisions of the Arkansas Constitution." The Supreme Court ruled that Arkansas courts, not the Legislature, are empowered to determine whether fees charged by payday lenders should be considered interest under the usury provisions.

Several cases are pending in Arkansas circuit courts on whether the fees are interest, and ultimately the Arkansas Supreme Court will decide the issue. Provided the Supreme Court does not deem payday loan fees as interest, and even if it does, certain policy changes are needed to ensure that payday loan practices comply with the state's usury limit.

Arkansas Policy Recommendations

To expand access to IDAs in every county of the state, several policy changes are needed:

- **Increase Temporary Assistance for Needy Families (TANF) funding for IDAs.** Currently, the state provides an annual TANF appropriation for IDAs of $550,000. This amount should be at least doubled initially so that the remaining 30 counties can be reached.

  To further enable IDA expansion, certain rules related to the use of TANF funds for IDAs need to be amended. In particular:

- **Change TANF contracting rules for IDAs to allow annual lump sum allocations of TANF funds to program providers for a specified number of IDA accounts.** This will enable more efficient use of TANF funds which in turn is necessary to expand the reach of current and new funding appropriations. Currently, TANF funds can only be drawn down quarterly when participants make contributions. When a given participant drops out of the program all TANF match funds have to be returned. A better process would be to provide TANF funds to programs in a lump sum for a certain amount of IDA accounts at the beginning of every year. This would enable matches to be more efficiently made and funds allocated to participants who drop out can be quickly reallocated to new participants. Assets for Independence (AFI), another federal program that provides match funds for IDAs, provides funding in this manner, and it has led to more efficient use of AFI funds.

- **Change TANF contracting rules for IDAs to allow 20 percent of funds for program operations.** Currently, TANF rules allow 15 percent of funds to be spent on program operation. Fifteen percent is not sufficient operational funding for every IDA program currently operating in Arkansas; all of them are subsidizing their operations with other funding. An increase is needed for these programs to maintain current operations, and certainly to expand operations which will be needed to expand IDA access to every county in the state. To expand access statewide, existing programs are likely going to have to partner with smaller, more local non-profits that can reach individuals in the unserved counties but will not have the numbers of participants to fully fund program operations. In other words, larger programs are likely going to have to support program operation for smaller, new programs which will be needed to bring IDAs to every county in the state.

- **Provide Community Development Block Grant (CDBG) funds for IDAs.** Funds other than TANF funds need to be appropriated for IDAs. Exploring the use of CDBG funds for IDAs was included in the state's most recent U.S. Department of Housing and Urban Development (HUD) Consolidated Plan. Now the state needs to take the next step and actually provide CDBG funds for IDAs.

  In conjunction with these rules changes, the state, specifically the Arkansas Department of Health and Human Services, should also:

- **Initiate a marketing campaign in conjunction with the Arkansas Assets Coalition to spread the word about IDAs to potential participants and program providers.** The marketing campaign should include notifying all eligible individuals currently participating in key Arkansas Department of Health and Human Services programs (Medicaid, Food Stamps, Child Care) of the opportunity to participate in the IDA program. Such a notice was immensely helpful in recruiting eligible students for the Arkansas Career Pathways Initiative (see page 9). The campaign should also provide information to potential IDA program providers, especially in unserved or underserved counties, about the options for starting an IDA program, including partnering with existing IDA program providers for administration and operational assistance.

To better regulate payday lending more effectively in Arkansas, several policy changes are needed:

- **Repeal the Check Cashers Act, if the Supreme Court does not rule it unconstitutional, and prohibit the "rent-a-bank" and similar methods used by payday lenders to circumvent the state's constitutional usury protections.** Hopefully the Supreme Court will in effect repeal the Check Cashers Act by ruling it unconstitutional. But even if it does, payday lenders use a variety of schemes, such as brokering arrangements or rent-a-charter agreements with out-of-state commercial banks, to circumvent state regulation. Payday lenders also try to evade state regulation by invoking federal preemption through the Federal Deposit Insurance Act (FDIA).

  The state of Georgia has enacted a law regulating payday lending that explicitly bars non-bank lenders from partnering with out-of-state institutions in order to avoid the state usury limit. Repeated violations are a felony punishable by up to five years in prison and a $10,000 fine. A three-judge panel of the 11th U.S. Circuit Court of Appeals recently ruled that the FDIA does not pre-empt the Georgia law's prohibition on in-state payday stores acting as agents for out-of-state banks.

  Under Georgia's law, loans of less than $3,000 cannot carry an annual interest rate of more than 16 percent, Georgia's usury limit. In many respects, the Georgia law is a potential model for Arkansas.

  Advance America in its 2004 SEC filing noted that had suspended operations in its 89 Georgia payday lending outlets based on passage of the Georgia law.

- **Require the Division of Check Cashers to develop a comprehensive licensing system of all businesses that make payday loans, including tracking the number of payday loans, total payday loan volume, and total fees charged.** Such data will enable the practices and impact of the industry on Arkansas consumers to be more accurately measured. It is estimated that there are almost eight times more payday loans made than mortgage loans in Arkansas, yet there is an abundance of data on mortgage loans and relatively little data on payday loans.

  Other states have mechanisms in place to track this data. The Missouri Division of Finance annually surveys the state's payday lenders and compiles a report for the Governor. Among the data presented in the Missouri survey are the total number of payday loans, total number of payday lenders, and the percentage increase for both measurements; the mean and highest annual percentage rates charged; and the average loan amount and average number of rollovers.

Other Recommendations

Alternatives to Payday Loans

Forcing payday lenders to comply with the Arkansas Constitution's usury provisions will most likely eliminate payday lending as it is currently practiced in Arkansas. If so, alternatives to payday loans need to be developed to meet consumer needs for short-term loan products.

Some alternative products have been developed. For example, Provident Counseling, a nonprofit agency serving lower-income families in St. Louis, offers small loans through the Ways to Work program. Working parents who have exhausted other sources of cash or who do not qualify for conventional loans can obtain short-term loans ranging from $500 to $4,000. The money may be used for child care, car repairs, a mortgage payment or toward the purchase of a used car. Applicants are required to repay the loan within two years. Like a bank or a credit union, Ways to Work uses a pool of money at modest interest rates; when the money is paid back, it is loaned again.

The Ways to Work program is an outgrowth of a family loan program created in 1984 by the McKnight Foundation in Minnesota. That program assisted more than 19,000 lower-income families with more than $25 million in short-term loans.

To replicate the successful loan program nationwide, the McKnight Foundation and the Alliance for Children & Families, consisting of more than 300 nonprofit organizations, established Ways to Work Inc. As a federally certified community development financial institution (CDFI), the corporation provides start-up and ongoing capital, as well as technical assistance, to help organizations establish the Ways to Work loan program in their hometowns. The CDFI currently works with 65 organizations through the Alliance's nationwide network.

ASI Federal Credit Union of Harnahan, Louisiana, has come up with another alternative to payday loans. ASI put together the "Stretch Plan"—a $4 a week club with numerous benefits, such as a 10 minute phone card; free travelers checks; overdraft protection; a free refund anticipation loan at tax time; and inexpensive money orders. But the main attraction is the "Stretch Loan"—a $200 to $1,000 line of credit at just 12 percent interest.

To minimize defaults, ASI limits participation to members with a six-month history of direct deposit. A payment of $101 is required every pay period. With a positive repayment history and a sufficiently positive credit rating, a borrower can qualify after six months for an enhanced loan of up to $3,000.

As the above examples suggest, alternative short term loan products are the result of non-profit or other private institution initiative. However, these efforts are isolated and certainly lack scale. To address these limitations, Arkansas' non-profit and financial institutions need to begin addressing this issue in earnest, which is beginning to happen through the non-profits and financial institutions that are part of the Arkansans Against Abusive Payday Lending coalition. But the role government policy can play in encouraging alternative short term loan products needs to be considered, especially the government's role in encouraging competition for such products by mainstream financial institutions, which will be necessary to achieve broad access to alternative short term loan products.

Banking for Low-income Consumers

Having a basic checking and/or savings account provides households with access to mainstream financial services. Moreover, families with access to mainstream financial services are much more likely to accumulate savings. Ownership of a transaction account "is associated with very large increases in the likelihood of owning other forms of wealth, and, controlling for other factors, households that do not have transaction accounts are 43 percentage points less likely to have positive holdings of net financial assets, 13 percentage points less likely to have a home, and 8 percentage points less likely to own a vehicle." [14]

Access to innovative financial services is key to banking the unbanked. Arkansas has no direct policy in place to encourage the development of such services. However, there are examples of such services being provided by financial institutions in Arkansas.

First Bank of the Delta in Helena, a member bank of Southern Bancorp, Inc., has begun implementation of three innovative products aimed at serving the basic financial service needs of low-income Arkansans:

- **Stored Value Cards.** This product will be a hybrid between a debit card and a department store gift card. Clients can use the card to make purchases at any store that accepts electronic payment; withdraw money from an Automatic Teller Machine; transfer money to other accounts; conduct purchases over the phone or online; and reserve hotel rooms or rental cars when traveling. Users of the card cannot overdraw on the account and thus do not accrue expensive overdraft fees. The card will combine the functionality of a standard debit card with the liquidity constraints of cash.

- **Tax Refund Savings Accounts.** This product is designed to help low-income families direct tax refunds toward savings and asset-building products. The product achieves this goal by leveraging:
    - Free tax preparation services at existing Internal Revenue Service Volunteer Income Tax Assistance sites.
    - A free savings account with a small minimum balance and no fees other than for excessive withdrawals.
    - "Tax splitting" services that allow one to direct a portion of his or her refund to savings and use the remainder to pay for immediate expenses.
    - A matching policy that provides incentives to maintain savings balances over an extended period of time.
    - Access to additional transactional, savings, and credit-building products.
- **Credit and Asset Builder Certificates of Deposit.** This product helps low-income families improve their credit histories and also build savings. A client will pay a small application fee to be loaned between $500 and $1,000 in $100 increments. The loan amount will be placed in an interest-bearing Certificate of Deposit. The customer will make monthly loan payments out of current income and/or savings—building up credit with each additional payment. If the customer defaults, the CD is forfeited and the bank will recoup the balance of the original loan.

If the customer succeeds in paying off the loan, the CD can be liquidated and transferred to the customer's savings account. The customer can also choose to put the money in a renewed higher interest CD.

Southern Good Faith Fund is a nonprofit affiliate of Southern Bancorp.

As the above examples suggest, many innovative financial services are being provided by private or non-profit sector institutions. Clearly, some institutions in Arkansas are already addressing this need, but more institutions need to do so. Also, as with payday loan alternatives, the role government policy can play in encouraging the development of innovative financial services needs to be considered.

Conclusion

The outcomes presented in the *Scorecard* demonstrate the challenges Arkansans face in building and maintaining assets. Chief among those challenges are one of the lowest college attainment rates in the nation; a wide gap in educational attainment between the richest and poorest Arkansans; one of the highest bankruptcy rates in the nation and high asset poverty; minimal regulation of high-interest payday loans that flout the Arkansas Constitution's usury protections; and a significant disparity in homeownership between the highest and lowest earning households.

Arkansas has higher performance in other areas—housing affordability, subprime lending and business development to name a few—but there is still room for improvement. The *Scorecard's* policy recommendations offer a template of pragmatic options—chief among them a state match for 529 college savings plans; expansion of Individual Development Accounts to foster broader homeownership, expanded business development, and enhanced financial security; and innovative alternatives to high-cost loans that provide low-income consumers an opportunity to get ahead rather than just "get by."

Every Arkansan deserves the opportunity to achieve the American Dream. Innovative policy initiatives discussed in the *Scorecard* offer the tools to realize a better-educated, more financially secure Arkansas.

Endnotes

[1] Source: U.S. Census Bureau, Current Population Survey, 2004 Annual Social and Economic Supplement, numbers in thousands. People 25 years old and over as of March of the following year. A.O.I.C. stands for alone or in combination. Accessed March 2, 2005, from www.pubdb3.census.gov/macro/032004/perinc/new03_001.htm.

[2] Source: Kennickell, A.B., Starr-McCluer, M., & Surette, B.J. (January 2000). *Recent changes in U.S. family finances: Results from the 1998 Survey of Consumer Finances.* Washington, D.C.: Board of Governors, Federal Reserve System.

[3] The richest 20 percent were classified in the data as making more than $94,176 (an average of $157,419) a year. The lowest 20 percent in this category earned less than $24,428 a year (an average of $14,314) a year.

[4] Source: The National Center for Public Policy and Higher Education, *Measuring Up 2004: The State-By-State Report Card for Higher Education.* (September 2004).

[5] Statistically, the median represents the middle in a distribution of numbers, above and below which are an equal number of values. The mean, by comparison, is the average value of a set of numbers and is sensitive to outlying values.

[6] Self Help description of Second Market Program, http://www.self-help.org/secondarymarket/index.asp.

[7] Net worth equals the sum of assets attributable to any individual age 15 years and above in the household less any liabilities. Assets included in this measure are interest-earning assets, stocks and mutual fund shares, real estate (own home, rental property, vacation homes, and land holdings), own business or profession, mortgages held by sellers, and motor vehicles. Liabilities covered include debts secured by any asset, credit card or store bills, banks loans, and other unsecured debts. Households with large net worth will increase the average. Therefore, the median more accurately reflects that a large proportion of the sample reported zero net worth.

[8] Source: "Predatory Payday Lending Traps Borrowers," Center for Responsible Lending Fact Sheet, April 2005.

[9] "There are 40 million American households with incomes of $25,000 or less that need convenient check cashing [and] quick availability of micro loans between $50 and $300…Moreover, this market is expected to grow over the next decade; especially those households that are leaving the rolls of welfare for employment." From a payday business plan cited in CRL's "Fact vs. Fiction: The Truth About Payday Industry Claims," www.responsiblelending.org/payday/factfiction.cfm#two.

[10] "Paying More for Payday Loans," *60 Minutes*, May 18, 2005; e-mail communication from McDonald's Corporation, September 20, 2005.

[11] The Arkansas State Board of Collection Agencies Division of Check Cashers as of August 9, 2005, reported a roster of 183 licensed payday lending offices. There are 127 McDonald's restaurants in Arkansas, according to a September 20, 2005, e-mail communication from McDonald's Corporation.

[12] Arkansans Against Abusive Payday Lending's *Payday Lending in Arkansas: The Regulated and the Unregulated* study (August 2004) surveyed 72 payday lending outlets in six cities: Conway, Fort Smith, Jacksonville, Little Rock, North Little Rock and Sherwood. Of the 72, one-third (24) were not licensed with the Division of Check Cashers.

[13] "Mortgage Loan Totals and Mortgage Details for All Fifty States," www.allmortgagedetail.com.

[14] Carney, S. and Gale, W. (February 2000) *Asset Accumulation Among Low-Income Households,* accessed at www.assetbuilding.org/AssetBuilding/Download_Docs/Doc_File_768_1.PDF.

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