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Supportive Housing

Combating Homelessness in Connecticut

Also Inside:

New Hampshire's Working Women

Introduction to Islamic Finance

Barriers to Saving

The Competitive Inner City

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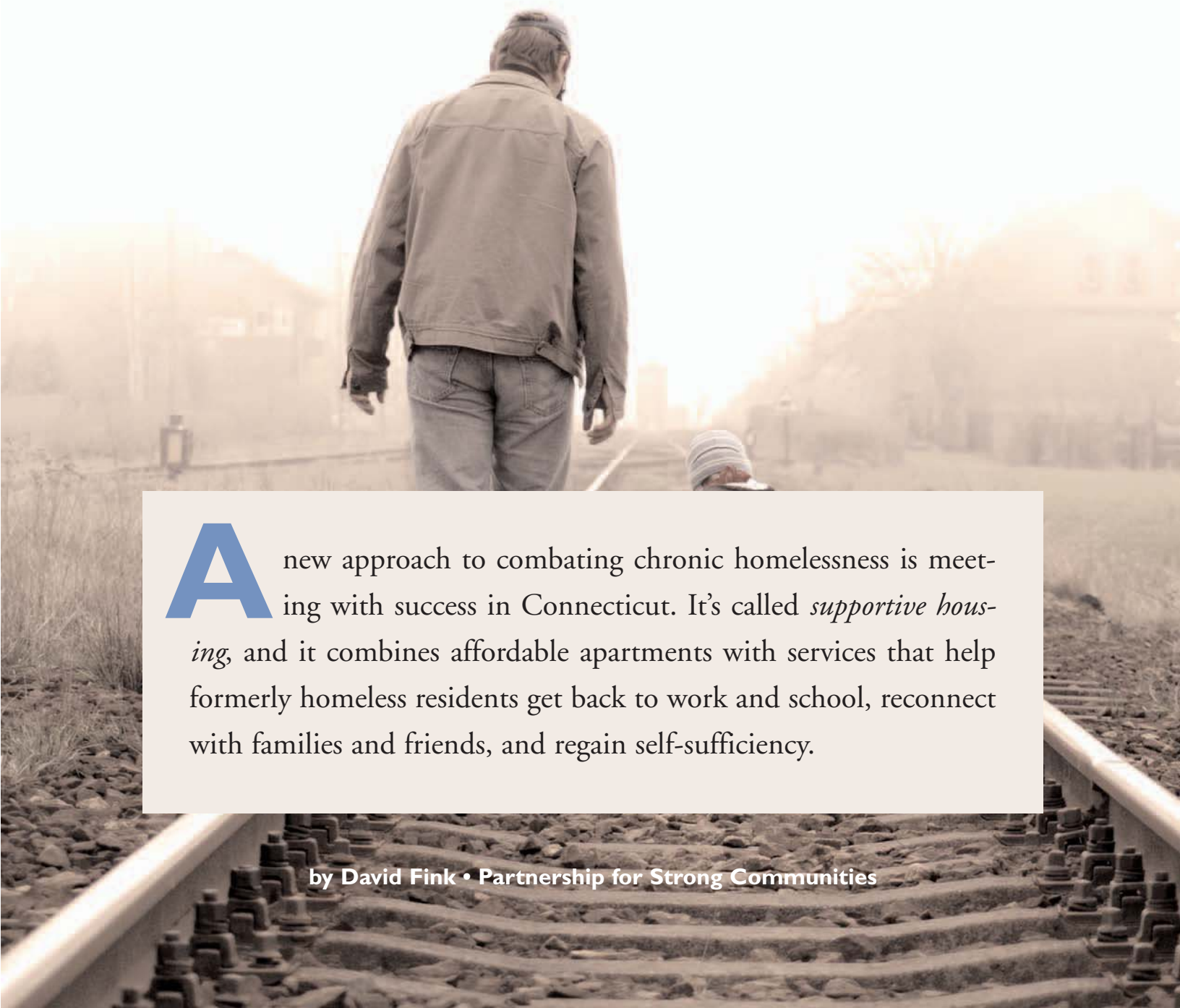
Supportive Housing

Combating Homelessness in Connecticut



A new approach to combating chronic homelessness is meeting with success in Connecticut. It's called *supportive housing*, and it combines affordable apartments with services that help formerly homeless residents get back to work and school, reconnect with families and friends, and regain self-sufficiency.

by David Fink • Partnership for Strong Communities

Most of us have support networks of some kind, but for people who don't, supportive housing fills a gap, offering counseling, employment advice, help with balancing checkbooks, and more. In a 2004 video, produced by Connecticut's "Reaching Home" Campaign and funded by the Melville Charitable Trust, University of Connecticut men's basketball coach Jim Calhoun told how, on recruitment trips, he sometimes met with families living close to the edge. He expressed deep concern about homelessness and nudged a basketball-crazed state to open its eyes to the problem and ways to fight it economically.

But Calhoun is only the latest catalyst in a statewide success story. Since the early 1990s, a public-private alliance—of state agencies, experienced nonprofit housing developers, social service professionals, bankers, philanthropies, and the Corporation for Supportive Housing (CSH)—has been collaborating to implement a detailed plan to address homelessness in a new way.[1]

In 1999, the CSH published an evaluation of the Connecticut Supportive Housing Demonstration Program. Conducted by the University of Pennsylvania and funded by Connecticut and the Melville Trust, the research showed that supportive-housing services cost less than alternatives such as inpatient hospitalization or substance-abuse treatment and could lower Medicaid costs. It also showed that supportive housing had enhanced property values in urban neighborhoods where it had been tested. And for every $1 spent, $3.43 had been created—thanks to construction, materials, and service employment.

Nearly half of the residents in the largest supportive-housing programs in Connecticut also have been able to return to full- or part-time school and work—and to paying taxes.

Success Began Slowly

The demonstration program produced 281 supported apartments in six cities between 1996 and 1998. The Corporation for Supportive Housing provided predevelopment funding and technical assistance to developers and helped social service providers that had never developed real estate find development partners, property managers, and long-term financing. Critical assistance also came from five government agencies and a host of nonprofit developers and service providers.

Thanks to the success of the demonstration program, Connecticut launched the Supportive Housing Pilots Initiative in 2000, with a goal of 650 units (in addition to the 281 in the demonstration), to expand the reach of supportive housing. As of December 2005, 367 of the 650 units had been completed.

Even with hard data from the University of Pennsylvania, a strong public-private alliance, and the backing of the governor and budget director, many other elements were necessary. For example, community foundations and the Melville Charitable Trust underwrote soft costs related to housing development and capacity building, while state investment leveraged federal Low Income Housing Tax Credits and State Housing Tax Credits.

Given the financial complexity, other individuals were essential for forging clear messages on benefits and cost effectiveness. Advocacy from state senate president Kevin B. Sullivan, for example, was indispensable. Planners also enlisted business leaders and bankers, who appreciated the bottom-line value of the effort.

According to Diane Randall, director of the Partnership for Strong Communities, which coordinated advocacy organizations, participants "truly cared about solving the problem of homelessness. … Even someone less sympathetic couldn't quarrel that supportive housing was an investment that not only worked effectively but also saved money."

A Lease of One's Own

Connecticut's supportive housing has used both a scattered-site approach (leasing existing apartments that have rental subsidy programs) and a development approach (creating new or rehabilitated housing).

With the development approach, each apartment building is owned and operated by a local nonprofit organization and provides permanent homes. Buildings may have several units or dozens. Social service staff provide services tailored to the needs of individuals. Some tenants need intensive counseling, some are ready to participate in workforce training, some get help balancing their checkbooks, some need transportation to a doctor appointment, and others simply need someone to talk to.

Because moving to self-sufficiency involves having both support and independence, residents have their own leases, and although most residents use the services, they are not required to. Today, there are more than 2,300 units of supportive housing in 26 Connecticut communities.

"We finally have found a model that works for a good many people who have been homeless," says Meghan Lowney, executive director of Fairfield's Operation Hope, which offers both emergency shelter and supportive housing. "It's less expensive than shelter or other alternatives, and it's better for them."

The successful demonstration program has spurred two more advances: the "Reaching Home" campaign's deci-

Most of us have support networks of some kind, but for people who don't, supportive housing fills a gap, offering counseling, employment advice, and more.

sion to set a goal of 10,000 units over the next 10 years; and the approval by Gov. M. Jodi Rell and the General Assembly of funding for 500 new units in the current biennium, with a promise of 500 more units in the next budget cycle.

That's the good news. The bad news is that there isn't enough supportive housing. In 2003, the Reaching Home Campaign estimated that 33,000 people were homeless in Connecticut at some point during the year, and 13,000 of them were children. As Calhoun says in the video, "Children shouldn't be doing homework in shelters."

Homelessness, particularly among families, has been on the rise, and overcrowded shelters, meant to be temporary, are having to turn people away. Permanent supportive housing offers the stability and long-term support that gives people the opportunity to rebuild their lives and function independently.

Coach Calhoun got that point right away. Noting that most people get support from neighbors, friends, and family, he observed, "In a sense, then, we all live in supportive housing." Today, Connecticut is helping those who lack support to get it through a new kind of housing and is at the same time benefiting the local and regional community.

David Fink *is policy director for Partnership for Strong Communities, based in Hartford, Connecticut.*

[1]The national nonprofit intermediary organization, the Corporation for Supportive Housing (http://www.csh.org), helps communities create permanent housing with services to prevent and end homelessness. Its core services are delivered primarily through eight geographic hubs: California, Illinois, Michigan, Ohio, Minnesota, New Jersey, New York, and Southern New England (Connecticut, Rhode Island).

Services for Residents of Affordable Housing

by Heidi Sawyer, The Caleb Group, Inc.

Nonprofit groups that focus on empowering the disadvantaged have recently been expanding the concept called *service coordination*. About a decade ago at affordable-housing communities, service coordinators began helping residents who had aging problems or disabilities to determine which agencies were best for which daily needs. They provided a margin of safety for people wishing to remain independent.

Today, service coordination has expanded to help struggling families remain in stable housing. A variety of organizations provide affordable-housing service coordination. One-on-one budget counseling, conflict resolution, crisis management, and housekeeping guidance help prevent evictions, which often mean relocation to a homeless shelter and more cost to society.

The nonprofit groups delivering service coordination often own or operate the affordable housing where their clients live. And many are moving beyond crisis prevention to promoting opportunities—through homeownership education, disease awareness and prevention, after-school activities, job training, and computer-skills development.

Joanna's Story

The Caleb Group, which is based in Swampscott, Massachusetts, had a client called Joanna who in 2001 moved to the group's affordable community in Saco, Maine. Joanna was a single mother with a little girl. A service coordinator helped guide her to an educational program called Parents as Scholars (PAS). PAS provided the support Joanna needed for child care and transportation so she could continue college. It also provided some tuition assistance to supplement her loans. She worked, raised her daughter, and attended school full time.

Nevertheless, costs of tuition and books kept mounting. With encouragement from the service coordinator, Joanna applied for and received a Caleb Scholarship to help cover some college costs in 2003. Through the Caleb Community Newsletter, Joanna also learned that an *individual development account* could match dollar for dollar all the money she saved toward her education. She applied for one and was accepted.

Throughout the region, mission-driven housing organizations are providing services beyond housing to promote economic self-sufficiency. And they keep developing new services. Caleb Opportunity Centers, for example, currently collaborate with school districts, Boys and Girls Clubs, banks, and health organizations to open up many kinds of possibilities for residents: employment possibilities that come with computer training, job-search training, tutoring, scholarships, and resume-writing assistance; educational possibilities that come with after-school homework clubs and assistance in math and English; self-sufficiency possibilities that come with financial-planning courses, home-buying seminars, and savings programs.

Collecting Data

Evaluating the impact of service coordination on residents' lives is a work in process. In one instance, NeighborWorks (http://www.nw.org) has been collaborating with the Enterprise Foundation (http://www.enterprisefoundation.org) on developing indicators to measure the success of their Learning Centers. So far they are finding that youth participating in after school programs have improved grades. Other national and regional groups also are working toward quantifying the benefits of after-school programs for youths in affordable housing. Meanwhile, residents keep working on skills that could lead to jobs that could lead to saving money and moving into their own homes.

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Immigrant Homebuyers

For immigrants, purchasing a home symbolizes that one has "made it" in America. Homeownership is a key financial resource, providing opportunities to secure the "good life." Successive waves of immigrants who regard acquisition of their first home as a major goal have helped poor communities transition to working-class and then middle-class communities. Such a metamorphosis seems to be taking place in Lawrence and Lowell—Massachusetts cities with large Latino and Southeast Asian immigrant populations.

In 2003, the Immigrant Learning Center (ILC), Inc., a nonprofit organization in Malden, Massachusetts, set out to document and describe this metamorphosis as part of its public education program to raise the visibility of immigrants as valuable contributors to America's economic, social, and cultural vitality.

To carry out the study, the ILC contracted with researchers from Tufts University and Northern Essex Community College, who conducted

Photographs by Mystic View Design, Inc.

by Marcia Hohn

& Economic Revitalization

and analyzed more than 60 in-depth interviews with immigrant homebuyers and 24 interviews with community representatives from many layers of the local housing industry. Relevant census data were also collected to provide social and demographic context.[1]

Homeownership on the Upswing

In both Lawrence and Lowell, homebuying by immigrant families has become a noticeable economic activity, with dramatic increases seen between 1990 and 2000. In that period, homeownership among Latinos in Lawrence increased 166 percent from 926 units in 1990 to 2,462 units by 2000. This increase represents a jump among Latinos from 21 percent to 31 percent in the city's total homeownership. In Lowell, Asian homeownship increased 164 percent from 434 units in 1990 to 1,145 in 2000, and Latino homeownship increased 82 percent from 381 to 694 units, rising from 5 percent to 11 percent of total homeownership during the decade. These increases suggest that the growth in immigration, which is

Leveraging Private Loans

by Helen Payne Watt

Immigrants who seek conventional financing for a home often face hurdles such as a lack of a stable employment or credit history. And yet, they may have a history of on-time bill payment, access to cash through cultural savings clubs, and similar informal assets. To traditional underwriters such assets may not have value, but to relatives, friends—and often home sellers—they may be an attractive foundation for a loan.

Today a new kind of business called specialty loan administration is meeting a need for immigrants and others by facilitating private loans in conjunction with bank financing. Two approaches are common: *family seconds* and *seller financing*.

Family Seconds

Some immigrants are able to supplement a bank mortgage with a second mortgage from private sources such as relatives, close friends, and neighbors. Nationwide, Community Seconds programs and Soft Seconds programs use subsidized funds from nonprofits to provide a second mortgage at an affordable rate. Informal financing in immigrant communities works the same way. A private mortgage from relatives lowers debt-to-income ratios and allows more people to qualify.

Conventional wisdom in the financial-services industry holds that when low- and moderate-income individuals find secondary financing from relatives and friends, it's essentially a gift, not a loan. But in reality, private borrowing and lending occurs across the socioeconomic spectrum, and low- and moderate-income individuals pay back principal and interest just as often as the well-heeled do. In our experience, the average interest rate charged on an intrafamily mortgage loan is 4.74 percent.

Facilitating private loans in conjunction with bank financing is meeting a need of immigrant households.

The latest Survey of Consumer Finances estimates that more than 8 percent of U.S. households have a loan outstanding to relatives and friends. This translates into about 6 million such loans per year. Moreover, 72 percent of such borrowers are from households with less than $50,000 in household income.

The National Association of Realtors reports that the proportion of first-time homebuyers using loans from relatives has risen from 5 percent to 9 percent over the last 6 years, while the proportion using gifts from relatives has remained steady at about 25 percent. Although there remains some risk of default, banks, Fannie Mae, Freddie Mac, and other mortgage lenders are starting to respond to the trend by relaxing guidelines on second mortgages from related persons.

Seller financing

Although out of fashion for some years, seller financing is becoming more popular as mortgage rates rise. A specialty loan administrator can handle the details when homebuyers find a home for which the seller is willing to finance all or part of the purchase price. Since its founding in 2000, specialty loan administrator CircleLending has seen an average seller-loan interest rate of 6 percent, which compares favorably with other options available to homebuyers with a poor credit history. To ensure that lending among private parties goes smoothly, private loans require proper legal documentation and a sound plan for repayment.

Helen Payne Watt *works at CircleLending (www.circlelending.com), based in Waltham, Massachusetts.*

helping to stabilize population loss, is also fueling the housing industry.

Characteristics of Immigrant Homebuyers

Census data illuminate some important changes in characteristics among immigrants in the two cities during the last decade. For example, Lawrence saw a 164 percent increase in bachelor's degrees among Latinos and a 420 percent increase in graduate or professional degrees. In Lowell, there was a 177 percent increase in bachelor's degrees among Southeast Asians, an 85 percent increase in associate degrees, and a 77 percent increase in the number of Southeast Asians with graduate or professional degrees.

The number of households with incomes of $100,000 or more increased significantly among immigrants in both cities. Both cities appear to be experiencing the birth of a new middle-class composed primarily of immigrants. These immigrants are "urban stayers" who are putting roots down in their communities by buying a home. Interestingly, many of the new immigrant homebuyers are also entrepreneurs maintaining small local businesses that cater to the cultural and ethnic necessities of their community as verified by a previous study.[2] Thus, the immigrants are providing dual investments in their communities.

In Lawrence, most new immigrant homebuyers are females between the ages of 25 and 35 who have been in the

United States for 16 or more years. The majority are already citizens, and they have no plans to return to their country of origin. In Lowell, there is a similar profile. Most homebuyers are between the ages of 25 and 40, with a higher percentage of females who have been in the United States between seven years and 30 years. More than half have already obtained citizenship.

Costs, Financing, and Home Types

In Lawrence, most homebuyers interviewed had purchased triple-deckers, a common type of housing there. In Lowell, most reported that they had purchased a single-family home. In neither case was overcrowding an issue.

A common stereotype of immigrants is that they overpopulate a household with many more individuals than the unit was designed to house. However, this was not the case in either city, according to interviewees. For example, in Lawrence, 40 percent reported three to five individuals living in various properties, including two-family and triple-decker homes. Another 37 percent reported six to 10 individuals, but only in two-family or triple-decker homes. In Lowell, 50 percent of interviewees noted three to five individuals in single-family homes, while another 50 percent reported between six and 10 people, most of them children.

Affordability was the primary reason for purchasing a home in a particular area of the city—although being close to family members was a factor for Lowell homebuyers. The vast majority (70 percent in Lawrence and 90 percent in Lowell) paid between $151,000 and $300,000. But there is a striking difference between the two cities in how down payments and closing costs were financed. In Lawrence, the majority drew on their savings. In Lowell, the majority said they financed the costs through the help of a social or government program for first-time homebuyers.

Spending for repairs and renovations was sizeable, with most new homeowners spending $1,000 to $5,000 and a significant number spending $10,000 or more. The majority purchased appliances and supplies from nearby Home Depot stores, and many hired local contractors, keeping the dollars in the region.

The Purchasing Experience

A home is, in all probability, the most expensive item Americans will buy in their lifetime. It can be a frightening experience. Most immigrant homebuyers in Lowell (79 percent) used a real estate agent, and most reported having a good or very good overall experience. In Lawrence, fewer people (57 percent) used an agent, but they reported an overall higher level of satisfaction with the purchasing experience.

However, the reports of satisfaction need to be viewed with caution. Informants from the housing industry in both cities expressed concern about predatory lenders whose aggressive ethnic marketing often masks unfavorable terms, unexpected balloon payments, and a lack of commitment to the economic health of communities. In a market of shrinking home values and rising interest costs, some immigrant homebuyers could experience foreclosure. In fact, the foreclosure rate is already up in both cities.

Immigrants who are just gaining a toehold in the American mainstream can be economically fragile when facing a sudden job loss or shifting personal circumstances. Financial education and asset-building programs that help immigrants build strong credit histories and understanding of financing systems would be immensely helpful in addressing these issues, as would immigrant-friendly products and services from local banks committed to the economic well-being of their communities. Such products and services might include personal greeters, bilingual and bicultural staff, outreach and services at trusted community organizations, and collaborations with consulates to develop identification documents for banking purposes.

The Revitalizing Factor

Past studies of immigrants have focused on their ability to meet current and future workforce needs. The Immigrant Learning Center data highlight another way immigrant communities are an important boon to local economies. In buying homes, immigrants are making a decision to stay in a city. They are putting a stake in the ground. This means that they are investing in the city and will be making contributions to the social and civic fabric for years to come.

Both cities appear to be experiencing the birth of a new middle class composed primarily of immigrants.

Although cities seeking to meet economic challenges should continue to design strategies that bring back the middle class, revitalization will be incomplete and inefficient if immigrant communities are not treated as vital assets. Historically, cities that give immigrants the right opportunities have been able to grow a new middle class from people already living inside the city limits.

Marcia Hohn *is the director of public education at the Immigrant Learning Center in Malden, Massachusetts.*

[1] U.S. Census Bureau, *Census of Population and Housing, 1990, 2000: Summary File 3.* Available at http://factfinder.census.gov.

[2] Jorge Santiago, *The Latino Business Community in Lawrence, Massachusetts: Profile and Analysis* (Haverhill, Massachusetts: Northern Essex Community College, 2004).

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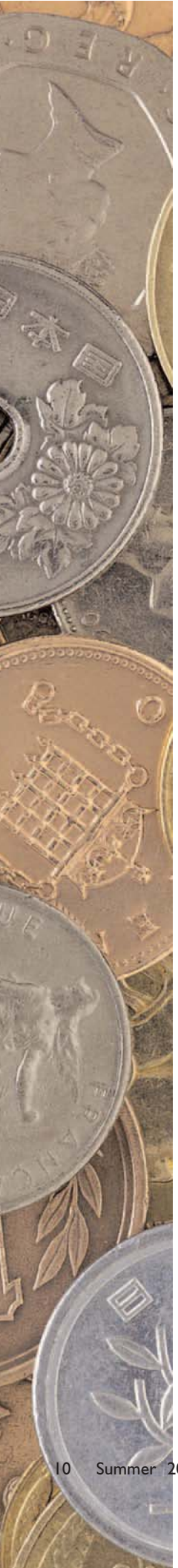

Contemporary Islamic finance is a burgeoning subsector of international finance markets. To properly understand it, one must first understand that the rules of trade and finance are part and parcel of the religion by which Muslims conduct their lives and order their finances and businesses. Although no conclusive data are yet available—a fact reflective of the industry's youth—many observers estimate the global industry has up to $500 billion in managed assets and a growth rate of 15 percent to 20 percent per annum. Some also contend that between 200 and 300 institutions currently contribute to the industry worldwide.

The rules of trade and finance are part and parcel of the religion by which Muslims conduct their lives.

Principled Investing

Islamic finance is in many respects akin to socially conscious investing. It involves what may be called *substantive principles* that speak to the substance of the investment—in other words, the purpose for which the money will be utilized. In practice, substantive principles are applied to the target company's line of business and to the specific activities that the money will advance. Industries such as gambling, pornography, alcohol, tobacco, defense, banking, and insurance are typically prohibited because they involve activities that Islamic law prohibits.

Perhaps the most conspicuous feature of Islamic finance is that the mechanism of financing must also comply with what may be termed *procedural principles.*

Photography Gettyimages

by Umar F. Moghul, Esq.
Murtha Cullina LLP

Introduction to Islamic Finance

Definitions and Interpretation

by Samira Saya

Definitions

Islamic banking is a banking system consistent with Islamic law (Shari'ah) principles and guided by Islamic economics. In particular, Islamic law prohibits the collection and payment of interest. Generally, it also prohibits trading in financial risk (seen as a form of gambling). It also prohibits investing in businesses considered *haram* (prohibited, forbidden), such as those selling alcohol or pork.

Shari'ah

An Arabic word for Islamic law, or the Law of Allah, Shari'ah governs both secular and religious life of devout Muslims. It covers religious rituals and many aspects of day-to-day living, politics, economics, banking, and law.

Riba

The meaning of this Arabic word is close to the charging of interest, which is forbidden by the Quran. Riba also connotes a loan in which the borrower makes a return to the lender that is more or better than what was borrowed.

Murabahah (Cost Plus)

Murabahah refers to the sale of goods at a price and includes a mutually acceptable profit margin. The price, other costs, and the profit margin must be clearly stated upfront. As applied to lending, murabahah is a fixed-income loan for the purchase of a real asset (such as real estate or a car), with a profit margin instead of a fixed rate of interest. The bank is not compensated for the time value of money outside of the contracted term (and thus cannot charge additional interest on late payments), however the asset belongs to the bank until the loan is paid in full. The transaction is similar to "rent-to-own" arrangements for furniture or appliances.

Mudharabah (Profit and Loss Sharing)

Mudharabah is an arrangement between a capital provider and an entrepreneur. Profits are shared according to an agreed-upon ratio, but if there are losses, the capital provider must bear them all. The bank is compensated for the time value of its money in the form of a floating rate pegged to the debtor's profits.

Gharar

The underlying principle for the prohibition of *gharar*, which involves the trading of risk or the sale of something that has not yet been obtained, is that one should not profit from another person's uncertainty.

Interpretive Letters

Letter No. 806

In this interpretive letter, the Office of the Comptroller of the Currency approved an arangement proposed by a bank helping Islamic customers purchase residential real estate in conformity with Islamic principles of banking. Leases that were functionally interchangeable with loans were considered to be within the "business of banking." See http://www.occ.gov/interp/dec97/intdec97.htm.

Letter No. 867

In this letter, the OCC concluded that financing products through which the bank acquired property on behalf of a customer and then resold the property to the customer at a mark-up on an installment basis were permissible. See http://www.occ.gov/interp/nov99/intnov99.htm.

Samira Saya *is a legal intern with the Federal Reserve Bank of Boston.*

These are the prohibitions against *riba* (commonly but incompletely translated as "interest") and gharar (inappropriate uncertainty). The regulations derived from *riba* and *gharar* control the manner in which financing takes place. Here Islamic law is less concerned with the purposes for which money will be used than with how money is placed in the hands of those who will use it. Procedural principles overlap somewhat with substantive principles in governing how income is generated and how profit and loss must be shared. Additionally, they are concerned with the distribution of wealth throughout society.

In its modern and perhaps most relevant form, the prohibition against *riba* disallows the earning or paying of any benefit, monetary or otherwise, on a loan of money. In Islam, loans are characterized as charitable activities and not profit-making ventures. The prohibition of *riba* also applies to trading that involves certain other commodities, such as gold and silver and particular foods. When these commodities are traded one for another, the trades must be made in equal measure and without deferral. The prohibition of *riba* has been extended by the vast majority of Muslim jurists to include

modern commercial bank interest.

Asset sales and leases substitute for interest-bearing loans. Because earning a profit while assuming only credit risk is unlawful, equity arrangements lend themselves more readily to Islamic finance. (See the sidebar "Definitions and Interpretation.") Islamic law demands that the return on capital be tied to the success of the venture, as in traditional venture-capital and partnership-based transactions. But there are important distinctions between conventional equity transactions and Islamic principles. Rules relating to *riba* affect distribution methods and the sharing of profit and loss, so conventional liquidation-preference provisions, for example, are typically prohibited. In Islamic private-equity transactions, simply speaking, equity holders are supposed to bear *losses* on a pro rata basis, but they may share *profits* on a non-pro-rata basis. This places equity holders on a more equal footing.

As for *gharar*, Muslim jurists generally hold that Islamic law prohibits transactions involving excessive uncertainty. Gambling is the most obvious example of an activity prohibited (at least in part) by *gharar*. A less obvious but arguably more important example relates to conventional insurance. In some policies, there is uncertainty about both the amount of premium the purchaser will ultimately pay and the amount that will be paid out upon realization of the insured risk. Thus some insurance policies are prohibited.

The two prohibitions of *riba* and *gharar* drive the structuring of transactions away from conventional arrangements such as interest-bearing debt and call for creativity. Of course, transactions must comply with local laws and regulations, but contrary to common notions, U.S. laws and financial regulations are not wholly inconsistent with Islamic laws.

U.S. regulatory bodies at the state and federal levels have reached out to Islamic bankers to educate and be educated. In addition, state tax authorities and bank regulators—such as the Office of the Comptroller of the Currency (OCC) and the Illinois Office of Banks and Real Estate—have provided written guidance and comfort, affirming the use of nontraditional structures that otherwise might be technically prohibited.

How It Works Here

The history of contemporary Islamic finance is brief, and its U.S. history is even briefer. U.S. efforts regarding Islamic finance began during the 1980s, at least at an institutional level, and came largely from within the Muslim population. Such efforts, which have increased and gained in momentum and sophistication, have focused mainly on creating retail products.

U.S. regulatory bodies at the state and federal levels have reached out to Islamic bankers to educate and be educated.

Some U.S. banks, such as Michigan-based University Bank and HSBC Bank USA, have offered savings accounts, checking accounts, and credit cards that comply with Islamic law. Islamic insurance appeared in the United States during the 1990s but, to our knowledge, is currently unavailable. Some institutions have offered, with varying degrees of success, mutual funds and financing for automobiles and homes. In New England, Chicago-based Devon Bank and American Finance House LaRiba offer Islamic home-financing solutions. Devon Bank also offers commercial real property financing on an Islamic basis.

Local institutions are beginning to notice the demand for small- and mid-size-business financing, commercial real estate financing, and standardized construction-financing products that follow Islamic principles. Efforts toward establishing an Islamic bank or credit union are underway, and some have gained state and federal regulatory approval. University Bank lays claim to being the first bank devoted solely to Islamic finance. Years earlier, Philadelphia-based Muslim Community Credit Union gained certain approvals but was never, to our knowledge, fully operational.

Although most Islamic transactions occur in the Arabian Gulf, there are Islamic finance *windows*, or branches, at international financial institutions. There also are subsidiaries of Islamic investment banks conducting business in America along Islamic lines. In fact, the bulk of Islamic financial activity here comes from major international or foreign institutions transacting for themselves and their non-U.S. investors. Many major Western investment institutions, and recognized European and U.S. broker dealers and investment fund managers have offices both in the Muslim world and here.

In the United States, these institutions structure Islamic investment opportunities in residential and commercial real estate projects and equipment—sometimes as one-off transactions and often as full-fledged investment funds. Profits may result from operating income and sales of the investment assets. The institutions also acquire—and make significant investments in—U.S. companies in the retail, health-care, consumer goods, and technology industries through private equity and, more recently, venture capital arrangements.

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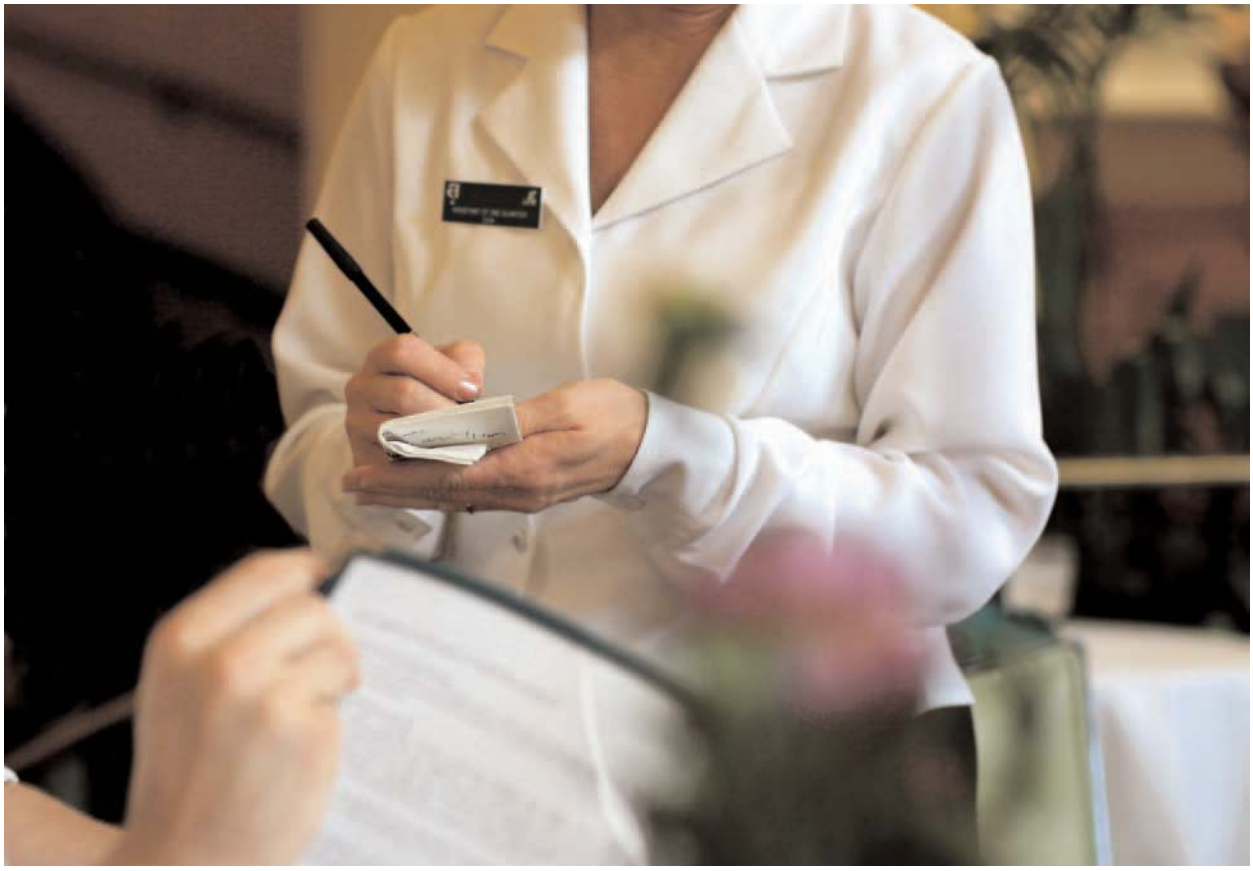
New Hampshire's *Working Women*



by Ross Gittell, Whittemore School of Business and Economics,
University of New Hampshire, and
Marjorie Smith, New Hampshire Women's Policy Institute

Photography iStockphoto

Since the 1970s,

women have made economic progress in New Hampshire, but the gains have been limited. For example, although their representation among full-time workers in the state has increased from 27 percent to more than 40 percent, increases in their earnings, business ownership, executive leadership, and decision-making responsibility have lagged behind their increased participation in the labor force and their advances in education. A 2005 study by the New Hampshire Women's Policy Institute has the details.[1] (See "The Economic Status of Working Women in New Hampshire.")

Education and Occupation

The good news is that New Hampshire women's real (inflation-adjusted) income has risen over the last three decades. Growth in full-time working female income has been faster than growth in full-time working male income, and, as a result, there has been some convergence in women's and men's earnings. The greatest convergence occurred in the 1980s, when growth rates in real income for females exceeded growth in males' income, and also in the 1990s, when moderate growth in female income accompanied a slight decline in men's real income.

In 1999, full-time working women from New Hampshire earned 73 cents for every dollar earned by men, doing slightly better than the U.S. average of 72 cents. The differences in full-time women's and men's income in New Hampshire is lowest in younger age groups. For every dollar earned by men, women in the youngest adult cohort earned approximately 83 cents, whereas women in the oldest age cohort earned approximately 60 cents. One likely reason is that the older the women are, the more household responsibilities they have taken on and the less time they have spent relative to men gaining work experience and establishing business connections and networks.

The good news is that New Hampshire women's real (inflation-adjusted) income has risen over the last three decades.

Education does not explain earnings differentials. By 1999, N.H. women equaled or surpassed men in graduating from high school, associate's degree programs, four-year undergraduate college programs, and master's degree programs. Yet full-time male workers were reaping significantly greater monetary returns from education at all levels. For example, full-time working N.H. women aged 23-30, with 4-year college degrees, earned 68 percent of what their male counterparts earned on average. The gap increased with age and family responsibility. Among 31- to 44-years-old, full-time working college graduates, females earned 65 percent of the average male.

Occupation concentrations by gender in New Hampshire explain some of the gender-based differential returns from education. Specific sectors of the labor market had high concentrations of one gender, with many women working in relative-

ly low-paying occupations.

Two of the five top female-dominated occupations fell in the lowest third of New Hampshire occupations, compared with one of the five top male-dominated occupations. Health-care support occupations had the highest concentration of female full-time workers (93 percent female). These jobs include health-care aides, massage therapists, dental assistants, and medical assistants; registered nurses are not included in the category. In 1999, median annual wage for N.H. health-care support workers was $22,000.

Top male-dominated categories tend to emphasize physical labor and strength, whereas female-dominated categories generally emphasize care-giving or personal assistance. In New Hampshire's personal-care and the service industries, 79 percent of jobs were held by women; in office and administrative support, 73 percent; in health-care practitioner occupations, 71 percent; and in education, training, and library work, 65 percent.

Women with children of any age, and particularly women with children under six years old, tended to replace full-time employment with part-time or exit the labor force. Although more than 71 percent of women without children were employed full-time in 1999, full-time employment for women with young children dropped to about 50 percent. When women did return to the full-time labor force, the data show that they suffered an economic penalty for taking the lead role in family care.

In contrast, men's employment in full-time work rises when children enter the picture. Eighty-five percent of men without children were employed full-time in 1999, whereas more than 90 percent of men with a child of any age were employed full-time.

Taken together, these findings indicate that when a man and a woman shared a household, the males typically focused on economic accomplishment, and the females took primary responsibility for the home front. Leaving the full-time labor force during childbearing and child-rearing years significantly affected women's long-term economic status and helped explain facts such as 57 percent of New Hampshire's full-time low-wage workforce being made up of women—a much higher percentage than their overall representation in the full-time workforce (47 percent).

Women at High Levels

The New Hampshire Women's Policy Institute also looked at how the state is doing in terms of women-owned businesses and women in executive positions and on boards.

Women-Owned Businesses

Across the United States, the ratio of female-to-male earnings correlates with higher percentages of businesses that are women-owned, with the average being 26 percent. New Hampshire is 44 on the list, however, with only 23.6 percent women-owned businesses.[2]

And although many of the states with the highest percentages of female-owned businesses (including Maryland, Colorado, Virginia, Washington, and New Mexico) are also in the top fifth of high-technology states, New Hampshire diverges.[3] It ranks in the top quintile of states with high employment in technology but in the bottom tier of states in the percentage of female-owned businesses.

Although the state is generally considered a good place to start a business, the female business ownership gap represents a lost opportunity for both the New Hampshire economy and women. The New Hampshire Women's Policy Institute believes this is an area requiring more attention and research.

Better child care, education, health care, and business and public policies supportive of family life and flexible work schedules are all key.

Boardrooms and Corner Offices

The New Hampshire Women's Policy Institute study also looked at executive positions in New Hampshire. When the research was undertaken, there were 25 public companies based in the state. Although females held almost one-half of the managerial and professional positions in New Hampshire, they had not been promoted to leadership positions in local public companies to anywhere near the same extent as men. Seven, or 24 percent, of New Hampshire-based public companies had no female directors or executive officers. Only 13 percent of executive officers at New Hampshire-based public companies were females. That is less than the 16 percent of female corporate officers in Fortune 500 companies.

Of the public companies based in New Hampshire, 12 (48 percent) had no women executive officers, nine (36 percent) had one executive officer, three (12 percent) had two, and only one (4 percent) had three or more female executives. Sixteen of New Hampshire's public companies (64 percent) had no women among the five highest-paid executive officers. Six (24 percent) had one woman among their five highest-compensated executive officers, and only two companies (or 8 percent) had two women among their highest-paid executives.

New Hampshire's public companies also rank below the Fortune 500 in the percentages of female board directors.[4] Women held only 8.8 percent of the 193 board seats on New Hampshire public companies, compared with the Fortune 500 average of 14 percent.

The low percentage of female executives and directors can be attributed in part to the relatively small size of public companies in New Hampshire. Smaller public companies, on average, do have lower percentages of female executives and directors than larger companies.

Going Forward

Much can be done to improve the economic status of women in the state. To start, the support system and culture for working females and families should be improved. Better child care, education, health care, and business and public policies supportive of family life and flexible work schedules are all key. For-profit, nonprofit, and government entities also should focus on supporting female-owned businesses and encouraging entrepreneurship.

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[1] See http://www.nhwpi.org/report05.htm.

[2] Amy Caiazza, April Shaw, and Misha Werschkul, *Women's Economic Status in the States: Wide Disparities by Race, Ethnicity, and Region* (Washington, D.C.: Institute for Women's Policy Research, 2004), http://www.iwpr.org.

[3] *Cyberstates 2003: A State by State Overview of High-Technology Industry* (Washington, D.C.: American Electronics Association, 2003).

[4] *2003 Catalyst Census of Women Board Directors: A Call to Action in a New Era of Corporate Governance* (New York: Catalyst, 2003).

The Economic Status of Working Women in New Hampshire

2% of N.H. women who work full-time earn more than $100,000
8% of N.H. CEOs are women
13% of N.H. executives are women
24% of N.H. businesses are owned by women
41% of full-time N.H. workers are women
47% of N.H. managers and professionals are women
47% of the N.H. labor force are women
58% of all current 4-year college graduates are women
67% of N.H. workers at or near the minimum wage are women

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Connecticut through Katrina-Colored Glasses

by Douglas Hall, Ph.D.
Connecticut Voices for Children

Many people know Connecticut as a wealthy state of corporate headquarters, yacht clubs, jet-engine and submarine construction, and comfortable homes for Wall Street traders. Indeed, Connecticut is all that. There is, however, another side to the state.

As the 2005 hurricanes revealed, there are areas of great poverty in America. Writes one observer, "Hurricane Katrina destroyed more than homes, lives, and livelihoods; it swept away the curtain hiding the poor, confronting the richest nation on the globe with its inner Third World."[1] Her words ring true even in Connecticut.

Compared with the poverty rate in hurricane-ravaged Mississippi (21.6 percent, the highest in the nation), Connecticut's rate of 7.6 percent might not seem a cause for alarm.[2] But Connecticut families struggling to make ends meet often encounter challenges facing the poor along the Gulf Coast.

Chronic Poverty Storms

Hartford, for example, has a child poverty rate of 41.3 percent, the second highest in the nation behind Brownsville, Texas. Like New Orleans, it is predominantly populated by minorities. Both cities have 28 percent whites, although in New Orleans the population is 67 percent African

Illustrations by Kirk Lyttle

American and 3.1 percent Latino, whereas Hartford is 38.1 percent African American and 40.5 percent Latino.

The lack of access to automobiles, which made it hard to evacuate New Orleans, would affect Connecticut in an emergency, too. A recent study showed that 26 percent of New Orleans residents lacked access to an automobile in 2000. So did 32 percent of Hartford residents, 23 percent of New Haven residents, 19 percent of Bridgeport residents, 16 percent of Waterbury residents, and 8 percent of Stamford residents.[3]

Every Connecticut town contains families for whom the struggle to meet daily needs is a chronic storm. The chronic storm has three dimensions—"pulling apart," or the failure of income growth for the poor to keep up with income growth for the wealthy; the erosion of tax relief for lower-income families; and the vulnerability of lower-income families to the recession that began in July 2000. These trends keep many families from moving up the ladder to economic success and stability.

The Pulling Apart of Incomes

Incomes are pulling apart throughout the country.[4] In Connecticut between 1991 and 2002, the inflation-adjusted incomes of the poorest 20 percent grew at a slower rate than the incomes of the wealthiest 20 percent.[5] Moreover, the difference between the top 20 percent and the bottom 20 percent, expressed as a ratio, grew the second most in Connecticut between 1991 and 2002, behind only Tennessee.

During this same period, Connecticut was one of only two states in which the real incomes of the poorest 20 percent actually declined. On average, families in Connecticut's poorest income quintile saw a loss of $22 of annual income, a decline that, although not the worst in the nation, compares unfavorably with the *gain* of $2,326 nationally for the poorest fifth of families. Connecticut's next-poorest quintile saw some income growth, but at 6.1 percent it was anemic and made Connecticut 48th among the states. (See the exhibit "Average Inflation-Adjusted Income of Connecticut Families.")

But consider the 20 percent of Connecticut families with the highest incomes. During this period, their average income increased by nearly one-third, the sixth-largest increase among all states for that quintile.

Taxes for Lower-Income Families

Over a comparable period of time, Connecticut's treatment of lower-income families has become much less favorable with regard to income tax.[6] The threshold at which a family of four begins to have tax liability has been fixed at $24,100 since Connecticut's income tax was enacted in 1991. Inflation has eroded the value of $24,100 over that time. In 1991 it was 73 percent over the poverty line, but today it is 21 percent over the poverty line. Only Alabama has seen such erosion.

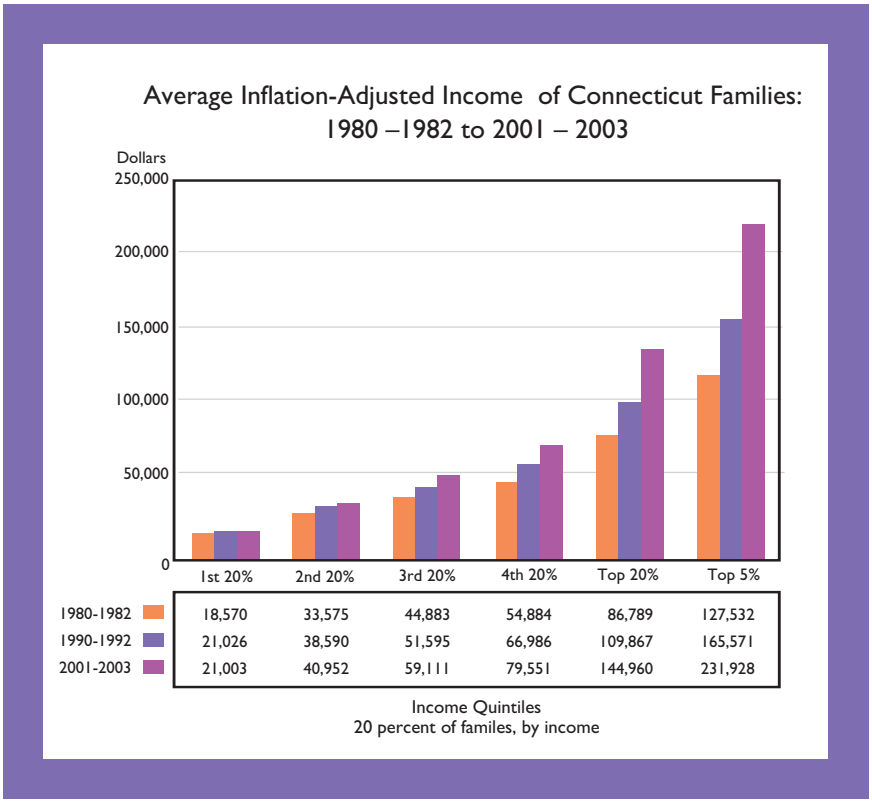
If inflation were taken into account and lower-income residents continued to receive favorable tax treatment until they hit 73 percent of the poverty line, families with incomes under $34,557 would not be liable. Without adjustments to the tax structure, Connecticut will soon be taxing families with poverty-level incomes.

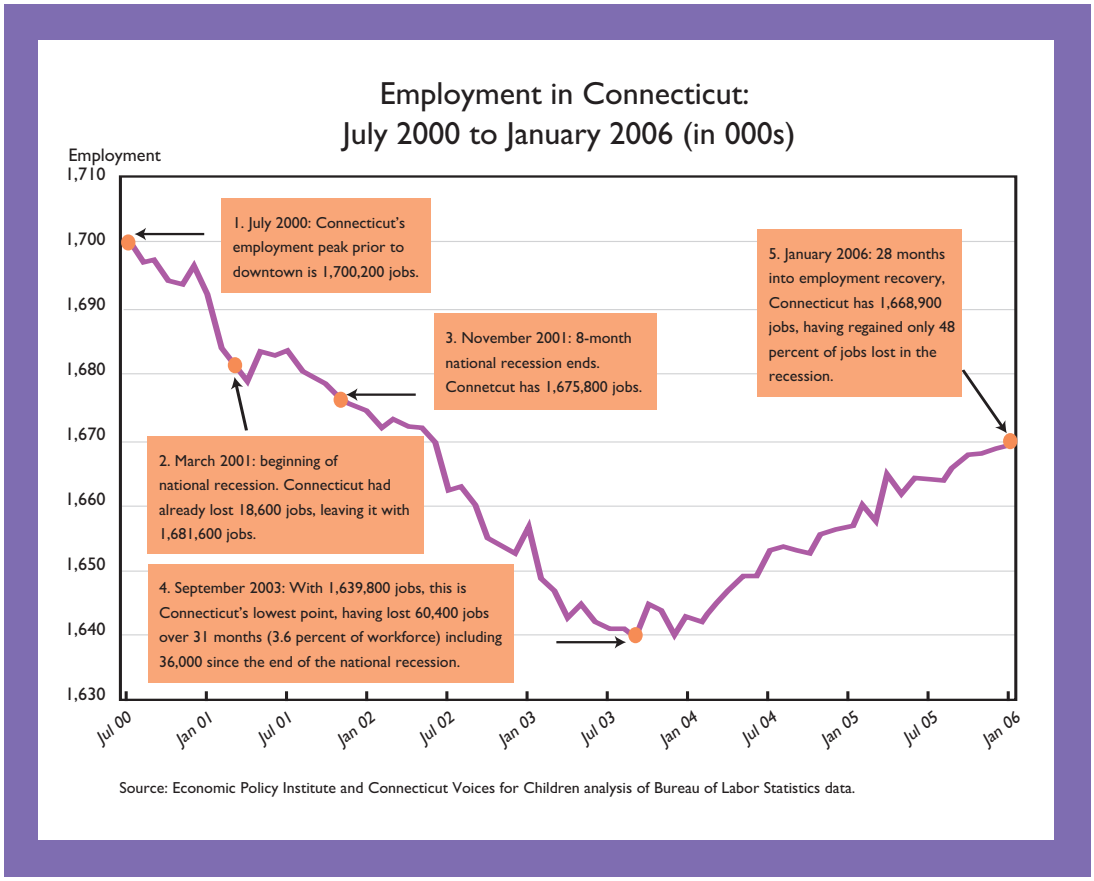
Connecticut's Wealth

Median household income, 2004: $60,528 (exceeding national median by 35 percent).

Share of aggregate income from investment income, 2004: 8.3 percent (compared with 5.9 percent for the nation). In Fairfield County, investment income accounts for 12.7 percent of aggregate income.

The aggregate income of Fairfield County, at $38.8 billion, exceeded the aggregate income for each of 15 states and the District of Columbia in 2004.





Economic Vulnerability

Connecticut's lower-income families continue to bear the brunt of the state's economic recession and anemic recovery. The national recession was relatively short (March 2001 until November 2001), but Connecticut's began in July 2000 and didn't begin to abate until September 2002. By December 2005, Connecticut had gained back only 59 percent of the jobs lost. Although Connecticut residents at other income levels have suffered from the slow recovery, recessions are always hardest on lower-income workers.[7](See the exhibit "Employment in Connecticut: July 2000 to January 2006.")

Seeing with New Eyes

In the aftermath of Hurricane Katrina, a window opened that allowed officials and ordinary citizens to look beyond statistics and see the faces of people coping with chronic poverty storms.

Even in the wealthiest state, nearly one in five families is asset-poor—in other words, they lack sufficient net worth to weather a three-month income interruption even after reducing their expenditures to the federal poverty level.[8] Although interruptions could be caused by a hurricane, they more often result from events such as illness, unemployment, or divorce.

As U.S. Senator John Edwards has said, "The Superdome made [New Orleans poor people] impossible to ignore, but we could look down the streets of every city in America and see enough poor and forgotten families to fill all the football stadiums."[9] In Connecticut, the 87,000 poor children would fill the University of Connecticut's state-of-the-art Rentschler Field in East Hartford twice and thousands would still be waiting in line.

The state's General Assembly passed legislation in 2004 establishing a Child Poverty Council charged with creating a plan to reduce child poverty by half within 10 years. The Child Poverty Council released a report in January 2005 detailing a broad range of policies that could move Connecticut toward that goal. The council remains hopeful that the General Assembly and the governor will comprehensively embrace the recommendations.

After the national outpouring of sympathy for those suffering along the Gulf Coast, we must not lose sight of the poor. And the wealthiest state in the wealthiest nation would do well to consider how lifting Connecticut families from poverty might help it fully utilize the human capital necessary to thrive in the 21st century.

Douglas Hall, Ph.D., *is the associate research director at Connecticut Voices for Children in New Haven.*

[1]Frida Berrigan, "America's Third World," Tompaine.com, September 21, 2005, http://www.tompaine.com/articles/20050921/americas_third_world.php.

[2]U.S. Census Bureau, *American Community Survey,* "Percent of People Below Poverty Level in the Past 12 Months (For Whom Poverty Status is Determined)," table R1701 (Washington, D.C., 2004).

[3]Alan Berube and Steven Raphael, *Access to Cars in New Orleans* (Washington, D.C.: Brookings Institution and Goldman School of Public Policy, 2005), http://www.brookings.edu/metro/20050915_katrinacarstables.pdf.

[4] Douglas Hall and Shelley Geballe, *Pulling Apart in Connecticut, Trends in Family Income, 1981-2002* (New Haven: Connecticut Voices for Children, 2006). Data for this section were provided by the Center on Budget and Policy Priorities and the Economic Policy Institute and were drawn from their analysis of pooled data from the U.S. Census Bureau Current Population Survey.

[5]In these states, the incomes of the top fifth grew by a greater percentage than the incomes of the bottom fifth, and the difference was statistically significant.

[6]These data are drawn from Douglas Hall, *A Hand Up for Connecticut's Low-Income Earners: Reversing the Erosion of Connecticut's Income Tax Threshold* (New Haven: Connecticut Voices for Children, forthcoming).

[7] The Economic Policy Institute and Connecticut Voices for Children have analyzed national data from the March Supplement to the Current Population Survey (CPS) for 2000 to 2003, the time period corresponding to Connecticut's labor recession. Among all working families nationwide, the average family incomes of the lowest fifth of families declined 3.2 percent, compared with the overall average decline of 1.5 percent. Unemployment data are not available at the quintile level, so the total hours worked may indicate (un)employment rates. During the 2000-2003 period, total hours worked by the lowest quintile of families declined by 9.9 percent compared with an average decline of 4.2 percent.

[8] Douglas Hall, *Connecticut Asset Scorecard, 2005* (New Haven: Connecticut Voices for Children, 2005), 2.

[9] U.S. Senator John Edwards, "Restoring the American Dream—Combating Poverty and Building One America" (speech, Center for American Progress, Washington, D.C., September 19, 2005).

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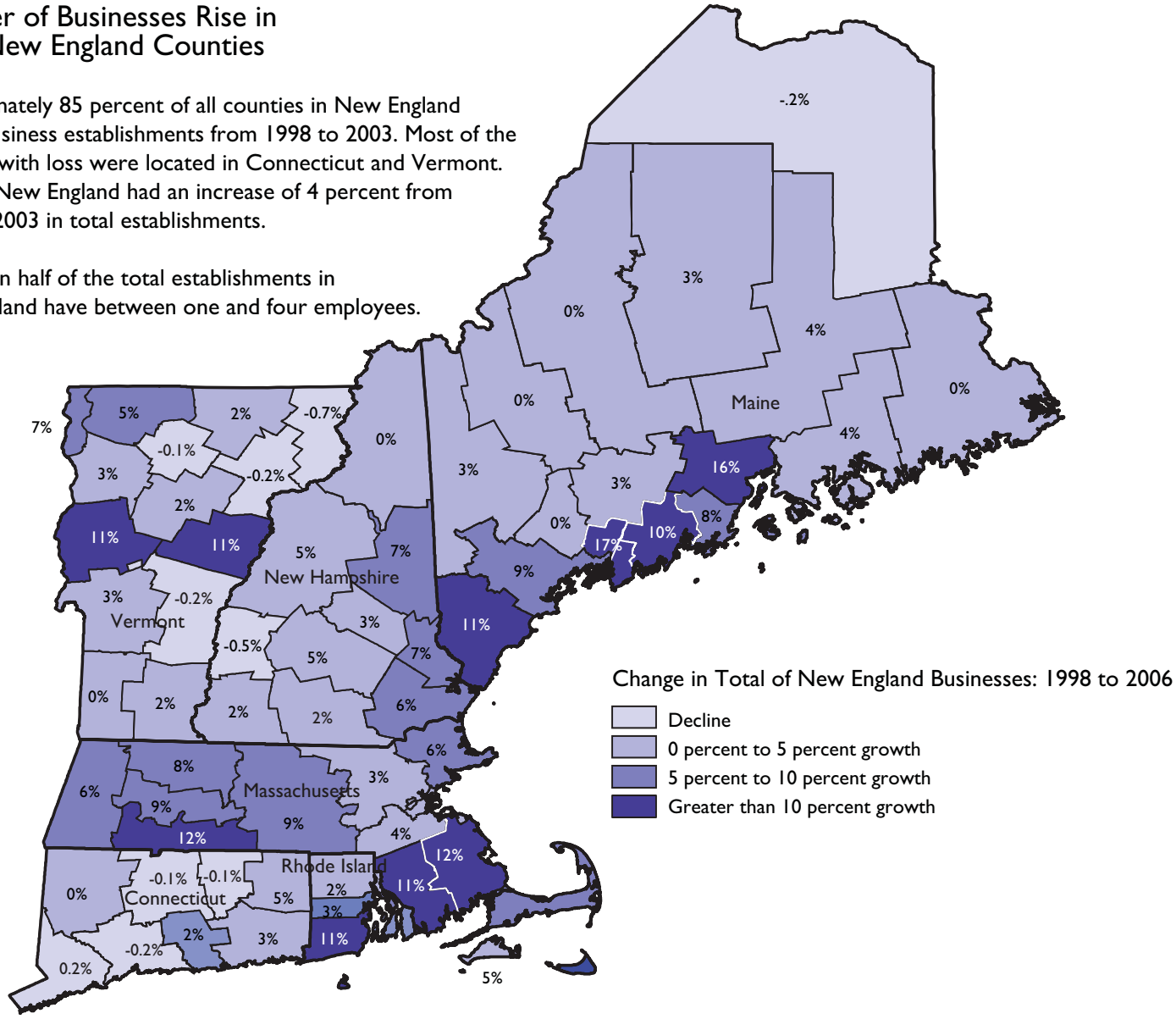
Mapping New England

Number of Businesses Rise in Most New England Counties

Approximately 85 percent of all counties in New England gained business establishments from 1998 to 2003. Most of the counties with loss were located in Connecticut and Vermont. Overall, New England had an increase of 4 percent from 1998 to 2003 in total establishments.

More than half of the total establishments in New England have between one and four employees.



Source: 1998 and 2003 County Business Patterns: The North American Industry Classification System (NAICS)
Note: County Business Patterns provides data on the total number of establishments, mid-March employment, first quarter and annual payroll, and the number of establishments by nine employment-size classes and by detailed industry for all counties in the United States and the District of Columbia. The data from 1998 to 2003 is the most recent five-year trend.

Map: Ricardo Borgos, Federal Reserve Bank of Boston

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Gerald Chertavian
Year Up Executive Director

Year Up

Changing Minds

What makes a young, successful businessman decide to devote at least 10 years and $500,000 to helping low-income youth get a leg up in the world? Was it the mentor at his Lowell, Massachusetts, high school who pointed him to Bowdoin College? Was it the satisfaction of helping boys through the Big Brother program—first at college in Maine and then while at Chemical Bank in New York? Perhaps it was selling a software company in 1999 before the downturn. But the main reason that Gerald Chertavian founded the nonprofit Year Up in February 2000 was to create a school where low-income youth could build career paths out of poverty. The program offers a year of skills training, a stipend, long-term mentoring, internships in local companies, and college credits. After several years of strong, measurable results in Boston, Chertavian is establishing Year Up schools in Providence and beyond.

C&B: Describe how your early experiences influenced the Year Up concept.

GC: I saw the power of mentoring both as a recipient and as a Big Brother. The boys in the Big Brother program had no adult male role model. Similarly, the young men and women Year Up works with lack career role models. Year Up gives them needed mentoring and helps them build career networks after graduation.

Being a Big Brother also showed me the barriers low-income people face every day. My Little Brother David lived on Manhattan's Lower East Side in the

Photographs courtesy of Year Up

Rutgers housing project. In 1987, when I met him, Rutgers was one of New York's most heavily photographed crime scenes. Going there Saturdays, I was exposed to the needs of David's brothers, neighbors, and friends. I learned how difficult it was for them to make positive transitions and how much my advice and support meant to them.

C&B: Is that when you thought of a way to give low-income youth a career boost?

GC: Yes. I was applying to business schools then, and I wrote an essay about starting a school to address the opportunity divide. Why should anyone's prospects be limited because they were born in the wrong zip code or educational system? I thought a direct intervention was the answer. Of course, I wasn't able to carry this out immediately. In 1992, when I finished Harvard Business School, I was married and in debt. I ended up co-founding Conduit Communications in London and helping run it until it was sold.

When we sold Conduit, I already had a clear sense of how I wanted to spend my time. I had continued being a Big Brother to David through the 1990s, and that experience made me want to help the men and women who don't get into our mainstream. I returned to Massachusetts to sound out local support.

C&B: How did you prepare yourself to run a school?

GC: I spent about six months researching programs for low-income adults in England and America. Initially, we got only 60 percent of the model right. We were right that we had to be market led—we had to understand what companies needed and train for skills they'd pay for. We also were right that we couldn't fast-track development of student attitudes and behaviors. And we were right to start the skills training with a good sector—technology. What I underestimated was how much time we should spend teaching professional communication. I also didn't appreciate the critical importance of a clear, consistent, and fair structure to manage behavior. We asked Stanley Pollack from the Center for Teen Empowerment to create a system to help us with that.

C&B: How does Year Up work on communications skills and behavior?

GC: Students spend the first six months in an environment that involves both strong support and high expectations. We do not dumb down the program. We expect people to show up on time, work hard, turn in assignments, and be professional. We provide support to help them overcome challenges they may face outside the program, but we screen for young people who will fully commit.

First, we look for motivation, so the application process itself is challenging. People must submit an application, an essay, high school transcripts, and a reference. If applicants can get through that, they are probably motivated enough to arrive every day at 8:30 for classes. Second, applicants interview with a staff person, who tries to understand what's going on in their lives and whether this is the right next step. Finally, there's a learning assessment because we teach in a relatively standard way. We want to be sure we don't bring in individuals if we're not equipped to teach to their learning style. But we're all about support. If people make the effort and don't get in, we advise them on what they need to do next time. We're known for treating everyone with respect. When we started, we sought referrals through high schools, community-based organizations, and the *Metro* newspaper. Now more than 70 percent of students come through word of mouth.

C&B: I understand that Year Up has expanded to Providence.

GC: We wanted our first expansion to be in driving distance of Boston. Paul and Navyn Salem provided the start-up capital. Providence Mayor Cicilline welcomed us warmly. Companies including Textron, Citizens Bank, and Fidelity got involved. We've opened an office in Washington, D.C., too, with New York next.

C&B: Are you sticking with technology for your skills curriculum?

GC: Yes, but we recently launched a second curriculum, in financial-services operations. It's possible to do back-office financial services without a college degree, and the jobs are

The students, ages 18 and 24, apply their new skills in local businesses.

good—livable wages, health benefits, tuition reimbursement. Unfortunately, there is only one accepted job screen in this country—college. It doesn't have to be the only efficient screen. We must change mindsets. I have no problem with outsourcing, but there should be a concomitant strategy of "insourcing" in the inner city. At Year Up we partner with top executives—CIOs, CEOs. As our students build a track record without college degrees, executives may begin to wonder if their current job requirements make sense. Year Up must look beyond its direct impact and tackle systemic levers: changing mindsets, influencing policymakers, helping graduates build networks. By ourselves, we can't change the reality of 3.8 million young adults who are out of school and out of work.

Students get a year of training, a stipend, mentoring, internships, and college credits.

C&B: After students graduate, you stay connected?

GC: Definitely. They need networks to progress in their careers—and to reach back and pull others through. Seventy percent of low-income individuals have fewer than three people they can access for advice on jobs and college. Our graduates need a wider community.

C&B: You committed 10 years originally. Do you see yourself leaving?

GC: I don't. The question is, What's appropriate? There's a lot of work to do. If I were a bottleneck in building the leadership to make Year Up sustainable and scalable, that would be a mistake.

C&B: Is there a downside to scaling up?

GC: Sure—if you scale prior to developing the quality control and process control you need. Having financial capital, human capital, and process capital is as important as getting bigger. We made sure we had strong foundations before growing.

C&B: What help has Year Up received?

GC: Boston is an incredibly supportive community for social entrepreneurial programs. I could name individuals at the Boston Foundation, Trefler Foundation, Partners Healthcare, Boston Medical Center, Fidelity, State Street Bank—and all levels of government.

Today, with 89 percent of our graduates earning on average $15 an hour within in four months of graduation, we have a track record. But before we had one, certain people took a chance on us. There is no shortage of strong concepts out there. It took courage to let us prove that Year Up was more than just an idea.

C&B: Can you evaluate your impact in ways corporate partners understand?

GC: Yes, we know how many students are working, how soon after graduation, and how much they are making. We're comfortable telling benefactors, "Don't fund us if we don't hit our numbers." We are exceptionally measurable. The whole nonprofit sector would benefit from holding itself accountable to outcomes. We've been fortunate to get funding from the state, but we've kept it to a modest level and leveraged it by getting private capital. The paid apprenticeships are another source. Students earn an education stipend from us, and our partner companies pay to participate. To government we can say, "We will pay back each dollar with incremental tax revenue within two to three years. And our graduates won't be drawing on your social programs." Our students amaze visitors by how professional they are, how they dress, how they shake hands in the elevator. They're redefining people's view of who is talented and where talent resides in our community, and they're changing perceptions about low-income young adults. Together with our corporate partners we can close America's opportunity divide.

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Barriers to Saving

In recent years, policymakers of both parties have expressed growing interest in raising retirement saving by low-income households. Such households are much less likely than higher-income households to participate in employer-based retirement savings plans, and few of them contribute to IRAs. Moreover, when low-income households do participate in retirement saving plans, they tend to contribute a smaller share of their income than higher-income households.

by Zoë Neuberger, Robert Greenstein, and Peter Orszag

Illustrations by Kirk Lyttle

A growing body of evidence suggests that low-income families will save more if saving is made easier for them and if they are given a clear financial incentive to do so. For example, 401(k) participation rates among new employees rise substantially when such employees are enrolled in the plans automatically unless they opt out. Congress is likely soon to adopt legislation making it more attractive for employers to establish automatic enrollment for 401(k)s. Congress also may at some point extend the benefits of the Saver's Credit—a tax credit for low- and moderate-income individuals who save for retirement—to workers who do not earn enough to owe income taxes.

Such changes are important, but they will not be fully effective unless policymakers also address the barriers to saving posed by the asset tests of many means-tested benefit programs, such as food stamps and Medicaid. To qualify for these programs, applicants often must have total countable assets that do not exceed a dollar limit set by the program. These asset tests can penalize those who save for retirement. Fortunately, there are steps the federal government and state governments can take to reduce the savings barriers such asset tests can create.[1]

Existing Asset Rules Punish Savers

Many low-income families rely on means-tested programs such as food stamps, Medicaid, or cash assistance at times during their working years—for example, during temporary spells of unemployment or when their earnings are insufficient to make ends meet. In addition, many low-income people who are unable to work for a while because of a serious disability rely temporarily on Supplemental Security Income (SSI).

In many of these programs, the asset limit is set at or about $2,000. Moreover, the asset limits in these programs generally are not indexed to inflation and are raised infrequently. As a result, the asset limits have shrunk substantially in inflation-adjusted terms and are expected to continue to do so in the future.

Counting retirement savings toward the asset test of programs like Medicaid or SSI could force a family or individual to deplete those savings before qualifying for benefits.

In addition to imposing what amounts to a steep implicit tax on saving, asset tests in means-tested benefit programs treat retirement saving in a confusing and seemingly arbitrary manner. One family may be able to retain its retirement savings when it needs to turn to means-tested benefits, while a similar family that uses a different retirement saving vehicle or lives in a different state may have to deplete its retirement savings or forgo means-tested benefits during a time of need. Also, a household may qualify for some programs but not others solely because of the different rules across programs for counting retirement accounts.

Adding to the confusion, some employer-based retirement plans are exempt from the asset limits in these programs, while others are not. Means-tested programs generally do not count employer-based retirement plans if they are structured as "defined-benefit plans" such as traditional pensions, but often *do* count them if they are structured as "defined-contribution plans" such as 401(k)s. Since these asset rules were developed in the early 1970s, employers have shifted away from defined-benefit plans, putting more workers—those without a defined-benefit plan—at a distinct disadvantage.

A different inconsistency exists in the Food Stamp Program, which generally does not count employer-based retirement plans toward the asset test but does count IRAs. This, too, is inequitable, since many low- and moderate-income people work for companies that do not offer an employer-based retirement plan. Furthermore, many workers are encouraged to roll their funds over from a 401(k) into an IRA when switching jobs, which could disqualify them from receiving food stamps.

Counting retirement savings toward a program's asset test could force a family or individual to deplete those savings before qualifying for benefits, even when doing so would involve a financial penalty. As a result, asset tests often penalize low-income families that save for retirement and discourage others from saving in the first place.

Consider, for example, individuals whose earnings were consistently low throughout their career. (As defined by the Social Security Administration, or SSA, a low earner is someone whose average earnings are about 45 percent of the average worker's wages, or about $16,000 in 2004.) To avoid living in poverty during retirement, such workers would need about $2,000 in income from savings *for each year of retirement* to supplement their Social Security benefits, or around $30,000 in savings at retirement (if they have average life expectancy). Clearly, subjecting households to a $2,000 asset limit can prevent them from saving enough to support themselves for even a brief period, much less their entire retirement.

Eliminating Barriers

The most straightforward and comprehensive way to eliminate the retirement savings barrier posed by

these asset rules would be for Congress to amend the tax code so retirement accounts that receive preferential tax treatment—such as 401(k) plans and IRAs—do not count toward eligibility and benefit determinations in federal means-tested programs.

Short of that, the federal government and states can take steps to substantially reduce savings barriers. At the federal level, the Social Security Administration could take two steps to facilitate retirement saving by low-income people with disabilities who need SSI benefits:

- SSA or Congress could exclude from the SSI asset test retirement accounts held by non-elderly individuals. That would eliminate the need for working-age individuals with serious disabilities to liquidate their retirement accounts during periods when they are unable to work and need SSI benefits to make ends meet.
- SSA or Congress could eliminate the requirement that elderly individuals convert their retirement accounts into a lifetime annuity in order to have these funds excluded from the SSI asset test. A lifetime annuity is not always a wise choice for low-income people. Instead, in determining individuals' SSI eligibility and benefit levels, SSA could exclude their retirement accounts as assets, while counting as income the monthly amount that could be taken from their account for the remainder of their life, based on the account's value and the individual's projected life expectancy.

In addition, states have the flexibility to craft a more coherent set of asset rules in means-tested programs, thereby exempting more retirement savings from asset tests and making these programs easier to administer.

- **Food stamps.** The food stamp asset limit is $2,000 ($3,000 if at least one household member has a serious disability or is age 60 or older). Most employer-based retirement plans, including defined-benefit plans and 401(k)s, are excluded from the asset limit, but IRAs are counted. The 2002 Farm Bill gave states a new option to exclude certain types of assets from their food stamp asset test if they exclude these assets from their asset test for Temporary Assistance for Needy Families (TANF) cash assistance or family Medicaid coverage. This provision appears to apply to IRAs, according to the U.S. Department of Agriculture's proposed regulations. If the final regulations confirm that the provision applies to IRAs, states could exclude IRAs from the food stamp asset test if they also exclude IRAs in their TANF cash assistance or family Medicaid program.
- **Temporary Assistance for Needy Families.** States have complete discretion over their TANF asset limits and the types of assets that count toward them. Therefore, states have the flexibility to exclude retirement accounts from the asset test for TANF-funded programs.
- **Medicaid and the State Children's Health Insurance Program (SCHIP).** Nearly all states, including all New England states, have eliminated the Medicaid asset test for children, but the majority of states continue to apply an asset test when evaluating Medicaid eligibility for parents, and most of these states count 401(k)s and IRAs toward the asset limit. States could dispense with their Medicaid asset tests for both children and parents, or if they wish to retain an asset test for either group, they could exclude retirement accounts from the asset test. Also, by excluding retirement accounts from the Medicaid asset test applied to working-age people with disabilities, states could encourage them to save for their old age.

Conclusion

Modifying asset rules that discourage low-income families from building retirement savings would help reduce elderly poverty and increase the national saving rate. There would be some budgetary cost because these changes would make some low-income households newly eligible for benefits. Yet the return should more than justify the investment. The changes would simplify program administration and reduce administrative costs. Most important, if low-income households could save more for retirement, the economy as a whole would most likely benefit, and fewer people would have to rely on public benefits in old age.

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[1] See Zoë Neuberger, Robert Greenstein, and Eileen Sweeney, *Protecting Low-Income Families' Savings: How Retirement Accounts Are Treated in Means-Tested Programs and Steps to Remove Barriers to Retirement Saving* (The Retirement Security Project, report no. 2005-6, June 2005), http://www.cbpp.org/6-21-05socsec.pdf. Sources for the information cited here are included in the report.

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Inner Cities
Offer Competitive Advantages

by Deirdre Coyle

Although attitudes have changed slightly over the past decade, the widespread perception remains that inner cities have little to offer for-profit businesses. A closer look, however, proves otherwise. In fact, America's inner cities are home to more than 800,000 small and midsize businesses.

According to research conducted by the Initiative for a Competitive Inner City (ICIC), nearly 12,000 new businesses are started each year in the inner cities of the country's 100 largest cities, and New England cities are well represented.

Other fast-growing inner city companies cater to the underserved inner city population. Still others supply support services—printing, back-office functions, just-in-time supplies—to dominant industry clusters in the region, such as financial services, health care, and education.

Harvard Business School professor Michael E. Porter, who founded ICIC in 1994, believes that in generating jobs and economic opportunity, for-profit businesses do more to improve conditions in inner cities than short-term social programs with uncertain funding cycles. Such programs are valuable, but only the private sector has the resources to solve the intractable social problems that beset low-income urban neighborhoods.

Inner cities have inherent competitive advantages. If understood correctly, these advantages—location, available workforce, untapped consumer market, and opportunities to support major regional industrial clusters—can be leveraged to build profitable businesses. Companies will prosper if they pursue economic self-interest founded on genuine competitive advantages and do not rely on government subsidies and incentives.

A major barrier to business development in low-income urban neighborhoods is the perception that inner cities either have nothing to offer a business or that crime and isolation offset competitive advantages. But research shows that under the radar thousands of companies operate profitably in inner cities. Of course, among the many companies are mom-and-pop enterprises that appear and disappear. But the overwhelming majority of inner city companies are profitable businesses that have passed the test of time.

A more accurate picture is seen in the list of the 100 fastest-growing businesses located in the inner city, presented annually since 1998 by ICIC and *Inc.* magazine.

Consider the statistics for the companies selected for the 2006 Inner City 100:

- The average five-year standard growth rate of the winners is 655 percent.
- Average revenue (2004) is $31.1 million.
- Average estimated value of companies is $24 million.
- The number of people employed by the 100 companies is 17,181.
- The number of jobs created by the companies between 2000 and 2004 is 10,381.

When asked to name the advantages of their inner city location, 46 percent of the owners cited access and proximity to transportation nodes; 42 percent said proximity to downtown customers; 37 percent cited the diversity of the local workforce; and 35 percent cited the size and availability of the local workforce as a major competitive advantage.

The Workforce Advantage

Over the next decade the workforce is projected to grow less than 1 percent. Considering that during the past decade the economy was producing jobs at twice that rate, new sources of labor are needed. Inner cities, with their dense populations of immigrants and unemployed and underemployed residents, are a mostly untapped resource.

Although unfit workers do exist in the inner city, there is a far greater number of eager workers who make excellent employees. The challenge for urban economic development is to create jobs that are more accessible and then to connect people to them.

Companies that need a large pool of unskilled and semiskilled workers have a clear competitive edge in inner cities. Consider Dancing Deer Bakery, which bakes gourmet cookies and cakes. Dancing Deer employs 20 workers during most of the year, but during the busy season around the holidays the number may reach 60. The company's regular employees, mainly Latino immigrants, recruit their neighbors and relatives to provide the seasonal manpower.

Underserved Markets

Because of the density of housing, inner cities often have more consumer spending capacity per square mile than wealthy suburbs. Research conducted in 2004 by ICIC and the Boston Consulting Group found that inner-city residents nationwide have $90 billion in retail buying power.[1] Several major supermarket operators reported that their inner city stores were among their most profitable.

Photographs courtesy of ICIC

An earlier study looked at four small-to-large supermarkets implementing inner-city strategies: Schnucks in St. Louis, Shaw's in New Haven, Pathmark in Newark, and America's Food Basket in Dorchester.[2] Each company adapted its business plan to accommodate the characteristics of potential customers—stocking shelves with hard-to-get ethnic foods and hiring neighborhood people who understood the culture and could speak the language.[3]

Regional Clusters

Inner-city companies are a boon to a region's leading industries. They provide back-office support for the financial-services industry, maintenance services for hospital and educational institutions, and catering services for business meetings. The central location of urban suppliers allows just-in-time service, a competitive edge.

Argus Communications, a Latino-owned advertising and marketing company in the warehouse district of South Boston, is an example. It provides services to companies that want to reach ethnic clients, particularly Latinos. Argus's offices are lofts in a renovated factory. The rental rate is reasonable, and yet the location is convenient to downtown customers.

Similarly, Horizon Staffing Services in East Hartford provides recruiting services for administrative-support, information-technology, engineering, and biotech openings. The company benefits from proximity not only to clients, but also to a large pool of motivated immigrant workers. Company owner, Ahmed Ahsan, himself from Bangladesh, reports that close to a quarter of his employees are immigrants. Those employees, in turn, have helped Horizon find qualified immigrants when it recruits for clients.

The Future

Many inner city companies are doing well, but challenges remain. One barrier owners have identified is accessing the capital needed to take their companies to the next level. In a 2005 survey conducted by ICIC of past Inner City 100 winners, owners reported that accessing equity capital was a significant barrier to further growth, that there were no clear channels available for them to access capital, and that in general they lacked knowledge of how the private equity investment process works. Meanwhile, a survey of equity investors conducted by ICIC at the same time showed that investors are not very familiar with opportunities in the inner city.

ICIC is currently engaged with partners at Bank of America and other major capital sources in an effort to accelerate the flow of capital to inner city companies so that they can scale up, providing more jobs and more economic opportunities for residents.

Deep-rooted misperceptions take time to change. But market opportunities have a way of attracting savvy entrepreneurs who are willing to look beyond the negative images. And the sooner that happens, the sooner the inner city will be able to share in the benefits of the mainstream economy.

Inner cities have inherent competitive advantages. If understood correctly, these advantages can be leveraged to build profitable businesses.

Deirdre Coyle *is senior vice president at the Initiative for a Competitive Inner City, a Boston-based national nonprofit economic development organization.*

[1] See http://imaps.indygov.org/ed_portal/studies/bcg_inner_city_retail.pdf.

[2] Michael E. Porter, *The Changing Models of Inner City Grocery Retailing* (Boston: ICIC, 2002), http://www.community-wealth.org/_pdfs/articles-publications/cdcs/report-porter.pdf.

[3] Although in recent months, America's Food Basket has experienced difficulties, none is related to the market plan. AFB was attracting customers from as far away as Brockton, 40 miles to the south.

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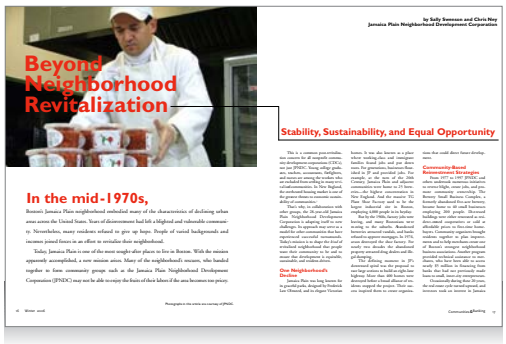

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