Bridging the Wealth Gap:

An Agenda for Economic Justice and Asset Building for Renters

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Bridging the Wealth Gap is an agenda for economic justice that describes actions the Department of Housing and Urban Development (HUD) will take to help low-income renters build assets.

HUD's role in asset building through the expansion of homeownership opportunities is widely recognized. For more than 80 years, the Federal Housing Administration (FHA) has provided access to homeownership for households not adequately served by the private mortgage market. In a typical year, FHA endorses over seven-hundred thousand purchase mortgages, more than eighty percent of which are made to first-time homebuyers. Under Secretary Fudge's leadership through the Interagency Task Force on Property Appraisal and Value Equity (PAVE), HUD has worked to root out racial and ethnic bias in home valuation. PAVE has helped ensure that American families build assets they can pass along to the next generation. But an important and overlooked aspect of increased access to homeownership is the opportunity to build assets and save towards this milestone as a renter. This agenda expands HUD's work to build a critical continuum between federal rental assistance and homeownership programs by helping renters in HUD programs take the necessary first steps towards financial well-being and potential homeownership through saving, credit building, and banking. *Bridging the Wealth Gap* outlines the expansion of asset building policies for renters as a reparative tool for economic justice. [1]

[1] Many of these ideas were gathered through a UnidosUS stakeholder convening on asset building and a series of conversations between HUD's Office of Public and Indian Housing (PIH), Office of Multifamily Housing (MF), Office of Policy Development & Research (PD&R), and the Office of the Secretary throughout the summer and fall of 2021. This agenda pulls these disparate conversations together into a cohesive framework to guide both internal policy creation and external stakeholder engagement.

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An Agenda for Economic Justice
& Asset Building for Renters

SAVINGS CREDIT BANKING

Traditionally, federal policies promoting asset building strategies have mainly benefited higher and middle-income families. While these policies are critical to building wealth for families, they typically require some level of initial financial savings or security to access. For example, the mortgage interest tax deduction helps more households access homeownership and build home equity, but only for those families with enough initial savings and the necessary credit scores to secure a mortgage. Other examples include tax subsidies for education and retirement. In contrast, anti-poverty policies, including HUD's rental assistance programs, have typically provided very low-income families the funds to maintain basic needs such as housing, but have not emphasized building savings or accessing banking systems.

Federal programs have not typically focused on helping low-income families safely access financial institutions and tools. Furthermore, assistance often decreases as families' incomes increase and includes eligibility terms that place limits on the amount of assets a family can have and still maintain eligibility for the program. Many hard-working families and individuals earn low incomes due to persistent and systemic inequality. This agenda recognizes the role that government programs can play in perpetuating those inequalities and is an effort to break down some of the barriers within federal programs that can erode progress towards financial stability. Altogether, federal policies have not achieved the scope and sustainability to support low-income families in improving their long-term and intergenerational financial well-being. [2] Asset building policies have the potential to move federal assistance programs in a more equitable direction and facilitate economic justice for millions of Americans.

Bridging the Wealth Gap focuses on asset building through increased savings, banking, and credit history improvement. Unequal access to savings, positive credit history, and banking is a national problem that especially impacts renters and contributes to the racial wealth gap.

Less than half of American households have 3-months' worth of savings.

In 2019, the median cash savings of **renter** households was $1,400 compared to **homeowner** cash savings of $10,100.

Harvard University's Joint Center for Housing Studies

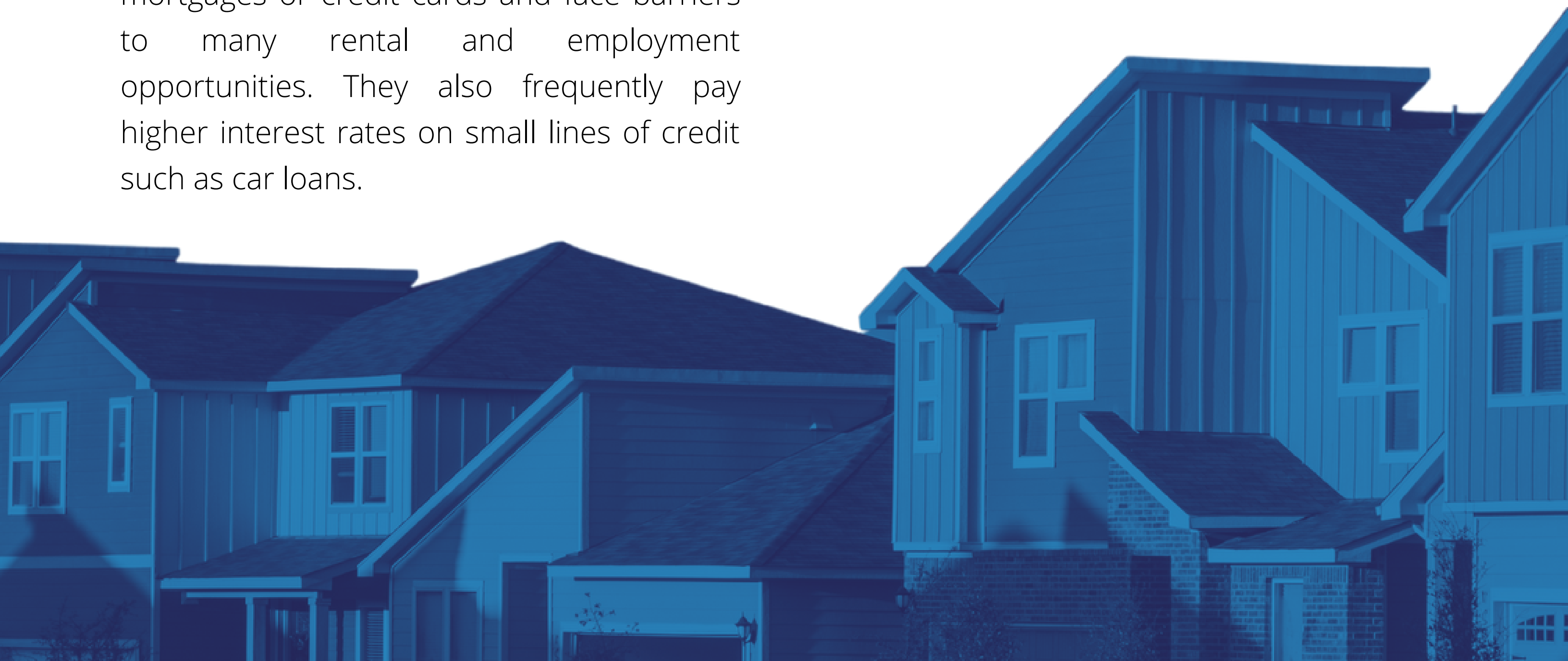
A 2017 study of four Public Housing Authorities (PHAs) found that over three quarters of residents had no savings, while just 4 percent of residents had savings of $500 or more.

[2] This agenda uses the Consumer Financial Protection Bureau (CFPB) financial well-being framework. Financial well-being is defined by the extent to which an individual feels control over daily or monthly finances; capacity to absorb financial shocks; is on track to meet personal financial goals; and has financial freedom to make the choices that allow for the enjoyment of life.

This leaves renters with a minimal safety net to draw from in times of unemployment or unanticipated expenses such as car repair or medical emergencies. As for credit scores, the Consumer Financial Protection Bureau (CFPB) estimates that **45 million Americans** do not have a credit score, also known as being "credit invisible." Renters are **seven times more likely** to be credit invisible compared to homeowners. Black households have the lowest median FICO credit scores and the greatest share of credit invisible households. A 2019 HUD study of three PHAs found that more than half of the adult residents likely lacked a credit score or had a bad credit score. This study also showed that public housing residents were more likely to lack a credit history than the general population.

Credit history is a foundational asset. A lack of credit history or bad credit history present challenges for renters trying to move to areas that provide greater economic opportunities. Without acceptable credit scores, these renters often cannot qualify for mortgages or credit cards and face barriers to many rental and employment opportunities. They also frequently pay higher interest rates on small lines of credit such as car loans.

Finally, 7.1 million American households are unbanked, meaning no member of the household has a savings or checking account at a bank or credit union. Low-income, Black, and Hispanic families especially manage their money outside of banks. While only 2.5 percent of white households are unbanked, 13.8 percent and 12.2 percent of Black and Hispanic households respectively remain unbanked. In terms of HUD residents, one study across several PHAs found that only 34 percent of residents had a bank account. Banking provides families with a secure place to keep deposits and save for both long term and emergency financial needs. Without bank accounts, families have difficulty conducting basic financial transactions, establishing savings, accessing lines of credit, building credit histories, and purchasing homes.



HUD already has supportive service programs like Family Self-Sufficiency (FSS), JobsPlus, and the Resident Opportunities and Self-Sufficiency Service Coordinator program (ROSS-SC), that are designed to help families build assets. [3] These programs have generally emphasized increasing employment and earned income, or "self-sufficiency," alongside other goals like educational attainment. However, an emphasis on "self-sufficiency" in supportive services programs can obscure the reality that most recipients of HUD assistance who can work, do work. Furthermore, recent evidence has shown that for graduates of these HUD programs, particularly FSS, the benefits to family savings are larger than those on family income. This result is partially due to the fact that earnings are determined by employers and over the past forty years salaries and hourly wages for lower wage jobs have only seen slight real wage increases. Additionally, the wage gaps along racial and educational divides have remained consistent. Families looking to increase their wages face numerous additional barriers such as racism, discrimination, and lack of accommodations for certain people such as parents who need childcare and people with disabilities. HUD's existing supportive services programs like FSS are not currently resourced sufficiently to help families navigate these systemic barriers.

In spite of these barriers, evaluations have shown the benefits of HUD supportive service programs, particularly FSS, for helping program graduates save money. Upon graduation from the program, the average family participating in FSS in 2021 has about $9,500 in savings. Savings gained through the FSS program make a huge difference for families. Over a quarter of graduates no longer need rental assistance upon completion. Hundreds purchase homes each year, while others choose to use their savings to pay down debt, repair credit or engage in higher education for themselves or their children, thus breaking cycles of intergenerational poverty. The FSS program has also seen that along with saving money, program participants often state that access to financial coaching services is the primary reason they agreed to sign up for the program. Tenants value financial coaching. For these reasons, HUD will focus on asset building through a more holistic lens of savings, bank access, and credit building rather than job obtainment or wage increases.

[3] The Family Self-Sufficiency (FSS) Program is a voluntary program that uses a combination of service coordination and program flexibilities to help HUD-assisted households grow their earned income and savings and increase their financial well-being overall. JobsPlus develops place-based, job-driven approaches to increase earnings and advance employment outcomes for residents of public housing. Residents enrolled in JobsPlus can be granted a 100% income disregard of earnings increases that remains in place for up to 48 months. The ROSS Service Coordinator (ROSS-SC) program provides PHAs with funding to hire service coordinators who connect public housing residents to needed services. Each grantee targets specific areas of need for their grant term, and financial literacy is one of the options available to grantees.

HUD's leadership in promoting economic justice and asset building has the potential to be transformative for the lowest income renters. HUD offers rental assistance to around 5 million households through Public Housing, Housing Choice Voucher (HCV), Project-Based Rental Assistance (PBRA), Section 202 and Section 811 supportive housing programs for older adults and people with disabilities. Additionally, given that 3 out of 4 heads of households in HUD's programs are women and 79 percent of HUD-assisted individuals identify as Black or Hispanic, asset building for these renters can help close existing gender and racial wealth gaps. The recommendations outlined in this memo focus specifically on HUD, however some of these strategies could be used to expand asset building for renters in Department of Agriculture (USDA Rural Development Multifamily Housing) and Treasury (Low Income Housing Tax Credit) units. It is not enough for the federal government to regulate financial institutions and remove structural barriers to full, fair participation in the national economy. HUD can enact policies that actively help low-income households safely participate in and benefit from financial systems. HUD is committed to addressing credit invisibility, increasing credit scores, and helping families build savings and access banking. HUD will do so by expanding asset building programs and making policy improvements that are grounded in evidence-based research. HUD will also work with interagency partners to guide private sector and philanthropic commitments towards these asset building goals, such as the recently released MOU on Community Investment and new Interagency Community Investment Committee with Treasury, DOT, USDA, Commerce and SBA. A prioritization of asset building in anti-poverty policies and within the social safety net can create an easier path to long-term, intergenerational economic stability for millions of Americans.

Asset Building Actions

- Launch the asset building Moving to Work (MTW) demonstration
- Expand asset building programs like the Family Self Sufficiency Program
- Move from annual to triennial income recertification
- Support renters with credit and financial counseling
- Help HUD-assisted young adults save
- Partner with other federal agencies and stakeholders

1 Launch the Asset Building Moving to Work (MTW) Demonstration

In Spring 2022, HUD announced that the next cohort of PHAs in the MTW demonstration will be focused on implementing asset and credit building services for renters. MTW is a demonstration program that provides PHAs the opportunity to design and test innovative, local strategies through significant flexibilities to many existing public housing and voucher rules. This cohort study will explore ways to create and increase resident credit scores and access to bank accounts, as well as other asset building mechanisms. In order to promote asset building to MTW agencies and Department stakeholders more broadly, HUD partnered with the Consumer Financial Protection Bureau (CFPB) on a series of webinars that explored rent reporting and credit building strategies as well as general asset building and financial well-being content. Applications to this MTW demonstration closed on July 28, 2022. The Asset Building MTW agencies will be announced by September 30, 2022.

2 Expand Asset Building Programs like the Family Self Sufficiency Program

The Family Self-Sufficiency (FSS) Program is the nation's largest asset-building program for low-income families. The program currently serves 65,000 participants at over 700 PHAs. FSS is a voluntary program that uses a combination of service coordination and program flexibilities to help HUD-assisted households grow their earned income and savings and increase their financial well-being overall. Publishing the new FSS rule on May 17, 2022 was a critical step towards a scaled-up version of FSS. Among its changes, the rule permits any adult household member to enroll in the program, not only the official head of household, and eliminates some regulations that were potential barriers to program graduation. It also eliminates a cap on savings that had been in place for higher-income families. Finally, the rule also allows owners of multifamily properties to apply for grant funding in addition to PHAs. HUD anticipates being able to fund several new programs as a portion of its $113 million-dollar FY22 NOFO competition which will expand the benefits of FSS to even more HUD-assisted tenants. This FY22 NOFO competition was released on August 4, 2022. In addition to the new FSS regulations and funding, HUD is also resourcing best practices guidance and technical assistance for existing as well as new FSS programs.

With increased appropriations, HUD could expand FSS to all HUD-assisted households as an opt-out, rather than an opt-in program. While such a goal is aspirational, it is reflective of the belief that all households deserve the opportunity to improve their financial wellbeing and invest in their future by saving funds that are tied to income increases. This is an opportunity afforded to households in the private rental market whose rental expenses are not immediately and directly connected to increases in income. When the average American experiences an unexpected promotion or pay raise, they can use this increased income to build assets. The same should be true for families served by HUD programs.

In addition to expanding FSS, HUD is also committed to continual strengthening of the program by improving grantee accountability, rewarding grantees who have strong FSS programs, increasing participant graduation rates, and ensuring that if a family is unable to graduate, their forfeited escrow savings are used in ways that benefits program participants. For example, forfeited savings could be redirected to specific financing wellness measures for program participants such as credit history repair. Finally, HUD will focus on orienting FSS around a focus on savings, banking access, and credit building rather than job obtainment.

3 Move from Annual to Triennial Income Recertification

Most households that receive federal rental assistance pay 30 percent of their income in rent and utilities. This income to rent proportion approach is a strong safety net feature of the subsidy.

However, some evidence suggests that this policy also implicitly "taxes" or penalizes tenants for increasing their earnings or savings. Current HUD policy dictates that housing providers must review family income on an annual basis to determine the 30 percent contribution and certify program eligibility.[4] Triennial income recertification would change family income review to only every three years. Under triennial recertification, families would have two additional years to retain and save potential income increases. Triennial recertification has been proven to not only facilitate family savings, but also expand housing stability as it leads to longer stays in federally subsidized housing. This policy can help HUD-assisted households avoid evictions or premature removal from assistance, both of which are situations that are often the result of documentation and paperwork challenges. Other benefits include elimination of administration burden for the housing provider. This proposal is included in President Biden's FY 2023 budget request.

4 Support Renters with Credit and Financial Counseling

HUD provides certification, funding, and training for Housing Counseling Agencies (HCAs) throughout the country. Through free or low-cost counseling, HCAs assist either prospective homeowners purchase houses or existing homeowners mitigate default or foreclosure. Much of the work done by HCAs is directed toward people of color who often face racism and discrimination that creates barriers to financial stability. In 2021 alone, HUD housing counseling services were used by over one-million Americans, more than two-thirds of whom were Black, Hispanic, Asian-American, or Native American. HUD can incentivize HCAs to target persistent renters with similar asset building services that potential homeowners receive such as financial planning, credit building management, and banking support. HUD also can support HCAs in further assisting renters with eviction and homelessness prevention. For example, during the pandemic HCAs were critical partners in helping communities connect renters to Emergency Rental Assistance Programs (ERAP).

HUD could include financial and credit counseling as distinct areas of focus within grant NOFOs. This formal emphasis on financial and credit counseling in HCA grant conditions would give HCAs the flexibility to help renters increase personal savings, build credit profiles, and prepare for sustainable homeownership in the long term.

5 Help HUD-Assisted Young Adults Save

HUD provides rental assistance to over six hundred thousand families with one or more young adults between the ages of 18 and 24. These households represent 14 percent of all HUD-assisted families.

[4] USDA recertification is also annual.

Current HUD policy dictates that young adults eighteen and above lose household dependent status and must have their entire earned income included in rent calculation. Full time students are exceptions to this policy and in this way, HUD offers income exclusion only for young adults that have moved into educational rather than employment opportunities.

HUD is exploring ways to help all young adults in HUD-assisted households strengthen their financial futures. Through implementation of the Housing Opportunity through Modernization Act of 2016 (HOTMA), HUD will ensure that all education savings accounts such as 529 and 530 plans are not counted as assets for the purposes of rent calculation.

HUD will also evaluate innovations currently taking place in the field. Under their flexibilities, several MTW PHAs are testing policies that allow some young adults living at home to have a portion of their income excluded from their family's rent calculation. This policy reflects the significant demographic trends across all income levels of young adults living with their families longer to reduce the cost of living and begin building assets.

Such policies allow young adults living in HUD-subsidized units retain their full earned incomes and thus facilitate their ability to save. For example, the Lawrence-Douglas County Housing Authority (KS) extends income exemption to part time students between eighteen and twenty-one, while the Reno Housing Authority (NV) excludes all income of residents between eighteen and twenty regardless of student status.

6 Partner with Other Federal Agencies and Stakeholders

A whole of government approach is vital for the expansion of asset building policies targeted at low-income renters. HUD will continue to work with federal partners and stakeholders to leverage additional expertise and resources. For example, HUD has partnered in the past with the Internal Revenue Services (IRS) to bring Volunteer Income Tax Assistance (VITA), free help with tax preparation for households with low incomes, to PHAs and other low-income communities. The HUD Strong Families team has worked with various federal and non-profit partners to offer webinar series for all PHAs and Multifamily owners as part of Financial Empowerment month in 2021 and 2022. HUD has also partnered with the CFPB to bring the agency's educational curricula "Your Money, Your Goals" to front-line resident services staff at PHAs, including establishing communities of practice with PHAs with ROSS and JobsPlus grantees.

In the future, HUD will continue to identify opportunities to closely coordinate with other federal partners such as the Interagency Community Investment Committee, the Federal Reserve on its work under the Community Reinvestment Act, the Department of the Treasury, the Department of Labor, the Department of Education, and the CFPB.

Future Asset Building Actions

- Build credit history through rent reporting
- Integrate financial well-being and supportive services into PHA standard practice
- Improve homeownership programs and supports for HUD-assisted renters

1 Build Credit History Through Rent Reporting

Renters regularly pay for basic needs such as rent, utilities, and phone services that are typically not reported to credit companies. These alternative records of payment represent a too often unrealized opportunity to build credit histories for renters. Rent reporting is a credit inclusion strategy through which housing providers report rental payments to credit bureaus. Rent reporting offers low-income renters an opportunity to build credit as a financial asset without additional debt. For example, a 2019 study demonstrated that when Public Housing Authorities (PHAs) reported rental payment histories, up to 61 percent of residents' credit scores increased. Widespread rent reporting would greatly increase the number of assisted tenants who could be scored by credit rating agencies and improve tenant credit scores.

State policymakers are increasingly turning to rent reporting. California Rent Reporting Bill SB1157 went into effect in California in July 2021 and requires landlords who receive local, state, or federal housing subsidies to offer residents rent reporting. HUD's PD&R published an article on the *Edge* with additional research on how property owners using HUD's Project Based Rental Assistance Program implemented SB1157. The research found varying levels of landlord awareness of rent reporting prior to the law going into effect, initial difficulties with setup and resident uptake, and a range of program designs and per-unit costs. One common refrain was how difficult it was to obtain buy-in from residents, overcome resident distrust, and communicate the benefits of rent reporting. This research highlighted the importance of financial education on rent reporting and asset building more broadly.

HUD is also exploring how to support PHAs and owners as they implement rent reporting for tenants, especially those participating in asset building programs like FSS. HUD is considering ways to integrate additional information on rent reporting into the Housing Counseling program. Additionally, the Federal Housing Administration's Office of Single-Family Housing is working to incorporate positive rental payment history into its automated underwriting policies and processes. This would enable renters who have a strong record of on time rent payments to get credit for that positive performance when seeking to qualify for an FHA-insured mortgage.

However, rent reporting does also have the potential to negatively impact tenants. One scoring model showed 23 percent of tenants would improve their scores, while 20 percent would have their scores lowered; in another model 61 percent had score increases and 22 percent had score decreases. There is the option to only report positive on-time, rental payments, by stopping the rent reporting when a tenant misses a payment. As HUD evaluates rent reporting through the MTW study and tests small scale incorporation into other programs like FSS and Housing Counseling, HUD will continue to weigh the likely benefits and potential risks of rent reporting to tenants.

2 Integrate Financial Well-Being and Supportive Services into PHA Standard Practice

In order to make financial well-being and support services available to all public housing residents, HUD hopes to learn from leading PHAs on the work they are already doing, and work with all PHAs to help start, scale, or grow, supportive services or public housing residents at the individual, project and community-wide level. Some emerging best practices include the creation of community navigator roles. There are many programs that promote asset building for which HUD-supported families are eligible, and community navigators would allow HUD to help connect families to established resources, especially those with culturally competent and trauma informed approaches. The community navigators could serve as "connective tissue" for residents, and support PHAs as a critical piece of the broader American social safety net.

3 Improve Homeownership Programs and Supports for HUD-Assisted Renters

Homeownership is a pillar of wealth building and for most families, it remains a critical way to build a source of wealth that can be passed down to future generations. Therefore, it needs to be attainable for more families, especially families of color. However, racial disparities in homeownership remain significant. Recent research shows that in 2020, the Black-White homeownership gap reached 31 percentage points, the greatest gap in decades. Notably, this is an even larger disparity than in 1968 when the Fair Housing Act was passed. Additionally, more Black families build their wealth through homeownership than white families, a 2020 study by the Urban Institute found that housing equity comprises nearly 60 percent of total net worth for Black homeowners, but only 43 percent of total net worth for white homeowners. Yet, as homes owned by Black homeowners are often appraised at lower values and home value can depreciate over time, homeownership cannot be the only tool Black families use for asset building. While Black homeownership is a critical part of closing the racial wealth gap, there are also racial differences in other mechanisms for generating wealth such as stock ownership that make the racial wealth gap difficult to close.

In fact, one recent paper on the racial wealth gap in the United States found that after nearly a century of a diminishing racial wealth gap after Emancipation, this shrinking began to stall in the 1980s and the wealth gap began to increase again after the Great Recession. The authors argue that this increase in the racial wealth gap in the late 2000s was due to the relatively higher returns to stocks and equities, compared with housing, which disproportionately benefitted white households since stock ownership makes up a much larger portion of white household's wealth. Homeownership is an important aspect of asset building, however more expansive asset building actions such as expanding savings, credit building, access to banking, and financial coaching are necessary to build assets for Black households and make progress towards closing the racial wealth gap. This effort will require a whole of government approach to asset building.

Some of HUD's rental assistance programs can also help increase homeownership, however they are small and need reform to grow. There were 11,672 households supported by homeownership Housing Choice Voucher (HCV) payments in 2021 according to internal HUD data. Of the 2,300 PHAs with voucher programs, only 735 report at least one HCV homeownership household between 2015 and 2021, with 673 reporting at least one in 2021. In tandem with other asset building actions, HUD will work to expand and reform homeownership support for HUD-assisted tenants. This will include coordinating with the Office of Housing Counseling to provide Technical Assistance for housing counselors to support outreach to and pathways to homeownership among HUD-assisted renters.