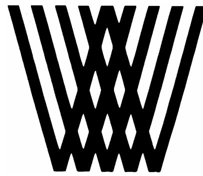

Woodstock Institute
Social and Economic Indicators

Income, Savings, and Spending

- In the six-county Chicago region, about 22 percent of households have incomes below $25,000 and 8 percent of families are living under the poverty line.[1]

- Income is strongly related to educational levels. In 1997 in the U.S., the average person working full-time and year-round with a master's degree earned $50,000; a person with a bachelor's degree, $40,100; high school diploma, $26,000; and less than a high school diploma, $19,700.[2]

- The proportion of household income devoted to necessities obviously varies by income. Families in the bottom 10 percent of the income distribution spend 70 percent of their budget on food and housing compared to an average of 53 percent for all other families.[3]

- After the Second World War, the incomes of lower-income groups in the U.S. increased dramatically. Since 1970, that increase was reduced to a crawl with the earlier decades in the period seeing a decrease in real income. Between 1947 and 1979, the income of the lowest family income quartile in the U.S. increased 116 percent. The second quartile increased 100 percent, the third, 111 percent, and the fourth, 114 percent. The income of the top 20 percent increased by 99 percent and the top 5 percent by 86 percent. Between 1979 and 2001, the income of the bottom income quartile increased by 3 percent, the second by 11 percent, the middle quartile by 17 percent, the fourth quartile by 53 percent and the top fifth by 81 percent.[4]

- The ability of families to save and build wealth – whether to buy a home, build retirement savings, or save enough for unexpected emergencies – has become increasingly difficult over the last two decades. Currently, about half of Americans have few or no assets.[5] Household savings rates vary considerably but low-income families can exhibit a high propensity to save when offered the right savings vehicles and when they inherit/develop the practice of saving.

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[1] U.S. Census Bureau, "American Community Survey: Chicago IL, PMSA," 2003.

[2] U.S. Bureau of Labor Statistics, "More education: Higher earnings, lower unemployment." Occupational Outlook Quarterly, Fall 1999.

[3] Tamara Draut and Javier Silva, "Borrowing to Make Ends Meet", Demos, NY: 2003, p. 27.

[4] United for Fair Economy, Income Inequality Charts, www.faireconomy.org/research/income_charts.

[5] http://www.demos-usa.org/page46.cfm. Last accessed 8 November 2004.

- People save through a variety of savings vehicles. Following are two of the "hottest" ideas today. Individual Development Accounts, or IDAs, are set up by a foundation, local government, or community. This group matches the savings of a low-income individual, a practice that encourages building assets rather than debt. The second, which has recently become policy in the United Kingdom but hasn't caught on in the U.S., is Children's Savings Accounts. Under the UK model, a child receives an endowment from the government upon birth and another at age 7. No withdrawals are allowed until the child turns 18, at which point (s)he can withdraw the funds or roll them over into a new account. Tax-deferred savings vehicles in the U.S. include IRAs, Roth IRAs, 401(k)s, and Medical Savings Accounts.[6]

- Savings rates in the U.S. are very low compared to other advanced economies. Personal savings, as a percentage of disposable personal income, fell sharply in the 1990s. In 1980, the savings rate was 10 percent; in 1990, it was 8 percent; and in 2000, the savings rate was 0 percent.[7]

- 45 million Americans, or 15.6% of the population, do not have health insurance. Over 11% of all children lack health care.[8]

- There are cultural, ethnic, and generational patterns in spending.

- In the U.S. 89 percent of all households make charitable contributions for an average of $1,620 per household. 50 percent of all charitable giving goes to religious organizations and a large amount of the rest to institutions of higher-education.[9]

- Remittances from Mexicans living abroad totaled US$17 billion in 2004, and has become the main source of Mexico's foreign exchange. It surpassed crude oil exports, which were expected to be slightly more than US$16.665 billion in 2004.[10]

- Different groups pay different amounts of money for the same consumer items. There is evidence that African-Americans pay more for cars.[11]

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[6] Michael Sherraden, "From Research to Policy: Lessons from Individual Development Accounts." St. Louis MO: Center for Social Development, 2000.

[7] Richard Stevenson, "Troubles that Lurk Beneath Prosperity's Surface," New York Times, 18 December 2000.

[8] "Number of Americans Without Insurance Reaches Highest Level on Record", Center on Budget and Policy Priorities, www.cbpp.org/8-26-04health.

[9] Independent Sector, 2001; *www.independentsector.org*

[10] From estimates by the Banco de Mexico, Mexico's central bank. Data found at http://www.mexidata.info/id317.html, last accessed 7 March 2005.

[11] Robert Tait, "Blacks pay more for cars in US."Asheville Global Report, No. 130, 2001.

Assets

Homeownership

- There was a major increase in home ownership rates in the U.S. in the 1990s, but the increase was unequally spread among whites, blacks, and Hispanics. The homeownership rate for non-Hispanic whites increased by 3.4 percentage points, compared to increases of 2.9 percentage points for African-Americans, 3.3 percent for Hispanics, and 1.0 percent for Asians. At decades' end, the homeownership rate for non-Hispanic whites was 72.4 percent; African-Americans, 46.3 percent; Hispanics, 45.7 percent; Asians, 53.2 percent; and all minorities, 47.4 percent.[12]

- The distribution of assets is more unequal than the distribution of income. The net worth of the bottom two income quartiles in the U.S. are -$7,100 and +$9,000 dollars respectively. The middle quartile has net assets of $45,900, and the fourth quartile, $116,800. The next 10 percents' net worth is $246,800, the next 5 percent $471,700, the top 4 percent $1.1 million, and the top 1 percent, $7.9 million.[13]

- Home equity is the major source of assets for most U.S. families.

- While home prices have been going up for many years, the total amount of money people have in equity has not been rising partly because of cash-out mortgage refinances. The average home-owning household owed lenders 46 percent of the market value of its residence in 2000, up sharply from 30 percent in 1982 and 40 percent in 1991. For a typical family with a home worth the median market value of $144,000 in 2000, that meant their equity was $77,760 while their debt was $66,240.[14]

- Home foreclosures in Chicago rose 74 percent from 1993-2001; 8,556 foreclosures were reported citywide in 2001.[15]

Pensions

- Over the last two or three decades, most pension plans have changed from defined benefit to defined contribution.[16]

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[12]Patrick A. Simmons, "Changes in Minority Homeownership During the 1990s," Fannie Mae Foundation Census Note 07, September 2001.

[13] Kirsten Moy and Alan Okagaki, unpublished manuscript, November, 1999 p.5.

[14] Louis Uchitelle, "Equity Shrivels as Homeowners Borrow and Buy," New York Times, 19 January 2001.

[15] Janet Smith, "How Have Chicago's Neighborhoods Changed Since 1990?" www.uic.edu/cuppa/upp/people/faculty/smith/DOH%20presentation.pdf. Last accessed 8 November 2004.

[16] Donald Ross and Lester Wills, "The Shift from Defined Benefit to Defined Benefit Retirement Plans and the Provisioning of Retirement Savings." The Pensions Institute, Discussion Paper PI-0210. July 2002.

- In addition to employer contributions, participation in voluntary tax-deferred plans depends on income and job level of employees and such plan characteristics as whether employees can enroll the first day on the job when they are filling out other benefit and tax forms.

- More than 20% of workers cash out their tax-deferred retirement accounts when changing jobs.[17]

Social Security

- Social security had an enormous impact on reducing poverty among the elderly. Furthermore, about 45 percent of both Hispanic and African-American beneficiaries rely on social security for 90 percent or more of their income.[18]

- Social security was intended to be the base of retirement income not the totality and the decline in defined benefit retirement schemes has left many people with insufficient funds for retirement.

- The changing proportion of retired persons to workers presents a problem for the Social Security Fund that could be solved with comparatively minor adjustments to benefits. In the current situation, the Trust Fund can pay full benefits to 2042 and after that 70 percent of benefits.[19]

- The larger problem is the budget deficit. The cost of the 2001 and 2003 tax cuts over 75 years expressed as "present value" amount to $11 trillion. This is three times the Trustees projection of the size of the Social Security imbalance in 75 years and about the same as the Social Security imbalance and the Medicare hospital Insurance imbalance which is the part of Medicare paid out of a trust fund.[20]

- In Illinois, 1.2 million men and women receive Social Security benefits.[21]

- Illinois residents receive more than $1.6 billion in Social Security benefits annually.[22]

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[17] Pension Research Council, 2004.

[18] According to data compiled by AARP. Found online at http://research.aarp.org/index.html.

[19] According to various data from the Congressional Budget Office, online at www.cbo.org.

[20] Robert Greenstein and Peter Orszag, "What the Trustees Report Indicates about the Financial Status of Social Security", Center on Budget and Policy Priorities, www,cbpp.org/pubs/socsec, last updated 31 March 2004.

[21] Social Security Administration Press Office, 2004.

[22] Social Security Administration Press Office, 2004.

Getting Robbed by the Banking and Fringe Banking Industries

- The large expansion of subprime mortgage lending stems from Wall Street's willingness to buy such loans starting in the mid-1990s. Subprime lending has extended home mortgages to people with impaired credit histories.

- A subset of subprime loans is widely considered predatory. Predatory mortgage loans are high interest rate, high fee refinance loans with other negative features like balloon payments and prepayment penalties. They often reduce homeowners equity and in some cases result in foreclosures.[23]

- In 2001, when the standard mortgage rate was 6.5 percent, Citifinancial's (Citigroup's subprime unit) average annual mortgage rate was 15.6 percent. That amounts to an extra $420,000 in payments on an average $175,000 home for a total payment of $826,000.[24]

- As Norm Bobins, Chairman and President of LaSalle Bank in Chicago wrote to the Tribune, "Can you really believe, for example, that someone would pay $15,000 in fees to refinance a $29,000 loan? Or that someone would agree to pay $1,200 a month for a mortgage when he or she only has $800 per month in income?"[25]

- These subprime loans are geographically concentrated especially in minority communities. Older people are also targets.[26]

- Payday loans run Annual Percentage Rates (APRs) of between 500 and 1,000%. State data shows that the average customer rolls such a loan over an average of 13 times (i.e., for 26 weeks.)[27]

- Rent-to-own stores allow consumers to purchase credit for large consumer products, such as furniture and large appliances. Weekly or monthly payments are applied towards ownership, but borrowers typically must pay an amount that is two or three times the standard retail prices.[28]

- Pawnshops offer small, short-term loans that use personal items as collateral; these items can be jewelry, televisions, stereos, etc. Pawnshops typically charge interest as high as 25 percent; loopholes in state usury laws often allow them to rollover fees and finance charges also.[29]

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[23] Dan Immergluck and Geoff Smith, "Risky Business: An Econometric Analysis of the Relationship Between Subprime Lending and Neighborhood Foreclosures." Woodstock Institute, March 2004.

[24] Jason Kiely, "Citigroup: Reinventing Redlining." National Training and Information Center, June 2002.

[25] Chicago Tribune, April 17, 2001.

[26] Dan Immergluck and Geoff Smith, "Risky Business: An Econometric Analysis of the Relationship Between Subprime Lending and Neighborhood Foreclosures." Woodstock Institute, March 2004.

[27] Marva E. Williams with Kathryn Smolik, Affordable Alternatives to Payday Loans: Examples from Community Development Credit Unions. Woodstock Institute, March 2001.

[28] Robert D. Manning, "Credit Card Nation: The Consequences of America's Addiction to Credit." Basic Books, 2000.

[29] Robert D. Manning, "Credit Card Nation: The Consequences of America's Addiction to Credit." Basic Books, 2000.

- Credit unions play a large role in developing a savings culture but they have a poor record of serving "people of modest means" their initial target membership. Over 80 million people are credit union members in the U.S. Credit unions are exempt from most federal and state taxes and pass on much of those savings in the forms of lower interest rates for loans and higher interest rates for savings. A recent Woodstock study concluded that credit unions in the six-county Chicago region serve much lower percentages of lower-income households than they do middle- and upper-income households.[30] Community development credit unions, a small percent of the total, are dedicated to serving low-income communities.

Getting into Debt

- There are several comparative measures for assessing debt levels. Household debt to asset ratios have increased from 13 percent in 1980 to 15 percent in 1990 to 16 percent in 2000. In past recessions, the national debt-to-asset ratio has moved lower and stabilized as families devote a larger percentage of disposable income to repair their balance sheets. However, this ratio has been in a steady climb from 2000 to 2003, at which time it reached 18 percent.[31] If the price of key assets like homes and the stock market were to fall, the ratios would, of course, go higher.

- Credit card use has changed dramatically in recent years as have levels of credit card debt. Average credit card debt in 2002 was $8,367 among families with at least one card, compared to $3,332 in 1992. In 2002, debt held by households was equal to 80 percent of GDP, compared to just 50 percent in 1980.[32]

- Bankruptcy rates have increased sharply in recent years. Personal bankruptcies per 100,000 people have increased from 120 in 1980 to 290 in 1990 to 530 in 2002.[33]

- Financial institutions are increasingly charging for risk and people's credit scores are the basis for risk calculations.

- Between 1989 and 2001, against the backdrop of an era of unmatched economic prosperity, credit card debt in America almost tripled, from $238 billion to $692 billion.[34] What's worse, Americans have begun

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[30]Jacob, Bush, and Immergluck, "Rhetoric and Reality: An Analysis of Mainstream Credit Unions' Record of Serving Low-Income People." Chicago, IL: Woodstock Institute, February 2002.

[31]Paul Kasriel, "Begging the Chairman's Pardon: Household Balance Sheets are Improving?" www.northerntrust.com/library/econ_ research/weekly/us/030717.html. Last accessed 8 November 2004.

[32]Alex Baker, "Life and Debt: Why American Families are Borrowing to the Hilt." Century Foundation, 2004.

[33]Alex Baker, "Life and Debt: Why American Families are Borrowing to the Hilt." Century Foundation, 2004.

[34] Tamara Draut and Javier Silva, "Borrowing to Make Ends Meet: The Growth of Credit Card Debt in the '90s." Demos USA, September 2003.

to borrow against their fixed assets, such as their homes and vehicles, to pay off extensive credit card debt.

- Between 1993 and 2000, the credit card industry more than tripled the amount of credit it offered to consumers, from $777 billion to almost $3 trillion. This means the average American family has $21,000 in available credit,[35] and could have much more if it responded to all solicitations sent to it.

- In 2001, 5 billion credit card solicitations were sent,[36] many of which offer low introductory rates and "preapproved" lines of credit.

The Changing Face of Financial Institutions

- The total number of financial institutions is declining as the process of merging and acquisitions continues. Nationally in 1991, a total of 14,838 savings institutions and commercial banks held $3.26 trillion in assets. At midyear 2004, the numbers shifted to 9,079 institutions holding $5.46 trillion in assets.[37]

- A few large banks hold a large percent of assets under management. When ranked by total domestic deposits, the top 5 US banks control $1.59 trillion in deposits, or 29 percent of total deposits.[38]

- Credit card companies compete with banks for the small business loan market.[39]

- Large mortgage companies have increasingly been bought by banks.[40]

- Financial institutions are increasingly making their money on fees rather than the spread between their cost of funds and their loan rates. A significant percent of fee income comes from lower-income customers.[41]

- Banks say that 80 percent of retail accounts (checking and savings accounts) lose money but that they make up their money by cross-selling i.e., selling the same customer multiple products. Large banks aim to make 18 percent on their assets; small banks 10-12 percent.[42]

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[35] Tamara Draut and Javier Silva, "Borrowing to Make Ends Meet: The Growth of Credit Card Debt in the '90s." Demos USA, September 2003.

[36] Bernie Sanders, "Modern-day loan sharks disguised in plastic." Atlanta Journal-Constitution, 3 December 2004.

[37] According to FDIC Market Share of Deposits. Online at http://www2.fdic.gov/sod. Last accessed 8 November 2004.

[38] According to FDIC Market Share of Deposits. Online at http://www2.fdic.gov/sod. Last accessed 8 November 2004.

[39] Robert D. Manning, "Credit Card Nation: The Consequences of America's Addiction to Credit." Basic Books, 2000.

[40] Robert D. Manning, "Credit Card Nation: The Consequences of America's Addiction to Credit." Basic Books, 2000.

[41] Robert D. Manning, "Credit Card Nation: The Consequences of America's Addiction to Credit." Basic Books, 2000.

[42] Laura Bruce, "Free checking still the best deal." Bankrate.com, 2003.

- Financial institutions are reducing costs by electronic processing. Smart cards, debit cards, and smart ATMs are reducing the need for in-person and paper transactions.[43]

- The expected replacement of bank branches by internet banking didn't occur. People who use internet banking also use branches although more people are bill paying through the internet.[44]

- According to the U.S. General Accounting Office, over 20 million households lack basic retail accounts.[45] The experience of some southern tier countries suggests that some low-income people can be taught to use electronic banking thus reducing the costs of banking them.

Community Development Financial Institutions

- Since the early 1970s, a new form of financial institution has developed in the U.S. devoted to serving underserved markets including low-income and minority communities. These institutions are called community development financial institutions, or CDFIs.

- Chicago is rich in such institutions. It has community development banks such as Shorebank and First Bank of the Americas, community development credit unions such as North Side Community Federal Credit Union and Southside Federal Credit Union, micro-loan programs such as the Women's Self Employment Project and Accion Chicago, and loan funds such as the Illinois Facilities Fund (day care center and other social service loans) the Chicago Community Loan Fund (commercial and nonprofit loans) and the Community Investment Corporation (loans for multi-unit housing).

- These institutions perform several functions. They outperform regular financial institutions in service to underserved markets often being the only vehicle for debt and equity investments. They develop new products suitable for lower-income families, and they partner with regular financial institutions thus linking those institutions to new markets.[46]

- There are four main sectors of CDFIs – banks, credit unions, loan funds, and venture capital (VC) funds. These four groups serve different, yet overlapping, segments of the community development universe.[47]

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[43] Katy Jacob, "Stored Value Cards: A Scan of Current Trends and Future Opportunities." Chicago: Center for Financial Services Innovation, July 2004.

[44] Holden Lewis, "Big banks bet you'll pay bills online." Bankrate.com, 2001.

[45] "Electronic Transfers: Use by Federal Payment Recipients Has Increased But Obstacles to Greater Participation Remain. U.S. General Accounting Office, GAO-02-913, September 2002.

[46] Benjamin C. Esty, "South Shore Bank: Is it the Model of Success for Community Development Banks?" John Wiley and Sons, 1995.

[47] CDFI Data Project, "Community Development Financial Institutions: Providing Capital, Building Communities, Creating Impact, 2002.

- Nationally, CDFIs serve markets traditionally underserved by mainstream financial institutions. In 2002, CDFI customers were 53% female, 60% minority, and 70% low income. These ratios are all much higher than mainstream financial institutions.[48]

- In 2002, approximately 1,000 CDFIs were in operation in the United States. They have had enormous impact on low-income communities in the form of new high-quality jobs, affordable housing units, community facilities, and financial services to low-income people. In that year, they provided $2.6 billion in construction financing, assisted or financed 7,800 businesses that created or maintained more than 34,000 jobs, and provided mortgages to 4,100 people and provided more than 4,800 alternatives to payday loans.[49]

Money, Communities, and Government Regulation

Money and Communities

- There have been dramatic shifts in the wealth of individual cities. Due to changes in the national economy, some cities maintained population and investment (such as Chicago, Detroit, and Los Angeles), while others lost population and development (such as Detroit, Cincinnati, and St. Louis).

- The Chicago metro region has seen a movement of lower-income people to the inner suburbs.[50]

- Some poor communities are densely populated, have a thriving economic life, and have a per-acre purchasing power higher than very wealthy communities.[51]

- Some low-income communities have experienced 30 years of declining population and retail activity.[52]

- Many U.S. urban communities from the 1960s faced "white flight", population decline and disinvestment as African-American in-migration increased. In consequence, banks and insurance companies redlined specific neighborhoods.

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[48] CDFI Data Project, "Community Development Financial Institutions: Providing Capital, Building Communities, Creating Impact, 2002.

[49] CDFI Data Project, "Community Development Financial Institutions: Providing Capital, Building Communities, Creating Impact, 2002.

[50] Northeastern Illinois Planning Commission, "Statistical Tables and Maps." Found online at http://www.nipc.org/region/#snapshots . Last accessed 7 March 2005.

[51] "Metroedge Primer." Metroedge, 2002.

[52] "Metroedge Primer." Metroedge, 2002.

Government Regulation

- Community activists led by Gail Cincotta in Chicago, persuaded federal law makers to respond with the 1975 passage of the Home Mortgage Disclosure Act (HMDA) and the 1977 passage of the Community Reinvestment Act (CRA).

- HMDA requires regulated financial institutions to make certain disclosures about home mortgage activity and CRA requires them to attempt to meet the credit and deposit needs of all the areas in which they do business *including low- and moderate-income communities*.

- CRA was largely unenforced in the 1980s although Chicago activists signed CRA agreements with three major banks, Harris, Northern Trust, and First Chicago in 1983. In 2004, the Chicago CRA Coalition was the only group in the country to sign a CRA Memorandum of Understanding with J. P. Morgan Chase on its acquisition of Bank One, the successor bank to First Chicago. That Memorandum sets out lending, investment and services goals for six years for the six-county region.

- In the 1990s, new data requirements, new regulations, the policies of the Clinton Justice Department, Clinton appointments to the bank regulatory agencies, and increased community activism resulted in substantial new CRA activity.

- As a result of good economic times and this increased CRA activity, during the period 1993 to 1997, home loans to low-income borrowers nationally increased by 36 percent compared to 16 percent for middle-income borrowers.[53]

- At the same time, home loans to minorities increased by 53 percent compared to 13 percent for white.[54]

- Between 1993 and 2000, banks, regulated under CRA, had a higher share of prime loans in their assessment areas than non-CRA regulated lenders.[55]

- CRA banks have a 20 percent higher share of loans to African-American and 16 percent higher share of loans to Hispanics than non-CRA regulated lenders.[56]

- A study by the Federal Reserve Board in 2000 shows that CRA home and small business loans are generally profitable for the lenders.[57]

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[53] Robert Litan et. al., "The Community Reinvestment Act After Financial Modernization: A Final Report." U.S. Department of the Treasury, January 2001.

[54] Robert Litan et. al., "The Community Reinvestment Act after Financial Modernization: A Final Report." U.S. Department of the Treasury, January 2001.

[55] William Apgar et. al., "The 25th Anniversary of the Community Reinvestment Act: Access to Capital in an Evolving Financial Services System." Joint Center for Housing Studies at Harvard University, March 2002.

[56] William Apgar et. al., "The 25th Anniversary of the Community Reinvestment Act: Access to Capital in an Evolving Financial Services System." Joint Center for Housing Studies at Harvard University, March 2002.

- Bush appointments to the bank regulatory agencies are significantly watering down CRA through regulatory changes.

[57] "The Performance and Profitability of CRA-Related Lending." Board of Governors of the Federal Reserve System, 17 July 2000.