NEW AMERICA FOUNDATION
ASSET BUILDING PROGRAM

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THE ASSETS REPORT 2008

A Review, Assessment, and Forecast of Federal Assets Policy

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The purpose of this annual report is to summarize and take stock of the current state of federal policy through an asset-building lens, especially as it affects the asset base of families with lower incomes and fewer resources, which is the focus of our work.[2] The report is divided into three sections. The first is a review of policy developments from the past year related to asset building, highlighting administration action and significant legislation, including assets-related bills introduced in the first year of the 110th Congress; the second is an examination of the President's budget proposals for Fiscal Year 2009 from an assets perspective; and the third is a forecast of the assets policy issues that may be considered in Congress during the year or two ahead. A companion report, *The 2008 Assets Agenda*, to be released in April will offer a detailed description of a range of policy proposals to broaden savings and asset ownership.

The Assets Report 2008—Highlights

2007 Review

- The Administration responded to the housing crisis by creating the HOPE NOW alliance to conduct aggressive outreach to homeowners at risk of delinquency and foreclosure.
- *FHASecure* was launched as a refinancing option for homeowners with non-FHA adjustable rate mortgages in response to the housing crisis.
- The IRS began allowing taxpayers to directly deposit their tax refunds among a maximum three accounts, a change expected to facilitate savings by simplifying the process of making deposits.
- The Senate introduced the New Saver's Act, a set of 14 low-cost proposals to increase savings, especially by lower-income Americans.
- The House of Representatives reintroduced the ASPIRE Act, to establish universal children's savings accounts, opened automatically at birth.
- The Freedom to Save Act, the first sweeping proposal to reform asset limits in major public assistance programs was introduced by Representative John Conyers (D-MI).
- Proposals to reform the asset limit in the Food Stamp Program were included in both the House and Senate versions of the Farm Bill.
- The College Cost Reduction and Access Act was passed, changing the way some Section 529 accounts are treated in financial aid calculations.
- Presidential candidates in both parties highlighted savings policies as part of their economic policy platforms.

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[2] Asset building refers to public policy and private sector efforts to enable individuals to accumulate and preserve long-term, productive assets—savings, investments, a home, post-secondary education and training, a small business, and a nest-egg for retirement.

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President's Budget Proposals FY 2009

- The budget includes over $407 billion in tax expenditures related to asset building, which will overwhelmingly accrue to middle- and upper-income households, according to the Joint Committee on Taxation.
- Consolidation of tax-preferred savings accounts is proposed which would create a system of Retirement Savings Accounts, Lifetime Savings Accounts, and Employer Retirement Savings Accounts.
- The President makes his second consecutive proposal to extend "Saver's Credit" eligibility to deposits made in Section 529 College Savings Plans.
- The Community Development Financial Institutions (CDFI) is again slated for a drastic funding reduction, including the outright elimination of funding for Native Initiatives.

2008 Preview: What's on the Agenda in Congress This Year

- The stimulus package, passed by Congress in January and signed into law by the President, will deliver $110 billion in tax rebates beginning in May.
- The potential onset of a recession may trigger additional calls for a policy response, which could include a focus on savings incentives and financial education. Though passage of specific savings legislation is unlikely, savings proposals are expected to generate interest and attention.
- Further examination of issues that created the housing crisis may lead to legislative and regulatory changes in the mortgage market and more broadly to the provision of financial services.
- Deteriorating economic conditions may lead to a second stimulus bill, creating opportunities to consider additional policies designed to encourage savings and financial stability.

While the unfolding presidential campaign continues to garner the attention of the public and their policymakers, it has also created some opportunities to focus on a number of asset-building issues. Last year was a time of abundant creativity in the policy arena, as the absence of incumbents provided a wide-open race with a full slate of candidates in both political parties. Many insightful proposals have been made that address issues of economic security, savings, access to financial services, homeownership and asset protection.[3] Some of these may fall by the wayside as their proponents recede from view. Other proposals may prove to have life of their own, either as innovative reforms or in the context of the general election campaign.

Despite robust policy discussions, last year was not a time of abundant legislative activity and no large legislative package made its way through Congress. Even as it became clear that economic conditions were worsening, neither the White House nor Congress pursued a large social-policy or economic agenda. Initial concern with the performance of the sub-prime housing market spread to a wider focus on the declining availability of credit. Rising foreclosures and mortgage defaults along with falling house prices led many economists by year's end, to conclude that the housing bubble had burst and the ripple effects would plunge the entire economy into recession. Home foreclosures reached record levels at the end of 2007, with over two percent of all outstanding mortgages in the foreclosure process. Equally troubling was the high percentage, almost six percent, of outstanding loans in delinquency, according to the Mortgage Bankers

[3] Reid Cramer, Alejandra Lopez-Fernandini and Rourke O'Brien. "Savings Promises: A Review of Proposals by Presidential Candidates to Promote Savings and Asset Building," New America Foundation. December 2007.

Association.[4] The state of the economy will undoubtedly be one of the primary contexts for policy discussions in the year ahead.

The looming fall election has already spurred prompt and bipartisan action. Over $100 billion in rebate checks are scheduled to flow back into household coffers starting this May in order to stimulate spending and stave off a deep recession. However, many Americans have already expressed a preference to use these funds to save or pay down debt. A recent Pew poll found that 47 percent of Americans intend to pay off bills and 23 percent say they will save their money; only 19 percent who expect to spend their stimulus rebate.[5] These expectations may change if poor economic growth leads to lower levels of job growth and declining wages, trends that have already been observed in recent months.

As both individual households and the greater economy feel the stress of a debt-led recession, the timing is right for a resurgence of savings at the household level and a renewed interest in policies capable of facilitating it. Americans today spend an average of 14.5 percent of annual income simply servicing debt—a 30 percent increase from 15 years ago.[6] A recent survey by the Consumer Federation of America highlights a growing awareness of the need to save, with 79 percent of respondents asserting Americans simply are not saving enough.[7]

The U.S. is in a historic moment. The re-emergence of a federal budget deficit, expensive international commitments, and an economic downturn create a host of policy challenges that our policymakers will be asked to address. In the context of a slowing economy, lawmakers should be expected to identify a range of policy options to help working families increase their savings, pay down expensive consumer debt, and rebuild their asset base. The challenge then becomes enacting the most effective interventions that promote financial stability and enable families to plan for their future. Policies that promote savings and asset building will necessarily be an essential part of the mix.

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[4] Mortgage Bankers Association. "Delinquencies and Foreclosures Increase in Latest MBA National Delinquency Survey." March 6, 2008.
[5] The Pew Research Center. "Economic Discontent Deepens as Inflation Concerns Rise." February 14, 2008.
[6] The Federal Reserve Board. "Household Debt Service and Financial Obligations Ratios"
[7] Consumer Federation of America. "More Than Half of Americans Say They Aare Not Saving Adequately." December 10, 2007.

2007 REVIEW

Credit and Housing Crisis

In October 2007, Treasury Secretary Paulson and HUD Secretary Jackson announced the creation of the HOPE NOW alliance in order to respond to the accelerating subprime crisis. Following weeks of negotiation by government officials and the nation's major mortgage providers, the alliance agreed to conduct aggressive outreach to homeowners who are currently at risk or are already delinquent in their payments. These homeowners would be encouraged to contact their servicers to learn about options to avoid foreclosure. In December, Secretaries Paulson and Jackson unveiled a plan to freeze rates on subprime mortgages scheduled to adjust between 2008 and 2010 for homeowners who are mostly current on their payments.

FHASecure was launched in September 2007 as a refinancing option for homeowners with non-FHA adjustable rate mortgages. Borrowers who are current on their mortgage and borrowers with limited delinquencies resulting from payment shock from a recent interest reset are eligible for an *FHASecure* refinance, which can substantially lower monthly mortgage payments. FHA programs, including *FHASecure* have reworked 100,000 troubled mortgages to date and aims to reach 300,000 families by the end of this year. By the end of January, the Hope Now Alliance had modified approximately 150,000 subprime loans.

Additionally, Congress discussed a number of bills designed to address the current housing crisis and reform the existing mortgage lending system. The Mortgage Reform and Anti-Predatory Lending Act of 2007, introduced in the House by Representative Brad Miller (D-NC), sets forth strict standards for the licensing of mortgage originators—whether independent brokers or persons employed by a lender; details minimum standards for mortgage issuance, including a borrower's ability to repay; requires increased disclosure of fees and loan terms; and establishes an office of housing counseling within HUD. The bill was passed by the House and is currently under review in the Senate. The Federal Housing Finance Reform Act of 2007, introduced in the House by Representative Barney Frank (D-MA), seeks to increase regulation of Fannie Mae and Freddie Mac and the Federal Home Loan Banks. The bill was passed by the House and is currently under review in the Senate.

Additional funding, much of which has already been dispersed, was allocated to support foreclosure prevention programs. The Neighborhood Reinvestment Corporation, now NeighborWorks America, received $180 million to administer the National Foreclosure Mitigation Counseling program and to fund HUD-approved counseling intermediaries, State Housing Finance Agencies, and local NeighborWorks organizations to conduct foreclosure counseling. The FY 2008 Consolidated Appropriations Act entrusts NeighborWorks also to provide foreclosure counseling training courses and conduct an evaluation of the effectiveness of foreclosure counseling interventions.

Additionally, several bills related to the mortgage crisis included increased support for financial education and counseling, including a bill introduced by Representative Eddie Johnson (D-TX), which would encourage financial institutions to provide financial education by including it in the set of activities which would qualify for Community Reinvestment Act (CRA) credit.

Tax Filing and Split Refunds

The IRS implemented in 2007 a policy change that allows taxpayers to direct deposit their tax refunds among a maximum three accounts. Previously, refunds were issued in a lump sum, but taxpayers now are able to use the tax filing process to make direct deposits into multiple accounts. The ability to automatically divide a refund into "money to spend" and "money to save" directly on Form 8888 may help families overcome any reluctance to direct their entire refund into tax-preferred savings accounts, like IRAs, that are subject to restrictions on withdrawals.

The split refund proposal had been advocated by the asset-building policy community for a number of years and had been included in the President's budget since 2004. Given that many households up and down the income scale receive sizeable refunds—the average refund exceeds $2,000—the ability to split refunds represents a potentially powerful institutional mechanism available to taxpayers and their tax preparers to promote savings. Moving 25 percent of refund deposits to savings products could net more than $55 billion in savings each year. In its first year, approximately 80,000 filers split their refund into multiple accounts. However, it is likely to take several years for this policy change to realize this potential, given the inevitable challenges of implementing and publicizing this new mechanism.

Asset Limits

In addition to an income test, eligibility for many federal public assistance programs includes an "asset" or "resource" test that looks at a family's savings, investments, and other wealth. While these asset tests are intended to ensure that limited federal funds are allocated to the people most in need, they can have the unintended and unfortunate consequence of discouraging saving, promoting unproductive consumption, or resource depletion. In 2007, members from both sides of the aisle sought to address this disincentive to save through reforming the asset limit rules in the Food Stamp program, which was being considered for reauthorization in the Farm Bill. As of the end of 2007, the Senate and House had passed bills that included food stamp reforms that would index the existing asset limit to inflation and exclude retirement (IRA, 401(k)) and higher education savings accounts, such as Section 529 College Savings plans. The Senate bill also called for the asset limit for the Food Stamp program to be increased from $2,000 to $3,500. A conference committee composed of members from both houses will ultimately negotiate the final details of the bill before it is sent to the President.

Also in 2007, Representative John Conyers (D-MI) introduced the Freedom to Save Act of 2007, a sweeping proposal to eliminate or significantly increase the asset limit across major income support programs, including Food Stamps, Temporary Assistance for Needy Families (TANF), Supplemental Security Income (SSI), and Medicaid. While the bill attracted a number of Democratic co-sponsors, the costs associated with such a reform precluded broad support in the House. The bill played an important role, however, in shedding new light on the need to reform asset limits and potential policy options for Congress to consider.

New Saver's Act

In August 2007, Senators Clinton (D-NY) and Smith (R-OR) introduced the New Saver's Act, a bill that aims to increase savings by all Americans, especially lower-income Americans, through targeted incentives and easier access to wealth-building financial services. The legislation would do the following:[8]

Title I: Savings and Financial Education at Tax Time

To facilitate savings and provide reasonably priced transaction accounts, individual taxpayers will be able to open accounts on their tax returns. Taxpayers will also be able to purchase U.S. savings bonds directly with their tax return. In addition, the Treasury Department will make available up to $25 million in grants each year to support tax return preparation clinics for low-income taxpayers. Finally, the Treasury Secretary will establish national savings performance measures to evaluate the extent to which Americans are saving and using the federal tax process to facilitate their savings activities.

Title II: Access to Wealth Building Financial Services

The Secretaries of the Treasury Department and the Department of Health and Human Services are instructed to undertake a number of programs and strategies to promote access to wealth building financial services. Efforts will focus on encouraging the use of electronic payments;

[8] A detailed summary of the bill can be found on the new America Foundation's website: http://www.nafonline.org/publications/resources/2007/new_savers_act.

linking benefits cards to savings products; and providing the resources, incentives, training, and assistance to connect individuals to a variety of wealth-building financial products and services. To execute this agenda, the bill authorizes up to $50 million a year in grants.

Title III: Children's Savings Accounts
The earlier children start saving and accumulating assets, the more financially secure they will be throughout life and in retirement. The bill creates Young Savers Accounts (YSAs), which will allow parents to make tax-advantaged, direct contributions to Roth IRA-type accounts for their children. The current rules for Roth IRAs require owners to have earned income, so families have no tax-benefited, restricted way of saving for a child's first home, college, or retirement.

Title IV: Expansion of the Saver's Credit
The Saver's Credit is a nonrefundable tax credit that matches lower-income taxpayers' contributions to 401(k) plans, IRAs, and other savings vehicles. To help more eligible families take advantage of the credit and create an incentive to save for higher education, this proposal expands the list of eligible savings vehicles to include Coverdell and Section 529 education savings accounts and it increases the amount of the savings that is eligible for the credit.

Title V: United States Savings Bonds
U.S. Savings Bonds are a valuable tool to promote savings, especially among small savers. This title expands efforts to market and promote access to U.S. savings bonds, and creates a tax credit available to employers who facilitate the purchase of savings bonds through their participation in the payroll savings plan.

Title VI: Qualified Tuition Programs
Section 529 College Savings Plans, or qualified tuition plans, provide a useful saving platform for post-secondary education. This title ensures that detailed information on the operation and performance of each state's program is made available each year, and an annual report is prepared to assess the use and effectiveness of qualified tuition programs in assisting taxpayers. Further, it also creates a grant program to support states' innovation in increasing participation in their programs.

Children's Savings Account Proposals
Various children's savings account proposals continued to garner discussion during 2007, both in the halls of Congress and on the campaign trail. In a speech before the Congressional Black Caucus Institute in September 2007, presidential candidate and New York Senator Hilary Rodham Clinton indicated her interest in a proposal to endow every child at birth with an account seeded with $5,000. Her remarks drew a great deal of public attention, with varied reaction from pundits, the press and the public.[9] Previously, in speeches before the Democratic Leadership Council and New America Foundation, Senator Clinton had proposed seeding these Baby Bond accounts with $500.[10] Though the confusion raised the profile of the idea, it was difficult for advocates to defend the general concept of children's savings accounts when they became associated with the perceived high cost of the Baby Bonds proposal.

ASPIRE Act
The America Saving for Personal Investment, Retirement, and Education Act (The ASPIRE Act), reintroduced in September 2007, proposes to establish a universal accounts-at-birth system. The ASPIRE Act, which was first introduced in 2005, was reintroduced to the 110th Congress in September 2007. Co-sponsored by Representatives Patrick Kennedy (D-RI), Phil English (R-PA), Jim Cooper (D-TN), Rahm Emanuel (D-IL) and Tom Petri (R-WI), the ASPIRE Act would create a Kids Investment and Development Account (KIDS Account) with a starter deposit of $500 for

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[9] Reid Cramer. "Baby Bonds Pay Bipartisan Dividends." *The Politico*. October 16, 2007.
[10] Hillary Rodham Clinton. "Remarks of Senator Hillary Rodham Clinton to the Democratic Leadership Council." July 24, 2006.

every child born in the U.S. The bill also provides incentives that encourage additional contributions to these accounts for families earning less than the national median income. The ASPIRE Act was not introduced in the Senate in 2007; however Senator Charles Schumer (D-NY) intends to introduce a bi-partisan version of the bill in 2008.

Young Saver's Accounts

By creating a new tax-preferred financial product, Young Saver's Accounts would allow parents, for the first time, to direct contributions to Roth IRA accounts for their children, not just for themselves. Initially introduced by Senator Max Baucus (D-MT) in March 2006 as part of the Savings Competitiveness Act, the provision was adopted by Senators Clinton (D-NY) and Smith (R-OR) and included in the New Saver's Act, which was introduced in summer 2007. This product would fill a gap in the tax-advantaged savings continuum by creating a savings vehicle that could be used by children.

Lifetime Prosperity Act

Introduced as H.R. 3574 by Rep. Connie Mack (R-FL) and other House Republicans, this proposal would allow children to own Roth IRAs as soon as they are born. It would allow family members and neighbors to contribute to a child's Roth IRA and receive the Retirement Savings Tax Credit for that contribution. It would also raise the limits on the Retirement Savings Tax Credit to allow middle income working families to receive this credit in addition to low income families. The bill has been reintroduced by Rep. Mack in the 110th Congress as H.R. 2163 the Kids Invest and Develop Savings (KIDS) Act of 2007.

401Kids

Introduced in 2006 as HR 5314 by Representative Clay Shaw Jr. (R-FL) and other House Republicans, this proposal would convert Coverdell Education Savings Accounts into 401Kids Savings Accounts. These accounts would have expanded uses, including the option of being rolled over into a Roth IRA. This proposal would make it possible for a restricted, tax-advantaged savings account to be opened in a child's name as early as birth, with up to $2,000 of after-tax contributions permitted each year. The funds could be used for the K-12 and post-secondary education expenses currently allowed under Coverdell Education Savings Account rules, but also for expanded qualified uses that include a first-time home purchase, or retirement. The bill has been reintroduced in the 110th Congress as H.R. 87 by Rep. Biggert (R-IL).

PLUS Accounts

As proposed by Senator Jeff Sessions (R-AL), U.S. citizens born after December 31, 2007 would have a PLUS Account opened for them automatically by the federal government. These accounts would be endowed with a one-time $1,000 contribution. Beginning January 1, 2009, individual PLUS accounts would be established for all working U.S. citizens under the age of 65, with a mandatory one percent of each worker's paycheck withheld pre-tax and automatically deposited into their account (workers could voluntarily contribute up to 10 percent). Employers would also be required to contribute at least one percent (and up to 10 percent) of earnings. No withdrawals from PLUS accounts could be made until the account holder reaches the age of 65, although there would be a loan program for pre-retirement uses.

Financial Education

The Financial Literacy and Education Commission (FLEC), created by Congress in 2003 to design and advance a new financial literacy and education agenda, was not particularly active in 2007. Following the release of the *National Strategy for Financial Literacy Report,* described by the GAO in a 2006 report as composed of "broad pronouncements that do not include a specific implementation plan," no new legislative initiatives were introduced in 2007. In January 2008, President Bush issued an Executive Order calling for the creation of separate body, the President's Advisory Council on Financial Literacy, which was given a similar mandate to FLEC's, but with a greater focus on the activities of the private sector. The 19-member Council is comprised of private-sector leaders and will focus in five areas over two years: financial literacy for youth, financial education in the workplace, financial access for underserved populations, research on the state of financial literacy, and community outreach and dissemination of effective programs. The Council will reside within the Department of the Treasury, which will provide funding and administrative support for the Council.

College Cost Reduction and Access Act of 2007
Signed by the President in September 2007, the College Cost Reduction and Access Act made significant changes to the rules governing Section 529 higher education savings accounts. Section 529 accounts held in the dependent student's name are no longer excluded from financial aid calculations and will be treated as parental assets. Despite President Bush's FY 2008 budget proposal to exclude savings in Section 529 accounts from financial aid considerations, these investments will continue to be calculated in determining a family's ability to pay for higher education. Additionally, to avoid double counting savings in Section 529 accounts as both income and assets, the College Cost Reduction and Access Act clarified existing laws assuring that distributions from Section 529 accounts for qualified expenses are not considered "income" when determining financial aid eligibility.

Taxpayer Protection and Assistance Act
In April 2007, Sen. Jeff Bingaman (D-NM) introduced the Taxpayer Protection and Assistance Act of 2007. The bill would enable the Secretary of the Treasury to make grants from $6 million to $10 million for matching funds to develop and expand tax preparation clinics and increase funding for taxpayer assistance clinics. The bill also includes new regulations for entities that offer refund anticipation loans.

Predatory Lending
In addition to provisions in various mortgage bills calling for increased regulation to prevent predatory lending, Representative David Scott (D-GA) introduced a bill authorizing the Secretary of the Treasury to make grants for counseling and education programs designed to prevent families from falling victim to predatory lending. The bill also calls for the creation of a toll-free telephone number for complaints regarding predatory lending and the creation of a predatory lending advisory council, to be housed within the Department of Treasury.

Community Reinvestment Modernization Act of 2007
Introduced by Representative Barney Frank (D-MA), the Community Reinvestment Modernization Act proposes to expand the universe of institutions under the jurisdiction of the Community Reinvestment Act (CRA) as well as require financial institutions to continue to meet the credit and capital needs of underserved communities in the context of an evolving modern financial services industry. The introduction of this Bill signals the beginning of a lengthy debate over the role and obligations of financial service providers, well beyond the banking sector, in serving low and moderate income consumers and communities.

DESCRIPTION AND ANALYSIS OF THE PRESIDENT'S FY 2009 BUDGET

The President's FY 2009 budget includes proposals for new initiatives, budget requests for existing programs, and a presentation of the government's finances. A description and analysis of each of these, as they relate to asset building, is provided. With a few exceptions described below, the FY 2009 Budget includes many of the same proposals offered in previous years, as they have thus far failed to prompt congressional action. No new major asset-building proposals are included for the first time in this year's budget. Several large proposals made during the last year, such as the proposal to create Lifetime Savings Accounts, are included in the budget, but their prospects for consideration are low given the political realities of the final year of a two-term administration with low approval ratings.

In the broad arena of policies related to savings and asset building, much of the action remains on the tax side—both with proposed and existing policies. This is reflected in our analysis, which catalogues over $407 billion in tax expenditures related to asset-building compared to $22.21 billion in requested appropriations for the programs we identify as linked to asset building activities. The tax breaks that support homeownership, retirement savings, and capital investment flow overwhelmingly to those on the upper half of the income scale. The federal resources available to assist those on the lower half of the scale to build their asset base continue to pale by comparison. While most of the asset-building programs in HUD, HHS, and Treasury are slated for level funding, the administration is once again requesting a significant increase in funding for post-secondary education, mainly through an increase in the funds available for Pell grants.

A. NEW INITIATIVES AND PROPOSALS

Savings Policy and Tax Reform

Tax reform was expected to be one of the major policy initiatives of the second term of the Bush administration. Thus far there has been little progress in this arena. The final report of the President's Advisory Panel on Federal Tax Reform issued in November 2005, was designed to provide a foundation for a national discussion of transforming our tax system into one that is "simple, fair, and pro-growth."[11] The FY 2009 budget includes no specific proposals to reach these ends. Instead, the President has reintroduced three savings proposals presented in previous years.

Retirement Savings Accounts and Lifetime Savings Accounts

The budget again proposes creating two new consolidated savings accounts: *Retirement Savings Accounts* (RSAs) and *Lifetime Savings Accounts* (LSAs), with the intention of simplifying taxpayer decision-making and encouraging more saving. RSAs would be designed for retirement saving purposes and LSAs would capture all other savings goals, including additional retirement investing. Individuals would be able to contribute no more than $5,000 per year to RSAs and $2,000 per year to LSAs. The Saver's Credit, a nonrefundable credit applied to the first $2,000 contributed to retirement plans, would apply to RSAs, but not LSAs. Contributions to both accounts would be nondeductible, but earnings would accumulate tax-free. Withdrawals from LSAs could be for any purpose at any time without penalty, while RSA withdrawals would be tax-free only after age 58 or in the event of death or disability.

The President also included in the plan the elimination of a ten percent penalty on early withdrawals from retirement plans prior to age 59½ by active duty service members.

[11] President's Advisory Panel on Federal Tax Reform. "Simple, Fair, and Pro-Growth: Proposals to Fix America's Tax System." Report of the President's Advisory Panel on Federal Tax Reform. 2005.

Employer Retirement Savings Accounts
As in previous years, the Budget proposes a single *Employer Retirement Savings Account* (ERSAs) to consolidate the varied employer retirement plans, including 401(k), SIMPLE 401(k), Thrift, 403(b), governmental 457(b), SIMPLE IRAs and SARSEPs. Existing 401(k) and Thrift plans would be renamed ERSAs. Annual contributions would be limited to $15,500 ($500 more than previous year's proposal). 403(b)s and other plans (governmental 457(b), SIMPLE IRAs, SARSEPS, and SIMPLE 401(k)) would be renamed ERSAs or else continue as separate plans but would be unable to receive contributions starting January 2010. Contributions to the RSA could be either 1) from pre-tax income (i.e. the contribution to the RSA would be tax deductible) so the taxpayer would not pay income tax on the money until its withdrawal; 2) from post-tax income but scheduled and withheld from the payroll check; or 3) voluntary and periodic contributions made by the taxpayer outside of the paycheck.

Homeownership
In the President's State of the Union speech, he highlighted the creation of the HOPE NOW alliance, which was designed to assist families in avoiding foreclosure. This effort was brokered by the Treasury Department and is a private sector collaboration of lenders, loan services, mortgage counselors, and investors. Its success will depend on the actions of the participating private-sector firms to reach out to homeowners and offer them viable options that help them stay in their homes.

HOPE NOW Alliance
Through the HOPE NOW effort, twenty-five mortgage services representing 94 percent of the subprime market have sent over 500,000 letters to delinquent borrowers. Additionally, a free hotline counsels 4,000 homeowners a day. Due in part to Alliance outreach, loan modification rates doubled from third quarter 2007 to fourth quarter 2007 and continued to increase in January 2008. Though established by the Departments of the Treasury and HUD, no funding has been authorized for HOPE NOW.

Project Lifeline
Project Lifeline was announced in early February 2008 as an effort by six of the largest HOPE NOW servicers to reach the most distressed borrowers in hopes of delaying the foreclosure process. Project Lifeline will target borrowers who are 90 days or more late on mortgage payments and have not yet taken action to work with their servicer. Project Lifeline augments the HOPE NOW efforts and encourages lenders to halt the foreclosure process and borrowers to seek individualized counseling. Also different from HOPE NOW, Lifeline will help borrowers with prime, alt-a, second lien and home equity mortgages, as well as with subprime loans, by developing individual counseling and foreclosure avoidance plans, taking into account consumer debt obligations.

Modernize Federal Housing Administration
To meet the demand for affordable, fixed-rate mortgage products by underserved homebuyers, the President proposes reforms to the Federal Housing Administration (FHA). Again, the administration suggests lowering the 3 percent down payment requirement and allowing qualified borrowers to finance 100 percent of the home. Adding such flexibility to the underwriting standards would decrease the amount of cash needed at closing, a higher risk move for insurers but likely to bring more borrowers into the FHA. New mortgage products would assess risk-based premiums based on the size of downpayments and credit scores.

Reform Fannie Mae and Freddie Mac
The proposal would also increase the single-family national loan limit ceiling to 100 percent of the Government Sponsored Entity (GSE) conforming loan limit of $417,000 (for high-cost areas). Congress has offered at least six pieces of legislation since 2006, yet no FHA reforms have been enacted. In a separate measure, the January 2008 economic stimulus package bill included a temporary increase in GSE and FHA loan limits to 125 percent of the area median house price

through December 31, 2008. This increase would raise loan limits to more than $700,000 in high cost areas.

Expand State Financing Options
The President proposes amending the rules relating to qualified mortgage bonds to allow state and local governments to use tax-exempt bonds to refinance existing loans for eligible subprime borrowers. This temporary authority would be effective for 2008–2010 and would target subprime borrowers who are at risk of default. By allowing state and local governments to issue tax-exempt bonds for refinancing, these governments will be able to offer lower interest rates and better assist homeowners at risk of default.

District of Columbia Homebuyer's Credit
The administration is proposing to extend through 2009 the one-time, non-refundable $5,000 credit for first-time homebuyers in the District of Columbia. The credit phases out for individual taxpayers with adjusted gross incomes between $70,000 and $90,000. Extending the credit is intended to make homeownership in DC more affordable.

New Markets Tax Credit
The president's budget extends the New Markets Tax Credit authority for an additional year, in order to generate $3.5 billion in new credit allocations. Investors who support community development projects can apply to receive credits, claimed over seven years, of up to 39 percent of the amount of a qualified equity investment.

Extending Saver's Credit to Section 529 College Savings Plan
The budget again proposes that eligible taxpayers have access to the Saver's Credit when they make contributions to a 529 Qualified Tuition program for post-secondary education. The Saver's Credit is a nonrefundable tax credit that reduces taxable income up to $1,000 for low and moderate income households. The Saver's Credit currently applies only to retirement products, such as IRAs and 401(k)s. Taxpayers with adjusted gross income of up to $53,000 are currently eligible for the credit. This proposal would make Section 529 College Savings Plans more attractive to low- and moderate-income families.

Modify the Earned Income Tax Credit Filing Requirements
The president proposes modifying the eligibility requirements for EITC filings, to simplify EITC filing and minimize noncompliance. Married but separated spouses living with a qualifying child for over half the year could claim the EITC, as could a taxpayer who lives with his or her child and extended family. Under this proposal, the IRS would also conduct outreach to individuals who recently received a valid social security number through a change in immigration status, such as naturalization.

The President's budget also calls for military personnel to have the option to include combat pay as earned income. Depending on the taxpayer's rank, number of months in combat zones, and number of children, among other factors, including combat pay from earned income can either decrease or increase the amount of EITC received by military personnel.

Asset Limits
Repeating a first-time proposal from last year, the administration proposes to exclude all assets held in retirement and education savings accounts when determining eligibility for the Food Stamp program. By excluding these accounts from the current $2,000 asset limit for eligibility ($3,000 for households with an elderly or disabled member), a major disincentive is removed that prevents many low-income families from saving for targeted purposes such as retirement and education. The president, however, proposes to fund this exclusion by eliminating state flexibility in determining which assets to exclude from the limit, which will force eligibility rules to tighten in the ten states that have exercised this authority.

Table 1. New Tax-Based Programs to Build Assets—Effect of Budget Proposals on Receipts

	2009	2010	2011	2012	2013	2009–2018
Expand Tax-Free Savings Opportunities[12]	1,527	3,545	3,023	1,075	-1,314	-592
Consolidate Employer-Based Savings Accounts	-80	-120	-132	-141	-150	-1,484
Expand Saver's Credit to Include Qualified Tuition Programs	-88	-183	-198	-213	-227	-2,259
Allow Tax-Exempt Qualified Mortgage Bonds to Refinance Subprime Borrowers	-116	-230	-305	-329	-331	-2,687

Source: Office of Management and Budget, Executive Office of the President. *Budget of the U.S. Government, Fiscal Year 2009,* "Analytical Perspectives." Table 17-3.

Table 2. Extending of Expiring Provisions of Programs to Build Assets—Effect of Budget Proposals on Receipts

	2009	2010	2011	2012	2013	2009-2018
Extend First-time Homebuyer Credit for the District of Columbia	-20	-19	0	0	0	-39
Extend the New Markets Tax Credit	-132	-194	-191	-217	-231	-1,287

Source: Office of Management and Budget, Executive Office of the President. *Budget of the U.S. Government, Fiscal Year 2009*, "Analytical Perspectives." Table 17-3.

B. FUNDING REQUEST FOR EXISTING PROGRAMS

Education

Below we present selected education funding and savings proposals related to higher education, adult education and vocational training. Insofar as these programs support the development of human capital, they reinforce asset-building goals and are included in our analysis. For a more detailed analysis of the president's budget proposals for K–12 and higher education, including student loan and grant levels, we refer you to New America Foundation's Federal Education Budget Project analysis.[13]

Proposed funding for College Readiness and Career, Technical and Adult Education changed little from previous years, while Student Financial Assistance programs enjoyed a slight increase. This year's budget maintains current levels of funding for TRIO and GEAR UP, college preparation programs for low-income students, and eliminates the LEAP initiative, which encourages states to establish scholarships for college students. The budget again proposes zero funding for the Career, Technical and Adult Education Account, a program for which Congress appropriated $1.3 billion in 2008. New in 2009, the president's budget authorizes the Departments of Education and Labor to provide $363 million in short-term loans to assist 377,000 dislocated, unemployed, transitioning, and older workers to obtain training. Significantly, the president increases the Pell grant budget nearly 20 percent from the previous year's request.

Housing and Urban Development

The HOME Investment Partnership program (HOME) provides financial assistance to low-income families to purchase homes or rent affordable housing. At nearly $2 billion, the FY 2009

[12] In the short term, the creation of LSAs and RSAs generates revenue because there will be federal taxes and penalties associated with the shifting of savings into these accounts. These gains do not represent any improvement in the government's overall revenue stream, however, and the back-loading of savings incentives will have much greater costs in the out-years.

[13] New America Foundation, Education Policy Program. "Analysis of President Bush's Education Budget Request." February, 2008.

request is approximately $360 million over the amount approved by Congress for FY 2008. Additional funding this year makes possible the development of 85,350 units of affordable housing through new construction, rehabilitation, and/or acquisition. One federal dollar through HOME is estimated to leverage $3 from other public and private sources.

The American Dream Down-payment Initiative (ADD), a component of HOME, provides grants to first-time low- income homebuyers to meet upfront down-payment and closing costs. As for last year, the president again proposed $50 million for ADD to assist more than 6,000 families in meeting home buying costs. In past years, appropriations have fallen short of the president's authorization levels. In FY 2007, the president requested $100 million, yet only $25 million was appropriated by Congress. To date, ADD funds have assisted over 21,000 families become new homeowners, at an average of $7,500 in assistance per household.[14]

For the third consecutive year, funding for Housing Counseling is proposed as a stand-alone account. Separating this account from the HOME program might guarantee a more stable revenue stream in the future. The 2009 request of $65 million is $15 million, or 30 percent, more than the 2008 enacted level and $20 million more than the proposed 2007 level. In FY 2007, 50 percent of clients who received pre-purchase counseling purchased a home or became mortgage ready within 90 days, a slight increase from the previous year, and surpassing the target of 30 percent. The Housing Counseling Assistance program enables housing counseling services to prepare families to purchase their first home, to avoid predatory lending practices. The program also supports counselors assisting current homeowners facing default.

Added to the Housing Choice Voucher program in 2001, the Homeownership Voucher program allows first-time homebuyers to use their Section 8 vouchers to meet monthly mortgage and other homeownership expenses. The FY 2009 budget proposes amending the Housing Choice Voucher program to grant state and local Public Housing Authorities (PHA) more authority and flexibility. In recent years, PHAs have surpassed their performance targets for home purchases aided by the voucher program; an estimated 9,000 home purchases will be made possible this year with Housing Choice Vouchers.

The budget again requests $48 million for Family Self Sufficiency (FSS) program coordinators, a significant decrease from the 2006 appropriated level of $93 million. Enacted in 1990, the FSS program is a potentially powerful asset-building vehicle that allows participating families in assisted housing to set aside, in an escrow account, money that would otherwise go to rent increases. Account holders receive their accrued FSS escrow funds plus interest upon successful fulfillment of their individualized self-sufficiency plan. A national HUD evaluation of FSS found that compared to non-participants, FSS participants had larger increases in income and less dependency on public assistance.[15]

This year's budget authority for the Self-Help Homeownership Opportunity Program (SHOP) nearly matches the previous year's request of $40 million, which is approximately $12 million more than the 2008 enacted level. National and regional non-profit organizations apply for SHOP grants to assist low-income homebuyers who contribute sweat equity toward construction of their home, to purchase their home. Though grant recipients are not required to match funding, the public-private nature of the SHOP leverages an estimated $10 in resources for every Federal dollar spent.[16] The most recent PART evaluation found SHOP to be effective, well-managed, efficient in transferring funds to intended recipients, and not duplicative of other Federal efforts.

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[14] Housing and Urban Development, Community Planning and Development, Home Investment Partnerships Program. "2008 Summary Statement and Initiatives."

[15] FSS Partnerships. "HUD Program Evaluation Conrfirms FSS' Success in Promoting Self-Sufficiency and Asset-Building."

[16] Office of Management and Budget, ExpectMore.gov. "Program Assessment: Self-help Homeownership Opportunity Program"

The Neighborhood Reinvestment Corporation (now known as NeighborWorks America) is a quasi-public organization comprising a network of 235 community partners in all 50 states, DC, and Puerto Rico. The president's budget requests $150 million, of which $25 million is specifically designated for foreclosure prevention and mitigation. This is a $30 million increase from the previous two year's request. NeighborWorks America works to expand homeownership opportunities, increase financial education levels and create and promote affordable housing opportunities.

Health and Human Services
The President's budget maintains funding authority for the Assets for Independence Demonstration program at $24 million. This program targets low-income individuals and enables their asset accumulation goals by matching participant savings with public and private funds in Individual Development Accounts (IDAs). During 2004-2006, participants' deposits into IDAs increased by 46 percent, and the number of participants who used their savings for asset purchases rose by 52 percent, in part because of the match. Appropriation levels have risen over the years, from $10 million annually during FYs 1999–2000, to a record-high $25 million annually during FYs 2001–2003, dipping slightly in subsequent years to $24 million.

Treasury
The budget requests $29 million for the Community Development Financial Institutions Fund, an amount equal to the FY 2008 request and $21 million more than the FY 2007 request. The CDFI Fund provides equity investments, grants, loans, and technical assistance to new and existing community development banks, community development credit unions, community development loan and venture capital funds, and microenterprise loan funds. Despite the president's attempts to phase out the CDFI program, Congress continues to fund the program, most recently at a near historic level of $94 million.

Of the four programs that make up the CDFI Fund, two are slated for elimination in FY 2009: Native Initiatives and Bank Enterprise Awards (BEA). The administration argues Native communities can continue to seek funding from the larger CDFI pool. The counter argument is that the dearth of financial service providers present in native communities, coupled with a unique administrative structure where tribal governments and agencies fill the role of traditional CDFI nonprofits, means these communities require dedicated CDFI funding. The BEA rewards banks and thrifts that increase their loans and investments in low- and moderate-income communities, including through investment in CDFIs, and has been an important source of capital for CDFIs.

The remaining two programs, the New Markets Tax Credit and CDFI program, received 2 percent and 58 percent increases from 2008 enacted levels, respectively.

The president requests $3.6 billion for IRS tax payer services and operations; this includes funding for Taxpayer Assistance Centers, Volunteer Income Tax Assistance (VITA), Tax Counseling for the Elderly, and a toll-free hotline and web site for assistance. The President's request for VITA, a program to assist low-income individuals to prepare their tax returns and claim benefits such as the EITC, is only $8 million.

Labor
The budget requests $148 million for the Employee Benefits Security Administration, a program that safeguards workers' retirement savings. The 2009 request is an $8 million increase from 2008.

The Pension Benefit Guaranty Corporation (PBGC) is a federal entity responsible for protecting the defined-benefit pension plans of 44 million Americans by encouraging full compliance with pension laws and regulations. Premiums paid by insured pension plans cover most of the agency's budget. At present, the PBGC has a $14.1 billion budget deficit. A major goal in FY

2009 is to restore solvency to the pension insurance system. The Budget requests $445 million, a 4 percent increase from previous years.

Small Business Administration

No longer explicitly slated for elimination, the Microloan program survived budget cuts contingent on the program becoming self-financing and ending the provision of Technical Assistance (the latter would create an additional $14 million cost savings in FY 2008). Though the President zeroed funding for FY 2007, Congress has continued to appropriate funds. In FY 2008, SBA aims to reach 2,500 start-up, newly established or growing small businesses, a number not reached in Fiscal years 2003-2006.

Table 3. Funding Levels of Selected Discretionary (Spending) Programs to Build Assets (in millions of dollars)

	Actual 2007	Estimated 2008	Requested 2009
Department of Education			
Pell Grants-Funds Available	13,661	14,215	16,851
Academic Competitiveness Grants	350	440	490
Supplemental Educational Opportunity Grants	975	958	--
Work-Study	1,171	1,171	1,171
Leveraging Educational Assistance and Partnerships (LEAP)	164	161	--
TRIO (discretionary funding)	828	885	885
GEAR UP	303	303	303
Department of Housing and Urban Development			
HOME	1,800	1,600[17]	1,967
Self-Help Homeownership Program (SHOP)	20	60	39
Housing Counseling	42[18]	50[19]	65
American Dream Downpayment Initiative	25	10	50[20]
Family Self-Sufficiency—Voucher Program	48	49	48
Homeownership Voucher Program[21]	3	5	14
Neighborhood Reinvestment Corporation	117	300	150
Department of Health and Human Services			
Assets for Independence Demonstration Program	24	24	24
Department of Treasury			
Community Development Financial Institutions	55	94	29
Department of Labor			
Employee Benefits Security Administration	149	139	148
Small Business Administration			
Microloan Program, loan levels	19	20	25
TOTAL	**19,754**	**20,484**	**22,209**

Source: Office of Management and Budget, Executive Office of the President. *Budget of the U.S. Government, Fiscal Year 2009.*

C. REVIEW OF EXISTING TAX EXPENDITURE PROGRAMS

Beyond proposals to spend money, the budget includes an analysis of the tax code. Tax expenditure programs in the form of tax deductions, tax credits, preferential tax rates, tax deferrals, or income exclusions are a primary vehicle for achieving many federal policy objectives. Collectively, they subsidize a broad range of activities, including many investments

[17] H.R. 2764, Consolidated Appropriations Act, 2008.
[18] Department of Housing and Urban Development. "FY2009 Budget, Comparative Summary, Fiscal Years 2007-2009." Appendix A, p. 11. February 2008.
[19] H.R. 2764, Consolidated Appropriations Act, 2008.
[20] The American Dream Downpayment Initiative has a $50 million set-aside within the HOME program; hence, this figure is not included in the total calculation.
[21] Office of Management and Budget, ExpectMore.gov. "Detailed Information on the Homeownership Voucher Assessment."

related to asset-building such as mortgage payments, business investments, retirement savings, and educational expenditures. As calculated by the government, the value of these asset building tax expenditure programs is approximately $407 billion on an annual basis, and thus deserve scrutiny.

There are several methods for estimating the value of tax expenditures; the two most common measures are revenue losses attributed to provisions in the tax code, and budget outlay equivalent. The difference between the two is that *revenue losses* count money that would otherwise come in to the Treasury without the change to the tax law, and *outlays* are money actually spent by the government. These estimates will vary slightly from one another depending upon the specific activity and tax treatment. In the case of some refundable tax credit programs, such as the Earned Income Tax Credit, outlays and revenue effects should be considered together to capture the ultimate scale of the policy effort.

Table 4. Value of Select Asset Building Expenditures, Fiscal Year 2009 (in millions of dollars)

Housing	**FY 2000**	**FY 2008**	**FY 2009**
Deductibility of Mortgage Interest on Owner-Occupied Housing	55,100	89,430	100,810
Deductibility of Property Tax	19,495	12,620	16,640
Capital Gains Exclusion on Home Sales	18,540	38,890	34,710
Exclusion of Imputed Rent for Owner-Occupied Housing	*	35,680	7,550
Subtotal Housing		*176,620*	*159,710*
Investment: Commerce			
Capital Gains	40,585	51,960	55,940
Capital Gains Exclusion of Small Corporation Stock	5	320	340
Step-Up Basis of Capital Gains at Death	27,090	35,900	36,750
Carryover Basis of Capital Gains on Gifts	185	760	800
Exclusion of Interest on Life Insurance Savings	14,990	21,925	23,500
Subtotal Commerce		*110,865*	*117,330*
Education			
HOPE Tax Credit	4,855	3,350	3,640
Lifetime Learning Credit	2,655	2,220	2,340
Coverdell Education Savings Account (Education IRA)	230	10	50
Deductibility of Student Loan Interest	265	820	830
Deductibility of Higher Education Expenses	*	1,180	0
State Prepaid Tuition Plans	180	1,000	1,290
Subtotal Education		*8,580*	*8,150*
Retirement: Income Security			
Net Exclusion of Pension Contributions: Employer Plans	84,350	48,480	45,670
Net Exclusion of Pension Contributions: 401(k) Plans	*	43,970	51,000
Net Exclusion of Pension Contributions: IRAs	11,170	6,650	11,700
Net Exclusion of Pension Contributions: Savers Credit	*	670	900
Net Exclusion of Pension Contributions: Keough Plans	4,255	11,890	13,000
Subtotal Income Security		*111,660*	*122,270*
TOTAL		**407,725**	**407,460**

Note: * denotes a valid comparison is not possible.

Tax expenditures as a policy vehicle work best when the benefits or incentives are related to income and are intended to be widely available. While tax expenditure programs may subsidize worthy activities and generate sizeable social and economic returns, they are not accessible to a large number of citizens that would potentially benefit from them the most. Many lower-income households do not have large enough tax liabilities to take advantage of these tax expenditure programs. Not surprisingly, 90 percent of the benefits in the two largest tax expenditure categories (homeownership and retirement) primarily reach households with incomes above

$50,000 a year.[22] All told, the federal government offers over $159 billion a year in support of homeownership, over $122 billion to subsidize retirement savings, and over $117 billion in support of private investment, such as the reduced tax rate on capital gains.

Table 4 identifies the tax expenditures related to asset building included in the federal budget. Some are familiar and easy to understand, while others are obscure and more complicated. For the purpose of this presentation, tax advantages that can be claimed by businesses are not included, even if they help subsidize employee training. The table details projected tax expenditures for FY 2009 and includes estimated expenditures for FY 2008 and FY 2000 (in 2000 dollars) for comparison. Of note in FY 2009 is the significant increased cost of the mortgage interest deduction and savings in defined contribution (401(k) and IRA) plans as well as the phasing out of the deduction for higher education expenses.

Potential Assets Building Resources Delivered through Tax Refunds

While not explicitly an asset-building program, the tax filing process is an opportunity for many families to begin saving, with families of a variety of means receiving sizeable tax refunds. Of the 134.3 million returns filed, 78 percent or, 104.7 million received tax filers received refunds. Through payroll withholding and refundable tax credits, such as the Earned Income and Child Tax Credits, the average refund for all tax filers exceeds $2,000 a year. Tax filers with adjusted gross incomes of $30,000 or less often over-withhold as a means of forced saving; as a group they received fifty-two percent of refunds delivered for tax year 2005. Households with adjusted gross incomes of $30,000 or less, and between $30,000 and $60,000, received 55 million and 27 million refunds, respectively.

These resources can potentially be used for personal investment and asset development, and with the IRS's new "split refunds" option, families can direct funds into multiple accounts, allowing families to easily invest these refundable credits into a variety of savings products. The table below provides an indication of the scale of these resources; the column on outlays refers to the money refunded to taxpayers, and the column on tax expenditures reflects the money not taken in by the government as a result of the lowering of tax liabilities.

Table 5. Funding Levels for the Earned Income and Child Tax Credits FY 2009
(in millions of dollars)

	Outlays	Tax Expenditures	Total
Child Tax Credit	16,780	29,950	46,730
Earned Income Tax Credit	41,020	5,440	46,460

Source: Office of Management and Budget, Executive Office of the President. *Budget of the U.S. Government, Fiscal Year 2009*, "Analytical Perspectives." Table 19-1.

[22] United States Congress Joint Committee on Taxation. *Estimates of Federal Tax Expenditures for Fiscal Years 2006–2010*. April 25, 2006.

2008 PREVIEW

Most pundits predicted that the presidential nominees would be effectively chosen by the beginning of February, months before this summer's conventions. That this didn't come to pass is likely to be one of many unexpected events of this election year. Even as the battle for the Democratic nomination remains unsettled, last year's wide open campaigns generated a tremendous amount of interest in both politics and policies. As a group, the presidential candidates produced a number of policy proposals relevant to savings and asset building issues, some of which may receive increased attention and scrutiny in the general election campaign. As this campaign takes shape over the summer and into the fall, it will be shaped by events that are difficult to foresee, making it difficult to predict the prospects of legislative and policy activity for the coming year. Election years are notoriously difficult to handicap.

Still, it remains apparent that the economic news is not likely to be upbeat. Trouble in the housing market which began with rising defaults in the subprime mortgage market and eventually triggered a rise in foreclosures and a fall in housing process has now spread to other parts of the economy. Declining wages and poor job growth combined with rising energy and health care costs are a prescription for recession. Even if the economy skirts an official recession, the consensus outlook is for poor economic growth for the balance of the year. For the many American families with high debt and low asset holdings, the erosion of housing equity will make it even harder to weather income disruptions brought on by the economic downturn should they occur. In short, the problem of low savings is likely to become more pronounced.

The stimulus package, which was agreed to in January, will return over $110 billion in tax rebates to American families. The rebates will not arrive until May and will only arrive if a family files a tax return. Congress rationalized their policy response by emphasizing the need to stimulate the economy through spending. Unfortunately, this message may be a bit misplaced for many families who need to bolster their household balance sheets. A recent Pew poll has confirmed that many families are planning to eschew the wisdom of their elected officials and intend to save these resources or use them to pay down their debt.[23]

Regardless of what choices individual households make, an extended period of economic hardship may spur additional policy discussions, which could prompt more legislative action, either in the form of a second stimulus package or other targeted proposals that may be linked to savings and asset building. For example, Senator Robert Menendez (D-NJ) has proposed offering households that commit to savings access to a $500 Saver's Bonus when they file their tax returns. Eligibility for the Saver's Bonus would be available to anyone qualifying for the Earned Income Tax Credit (EITC), which would direct these resources to the working families that are in most need of a boost. There are a number of other areas where we could see legislative action or at least significant discussion of issues related to savings and asset building. These are described below in more detail.

Response to Housing Crisis

Representative Barney Frank (D-MA), Chairman of the House Financial Services Committee, and Senator Christopher Dodd (D-CT), Chairman of the Senate Banking Committee, have committed to scrutinizing the finance and regulatory issues that contributed to the housing crisis. It is expected that the committees will focus initially on the dynamics of the subprime market and examine how they related to broader practices of mortgage lending. Specifically, the Congress will continue to consider two pieces of legislation which will reform the mortgage market, the Mortgage Reform and Anti-Predatory Lending Act and Housing Finance Act, both of which were passed by the House in 2007. In addition, both Representative Frank and Senator Dodd have

[23] The Pew Research Center. "Economic Discontent Deepens as Inflation Concerns Rise." February 14, 2008.

begun to discuss proposals to provide additional funding to state and local governments to purchase foreclosed properties and to establish a federal mechanism to purchase mortgage loans at deeply discounted prices for subsequent restructuring.

The administration will continue to encourage major mortgage servicers to work with homeowners in danger of losing their homes by foreclosure. To that end, in early 2008 the HOPE NOW Alliance—a coalition of leading mortgage services committed to helping consumers affected by the subprime crisis—unveiled "Project Lifeline," a concerted effort to reach out to all homeowners, not just those with subprime mortgages, who are 90 days delinquent to discuss potential financing options that can help them avoid foreclosure. As foreclosures resulting from the subprime crisis undermine the broader housing market in 2008, the administration will feel pressure to take a more active role to assure homeowners that their greatest, and sometimes only, major investment is protected.

Oversight of Financial Services

In addition to bills inspired by the housing crisis, Representative Barney Frank's commitment to the Community Reinvestment Modernization Act will lead to substantial discussion of potential regulatory reforms in the financial services sector.

With respect to credit card debt, Representative Carolyn Maloney (D-NY) introduced The Credit Card Bill of Rights Act of 2008 to curb abusive credit card lending practices. While the bill proposes outlawing some of the most egregious practices, such as hiding of fees and interest charges, and bait-and-switch (when a lender promises one set of loan terms to a borrower, but writes a more egregious set of conditions into the agreement unbeknownst to the borrower), both consumer advocates and industry representatives are unsatisfied with the bill and likely to continue debating these provisions.

Provision of Financial Education

Established by Executive Order in January 2008, the President's Advisory Council on Financial Literacy will focus on strategies to expand Americans' access to financial services, increase financial education for youth in school and for adults in the workplace, and measure the nation's level of financial literacy. With a two-year mandate, the Council could potentially play an important role influencing financial literacy policy and serving as a vehicle for useful discussions around this topic. However, without knowing more about how the Council plans to fulfill its mandate, it is difficult to predict the Council's impact. Regardless, financial education will continue to garner attention in 2008 as a stand-alone strategy or one that complements efforts to address housing and consumer debt problems.

Savings Incentives

With the presidential election in full swing and a Republican president in his final year in office, Congress is unlikely to pass any significant savings legislation. We do expect this issue to garner attention and it may lead to the introduction of specific proposals, such as Senator Robert Menendez' concept of creating a Saver's Bonus, delivered through tax filing, which would provide a match for deposits by low-income families into qualified savings products. Given the rebates due to arrive in May and the reality that tax filing is an opportune time to consider household finances and undertake financial planning, additional policies may be considered to reform the tax filing process to support savings.

Despite being dropped from the president's budget last year, the Individual Development Account (IDA) Tax Credit may be considered by Congress as the Savings for Working Families Act, a bill that is championed by numerous Democratic and Republican co-sponsors. Children's Savings Accounts are likely to generate interest and provoke policy discussions, but not lead to legislative change in 2008.

Asset Limits in Public Assistance Programs
As members of Congress become increasingly aware of the need to save, we have seen more interest in proposals to remove or increase asset limits used in determining eligibility for public assistance such as food stamps, Temporary Assistance for Needy Families (TANF), and Medicaid. Following recent reforms to the asset limit in the food stamp program as part of the 2007 Farm Bill, we anticipate Congress will consider more aggressive reform proposals for eligibility rules governing Supplemental Security Income (SSI), Medicaid, and TANF in 2008.

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