



**Family Economic Success
Building Strong Financial Futures
for Families
International Hispanic Network
April 27, 2006**

**Family Economic Success
21st Century Municipal Policy**

- ▣ Family Economic Success (FES) serves as a strategic public policy
- ▣ FES represents a basic health and safety service
- ▣ FES provides significant returns on investments for cities
- ▣ FES offers an immediate deliverable for elected officials and communities

The Problem

- ✓ A combination of predatory financial practices and changing nature of the economy prevents families from achieving economic security:
 - Disconnection from mainstream services
 - Increasing debt
 - Transportation, healthcare, and childcare
 - Under educated and under skilled for today's good paying jobs
 - High cost of financial transactions for working class families

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Background

- ✓ The San Antonio Coalition for Family Economic Progress is a four year old public-private partnership
- ✓ Coalition evolved out of Annie E. Casey Foundation's (AECF) work and IRS transition to community leadership
- ✓ Initial focus centered on the Earned Income Tax Credit Campaign
- ✓ Expanded to include asset building and multi-benefit enrollment



Coalition Structure



San Antonio's Family Economic Success (FES)

- ✓ FES organized around two major strategies:
 - **Asset Building**
 - Free tax assistance to garner Earned Income, Child, Education and Savers Tax Credits
 - Individual Development Accounts (IDA) for home ownership and higher education
 - Access to affordable financial services
 - **Asset Protection**
 - Financial education
 - Predatory lending prevention and intervention
 - Credit refinance options

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VITA Program

- ✓ Three month effort that will serve an estimated 30,000 households earning less than \$40,000
- ✓ Connects working individuals and families to valuable tax credits
- ✓ Serves as enrollment period for multiple public benefits
- ✓ Exposes participants to traditional banking services
- ✓ Reduces the use of expensive tax preparation services and refund anticipation loans (RALs)
- ✓ Promotes financial education and increases awareness of predatory financial practices

Local EITC Impact

- ✓ 2004 EITC return on investment study found:
 - Returned over \$288 million to local residents
 - Directly created 752 jobs and indirectly supported another 262 jobs
 - Brought back \$2 million in additional sales tax revenue to the City
 - 23% of eligible filers do not claim EITC, costing San Antonio families more than \$86 million annually

VITA Results 2003 - 2006

	2003	2004	2005	2006 YTD
Coalition Results				
# of Coalition Sites	32	27	26	25
Total # of Returns	15,244	20,850	24,962	16,889
Total \$\$ Returned	\$21.8 mil	\$30 mil	\$39 mil	\$33 mil
COSA DCI Results				
# of DCI Sites	12	16	17	20
# of Returns	9,537	15,200	19,388	13,724
\$\$ Returned	\$12 mil	\$22.3 mil	\$30 mil	\$27 ₉ mil

Individual Development Account (IDA) Program

- ✓ Matched savings account helps working families accumulate savings for first-time homeownership and post secondary education
- ✓ Creates opportunities for families to acquire assets, change spending and savings patterns and make informed consumer choices
- ✓ Promotes financial education as a family strengthening value and part of the community culture
- ✓ Matches participants savings at a rate of \$4 to \$1 for a maximum of \$4,000 to be applied to an asset goal

IDA Results

✓ 360 families enrolled and actively saving

▪ Homeownership	189
▪ Education	157
▪ Micro-enterprise	14
▪ Est. Participant Savings	\$360,000
▪ Est. Match Committed	\$1,440,000

✓ 129 families have completed the program requirements and purchased their asset

▪ Homeownership	75
▪ Education	43
▪ Micro-enterprise	11
▪ Participant Savings:	\$129,000
▪ Match Contributed:	\$516,000

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Refund Anticipation Loans

- ✓ Refund Anticipation Loans (RAL) are high cost, short-term (7-14 days) loans secured by and repaid directly from the consumer's IRS tax refund
- ✓ Often advertised as "instant money" or "fast refund" rather than as a loan
- ✓ RALs target the working poor – especially those receiving the Earned Income Tax Credit (EITC)
- ✓ The effective annualized interest rate for the average refund of \$2,150 is 178%
- ✓ RALs drain money from taxpayers and the community - most are held by out of state banks

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Tax Preparation & RAL Fees Example

The diagram illustrates the calculation of total fees for tax preparation and a Refund Anticipation Loan (RAL). It shows the following components:

- 1040A** (Tax Form) + **EITC** (Earned Income Tax Credit) + **CTC** (Child Tax Credit)
- \$90** (Fee for 1040A) + **\$25** (Fee for EITC) + **\$15** (Fee for CTC)
- + IRS e-file** (Filing Service) + **SUPERFAST REFUNDS** (Refund Service)
- \$15** (Fee for IRS e-file) + **\$200** (Fee for SUPERFAST REFUNDS, based on amount of refund & loan period)
- = *\$345** (Total Fees)

* Fees are approximate and will vary

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San Antonio RALs

In 2004, 170,000 low-income San Antonio households received the Earned Income Tax Credit (EITC)

- ✓ 68% used a paid tax preparer
- ✓ 49% used a Refund Anticipation Loan (RAL)
- ✓ San Antonio working families spent an estimated \$13 million on RALs in 2004

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City Ordinance

- ✓ **Compels commercial tax preparers to comply with loan disclosure requirements:**
 - Alternatives to RAL to receive refund
 - Annualized interest rate and associated fees
 - Mandatory written disclosures in multiple languages
 - Oral explanation of written disclosures
 - Duration of the loan
 - Mandatory posting in a prominent location
 - Remedies and enforcement
- ✓ **Sets policy for enforcement**
- ✓ **Establishes penalty of \$500 per infraction**

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Implementation

- ✓ **Provide broad-based community education:**
 - Extensive promotion of financial literacy to consumers
 - Outreach to 300-350 paid preparers and RAL issuers
- ✓ **Build stronger partnerships with financial institutions that will:**
 - Offer competitive and innovative alternatives to RAL and Payday loans
 - Launch campaign to encourage greater use of mainstream banking services

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Roles for Municipal Leaders

- ✓ Support access to tax credits (EITC, child, education, savers), home ownership and savings
- ✓ Link multi-benefit enrollment to core city services
- ✓ Enhance local ordinances that strengthen consumer protection
- ✓ Make personal consumer financing issues part of state and federal legislative agenda

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Conclusion



- ✓ It can take a long time to achieve family economic security and make neighborhoods a good place to raise kids
- ✓ Workforce development, family economic supports, and community investment strategies can create powerful change in the lives of children and their families

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