A Prosperity Grid for North Carolina: Connecting Households and Communities to Economic Opportunity
This report represents the culmination of more than two years of work to build a coalition of organizations supporting expansion of economic opportunity in North Carolina. Special thanks go to those who led the building of this coalition, including Shayna Simpson-Hall, Monica Copeland, Lucy Gorham and Carl Rist. We would also like to thank Gena Gunn at the Center for Social Development at Washington University, Carl Rist at CFED, and Michael Morris at the National Disability Institute for their invaluable technical assistance in support of the group's development.

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For more information and to download additional copies of this report, please visit www.ncassets.org or contact:

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EXECUTIVE SUMMARY

The promise of America—that everyone has an equal opportunity to reach his/her potential and that each generation can achieve a better quality of life than the last—is also fundamental to economic growth. In North Carolina, the strength of our economy rests on the strong institutions and communities that we have built to realize this dream. Among other accomplishments, North Carolina has an early care system that prepares children for success in school, a public university system that educates our workforce, and a financial services sector that has led the country in developing innovative, safe and affordable products for working families. These public structures—established by government, supported by the private sector and engaged by households—have not only built the middle class, but fueled private-sector innovation, economic growth and stability.

The shifting nature of economic life in the United States and in North Carolina requires an investment in the network of institutions that make prosperity possible. This prosperity grid is made up of both personal and community assets, for example, sound financial services, affordable housing, small business ownership, and quality education. Like the power grid that delivers energy to every home in its network, this prosperity grid provides the connection to opportunity that can foster shared prosperity.

Today in North Carolina, not all households and communities are connected to this prosperity grid.

- Nearly 3 million households are unbanked or underbanked in North Carolina.
- One-in-ten households have zero or negative net worth.
- One-in-five households live in asset poverty with insufficient savings to remain above the poverty level for three months without earned income.
- Only 26 percent of adults 25 years or older in North Carolina have completed college.
- More than 3.1 million households spend more than 30 percent of their monthly income on housing costs.
- Households of color in N.C. own just 14 cents for every $1 owned by white households.
- Rural communities and neighborhoods of concentrated poverty are less likely to have essential institutions close by.

Assets are essential to household and community economic success

- Households with assets are more likely to weather an economic downturn and are better positioned to provide future generations with a sound foundation and head start in life.1
- Studies demonstrate that children in households with assets are more likely to graduate from high school, attend college and have strong connections to the workforce and civic life.2 During their childhood, recent research suggests that children with assets have better health outcomes, school achievement and higher aspirations for the future.3
- Communities with assets provide lower-cost goods and services to their residents, opportunities for young people to get ahead in school and the connection to social networks that can deliver jobs and provide safe neighborhoods free from violence and crime.4

The economic vibrancy of North Carolina’s communities requires investment in the network of institutions that can deliver prosperity to all.

- Evidence increasingly points to the stimulating effect of investments in these public structures. In North Carolina, affordable housing development through the N.C. Housing Trust Fund has created nearly 10,000 jobs and generated more than $66 million in local and state tax revenue. The early childhood development system provides more than 50,000 jobs statewide and generates nearly $2 billion in economic activity.

• Not all households in North Carolina are connected to sound and affordable banking products, or have access to savings and investment accounts. Households earning low-incomes and households of color are less likely than their neighbors to connect to these essential economic opportunities. In addition, rural and high poverty communities are less likely to have the public structures in place to provide a connection to economic opportunity.

• Government should ensure that the opportunity to connect to prosperity be inclusive, fully funded and reach statewide so that the engines of our economy—the households and communities of North Carolina—are protected and empowered to continue to contribute to the state’s competitive edge.

As North Carolina strives to meet the challenges of the current economic downturn and seeks to address the past quarter century of rising costs and falling wages, stagnating savings and a disappearing middle class, there is a need to reinvest in and reorient our public structures to meet the challenges of today. Indeed, a renewed effort is underway nationally to recall government to its role as the catalyst of a strong economy through building a stable middle class and ensuring sound markets. Recent efforts have included a more central understanding of the role for assets in creating sustainable changes in communities and for families. Assets — for example, interest-earning savings accounts, home ownership, small business development, and guaranteed retirement accounts — generate the economic returns that create stability in the marketplace and in communities. Assets provide a platform for the innovation and entrepreneurship that defines America’s approach to reaching the dream it promises to each of us.

North Carolina stands at the forefront of this national movement. Government leadership has already established fundamental connection points—through the Housing Trust Fund and state Earned Income Tax Credit for working families — that allow communities and households to expand their access to opportunities. Fully funding these investments and exploring important policy proposals that complement them is now required. In this document, the N.C. Assets Alliance, formed in 2006, sets forth a vision for our state to build a prosperity grid that can create good jobs, provide opportunities to create and build savings and protect assets.

**The North Carolina Assets Alliance recommends that policymakers:**

• **Strengthen connections to Work and Income**
  Providing a living income standard, benefits and work supports makes it possible for households to set aside money to save and build assets.

• **Generate savings and assets**
  Saving, investing and building assets over time are facilitated by government, supported by private institutions—financial institutions and employers—and engage all North Carolinians.

• **Protect prosperity**
  Protecting accumulated savings and assets ensures connections to prosperity can continue to flourish.

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Assets are household resources that generate a financial return. The presence of assets, or the absence of them, significantly impacts the stability and growth of families and the communities where they live. Having a savings account, a college education, a home, retirement savings, or a small business helps individuals and families weather difficult financial times, plan for the future, and pass on resources to the next generation. Individual and family assets also provide the underpinnings of community prosperity, whether through savings deposits leveraged to finance mortgage loans or small businesses that provide jobs, incomes and tax revenue. Assets in a community support the provision of a sound public education, ensure the affordability of homes whether rented or owned and provide the social capital to connect to jobs and opportunities for the long-term. Assets matter for the financial stability and prosperity of all North Carolinians.

**What is asset building?**
Asset building includes a broad range of public policies, strategies, and programs that enable people to accumulate long-term productive assets. For more than a century, asset building policies and public investments served as key components that built a prosperous and stable American middle class. Policies such as the Homestead Act, which provided land for new settlers, and the GI Bill, which put post-secondary education and homeownership within reach of many soldiers returning from World War II, gave families essential tools to achieve a new level of prosperity that could then be shared with future generations. Then as now, asset building policies not only supported families, they also contributed to resilient communities with a solid tax base to support schools and services essential for continued community and economic development. These asset building investments set the stage for economic prosperity and contributed in fundamental ways to America’s sense of hope and optimism.

Today, the federal government spends over $300 billion per year to help individuals and families accumulate assets through policies such as the home mortgage interest deduction, small business investments, federal college student loans and incentives for retirement savings. Through these investments, the public sector plays a catalytic role in empowering American families, workers, businesses and communities to participate in the economy. A complementary set of policies provides asset protection through institutions such as the Federal Deposit Insurance Corporation (FDIC) and a regulatory system that includes measures such as the Truth in Lending Act. By providing benefits such as unemployment insurance, social security and children’s health insurance, among others, the government also provides a measure of protection for unexpected shocks or cyclical downturns. As individual households benefit so does the whole economy.

As states have increasingly taken on the responsibility and administration of key public institutions, there has emerged a new opportunity for state and local level policy innovation. Since the mid-1990s, and in North Carolina even earlier, states have taken the lead to design institutions that can generate economies of opportunity. By implementing the first matched savings accounts or individual development accounts, building state community development finance funds and housing trust funds or creating ways to increase access to the banking system, states have been leading the way on asset building policy.

**What is the connection between assets and economic opportunity?**
Assets provide a cushion in tough economic times, but they also provide a platform to take advantage of opportunities and support the ongoing development of capital—human, social and financial—that circulates in local communities. The institutions that make prosperity possible—financial institutions, small businesses, affordable housing—facilitate savings, investments and ultimately asset building. Such activities require that opportunities to earn a living income and to access these community institutions are available to all.

Increasingly, research demonstrates that assets matter—beyond the impact of income—in achieving important economic, educational, health and developmental outcomes.

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Households with higher levels of net worth are more likely to have checking and savings accounts. For low-income business owners with higher net worth, there is less likelihood of receiving public benefits. Higher savings also create greater stability during income shocks and greater likelihood of transferring wealth to future generations. Assets have also been linked to social well-being and civic engagement, health and psychological well-being and child well-being.

Children in households with assets are less likely to drop out of high school and more likely to enroll in college. A lack of family assets drives part of the achievement gap; children from lower wealth households score lower on school tests than their higher wealth counterparts, even after accounting for differences in income. Analysis of the National Survey of Families and Households finds that low-income, single parent families who accumulate assets have higher educational expectations for their children and that these children meet that expectation with higher educational achievement.

Assets are related to lower mortality and generally better health outcomes such as increased childhood immunization and improved nutritional status. For

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**Family Assets Increase the Likelihood that Low-Income Youth Will Complete High School.**

Source: Destin, 2009.

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1 Destin, 2009.
2 Page-Adams, Deborah and Michael Sherraden. 1996. “What We Know About Effects of Asset Holding: Implications for Research on Asset-Based Anti-Poverty Initiatives.” Center for Social Development: Washington University, St. Louis, MO.
older adults, controlling for income and education, assets have an even stronger positive relationship with health outcomes and increase the likelihood that a senior will live in his or her home longer.16

- Children who grow up in households with assets are more likely to reach key cognitive development outcomes, maintain improved physical health compared to their peers and reach key social-emotional development milestones including having higher self-esteem.17

The growing body of evidence that assets matter has come to light at a time when the connections to economic opportunity have been changing in important ways. First, the structure of the economy has shifted. The changing nature of the labor market has resulted in a declining share of workers with access to asset building opportunities through employment. For example, in 2007, just 45.1 percent of private sector workers nationally were covered by an employer retirement plan compared with just over half (50.3 percent) as recently as 2000.18

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employees can participate in retirement plans, these plans increasingly require them to make contributions into investments accounts that they must manage themselves. Access to employer-provided health care, critical to balancing a household budget, is also declining, contributing to rising rates of bankruptcy and home foreclosures.\(^{19}\) Nationally, between 2000 and 2007 there has been a decline in the percentage of the population under age 65 covered by employer health insurance from 68.3 percent to 62.9 percent. North Carolina experienced the largest increase, 22.5 percent, in the number of uninsured in the country between 2007 and 2009.\(^{20}\)

Second, current federal asset building policies disproportionately benefit those with higher incomes who already possess considerable assets (Chart 2). Analysis of federal spending to promote asset building shows that over one-third of the benefits go to the wealthiest one percent of taxpayers — those who earn over $1 million a year.\(^{21}\) Less than five percent of the benefits go to the bottom 60 percent of taxpayers.\(^{22}\)

Lastly, the recent economic downturn serves as a sobering reminder of the extent to which our economic prospects are intertwined. It is impossible to insulate ourselves from the fortunes of our neighbors, co-workers and local business owners. Our current challenges also highlight the critical role that the public sector must play in ensuring that prosperity is shared broadly and the economy—consumers and business, alike—is protected.

Looking ahead, North Carolina needs a second generation of asset building policies that: 1) reflect the current realities of the labor market; 2) are more inclusive; and 3) utilize innovative means to provide asset building opportunities across the lifespan. This second generation of asset building policies will ensure that the public structures are in place to generate returns to households, communities and the state.

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Ibid.
A review of the state of asset policy in North Carolina demonstrates that our state truly has been a leader in implementing income supports, community development and savings and investment policies that stimulate economic opportunity. In turn, our communities have benefited through the increased investment and economic activity propelled by policy development.

**Timeline of United States Asset Policy and its Impact on North Carolina Today**

- **1913**: More than 1.6 million homes in North Carolina had a mortgage as of 2007 and were therefore eligible to claim the home mortgage interest deduction. In 2005, the latest year for which data is available, it is estimated that $2.17 billion was provided to households in North Carolina through this deduction. 23

- **1935**: In 2007, 27.3% of households benefited from Social Security payments averaging $13,925 annually. An additional 3.6% of households received Supplemental Security Income that on average provided $6,980 annually.24

- **1944**: In 2008, nearly 17,000 North Carolina veterans used the G.I. bills education benefits. The more than 100,000 homes currently owned by veterans, backed by veteran loan guarantees, are valued at $3.7 billion.25

- **1977**: Lenders and community organizations negotiated $1.09 trillion in CRA dollars from 1992 to 2000.26 In 2007, nearly 20,000 loans were originated to North Carolina households in low-and moderate-income communities on conventional terms alone.27

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23 Woo and Buchholz, 2007. Calculation by author based on Housing Units with Mortgage in N.C. and U.S.
27 HMDA, 2007, Aggregate Tables 7-2 for N.C. MSA/MD
The First Generation of Asset Policy: Under Federal Leadership

Beginning in the late part of the 19th century up until the past decade, the federal government set out a number of policies that continue to generate returns for North Carolina. Indeed, as evinced by the recent impact of federal policies implemented as far back as 1913 (see Timeline 1 below), these boosts to asset development in North Carolina have supported a wide range of economic activity in the state.

This Act included provision for Individual Development Accounts (IDAs). North Carolina adopted this optional provision during welfare reform to provide for county social service departments to fund IDAs.

This Act provided funding for Individual Development Accounts. From 1999 to 2007, the cumulative savings by IDA account holders in N.C. was $1,770,821 which allowed for the purchase of 448 homes, the start-up of 32 businesses and the investment in education for 31 participants. Nationally, participants in the program were 35% more likely to be homeowners, 84% were more likely to own a business and 95% were more likely to pursue higher education when compared to nonparticipants.

The Emerging Second Generation of Asset Policy: Under State Leadership

North Carolina has already established important components of a framework for households to connect to income and asset building opportunities by investing in public structures. Just a few of the most significant policy achievements in North Carolina to date are provided here.

Timeline of Significant North Carolina Asset Policy Achievements

2007
N.C. State Earned Income Tax Credit signed into law and funds are provided for statewide EITC awareness campaign to increase access to federal and state tax credit.

2006
Minimum wage signed into law and minimum wage increases by $1 to $6.15.

1993
Smart Start legislation ratified including a $20 million appropriation.

1997
General Assembly appropriates funding for two-year demonstration of Individual Development Accounts through the Department of Labor.

1987
N.C. Housing Trust Fund established.

1998

This Act included provision for Individual Development Accounts (IDAs). North Carolina adopted this optional provision during welfare reform to provide for county social service departments to fund IDAs.


Despite these important investments, North Carolina continues to miss key opportunities to ensure that all North Carolinians have access and opportunity to enjoy economic participation. Every two years, CFED, a national leader in the asset-building movement, grades states on their asset policy. North Carolina consistently ranks low despite this significant foundation, in part because the state has not improved upon its initial investments.

**North Carolina received a D grade on the 2007-2008 CFED Assets and Opportunity Scorecard which recommended North Carolina make further investments and diversify its policy approach.**

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<th>POLICY PARAMETER</th>
<th>NO POLICY IN PLACE</th>
<th>MINIMAL POLICY IN PLACE</th>
<th>SOME POLICY IN PLACE but MUCH room for improvement</th>
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<td>State Earned Income Tax Credit</td>
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<td>Tax Expenditure Report</td>
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North Carolina’s economic transition from manufacturing to service-based employment represents as significant a shift in the daily lives of workers and communities and their relationships to business and government as the state’s earlier transition from agriculture to manufacturing. Employment by industry has shifted from manufacturing (which declined by 31.2 percent from 1990 to 2006) to services, specifically education, health care, and administration.

The state’s changing industrial mix has implications for the earnings and benefits that households can expect. While the average earnings of workers employed in manufacturing in 2006 were $44,928 (2006), the average earnings for those employed in retail trade were $23,712.\(^{13}\) The changing occupational mix of jobs also contributes to the difficulty that workers face in achieving economic stability. In 2006, more than 75 percent of jobs were in occupations that provided median annual pay that fell below 200 percent of the federal poverty level for a family of four.

As of 2006, the vast majority of jobs were in occupations with wages below the Living Income Standard or 204% of the Federal Poverty Level.

![Chart 5: N.C. Jobs with Wages Above and Below the Living Income Standard](chart.png)


State government, recognizing, in part, the implications of this transition, has sought to attract industries to the state and encourage the creation of jobs. But jobs alone cannot ensure households will continue on the path to prosperity — additional public and private institutions must be in place.

Households remain disconnected from the structures that support economic mobility and success.

- An estimated three million households in North Carolina are unbanked or underbanked and thus have little or no relationships with a mainstream financial institution where they can save or access regulated financial products.31
- One-in-ten households have zero or negative net worth.32
- Only 26 percent of adults 25 years or older in North Carolina have completed college.33
- While North Carolina enjoys a relatively high rate of homeownership at 70.9 percent, affordable housing remains hard to come by.34 There were more than 50,000 cases of foreclosure in 2008,35 and more than 3.1 million households pay

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more than 30 percent of their monthly income on housing costs.\textsuperscript{36}

- Fewer than 14.5 percent of North Carolinians own a small business and access to private financing for small business ownership in N.C. remains below the national average.\textsuperscript{37} (Chart 6)

These missing connections to financial institutions, affordable housing, higher education and entrepreneurial activity take their toll on the vibrancy of local communities and the ability of households to reach or maintain stable economic positions. As a result of these missed connections and the shifts in the state’s economy and labor market, North Carolina’s communities are experiencing rising income inequality, a shrinking middle class, decreasing mobility of households, increasing geographic isolation of communities, and growing wealth disparities. Taken together, these conditions demonstrate an increasing disparity between communities in the state that can detract from economic growth and stability.

\textbf{The top 20\% of North Carolina households had incomes that grew three times more than that of households in the bottom 20\% from the 1990s to 2000s.}

\textsuperscript{36} American Community Survey, 2007.

\textsuperscript{37} CFED. 2007-2008 Assets & Opportunity Scorecard.
Since the 1990s, North Carolina has experienced a rise in income inequality. As of the mid-2000s, the richest 20 percent of families have average incomes 7.2 times as large as the poorest 20 percent of families.38

The Center on Budget and Policy Priorities reports that in North Carolina the average income for those in the middle quintile grew by just $234 a year from the late 1980s to the mid 2000s, while the average income grew by $1,774 per year for the top quintile (see Chart 7 on page 15 and Chart 9 on page 17).40 Indeed, North Carolina ranks 21st in the nation for its gap between the rich and the poor. This national analysis combined with local data supports the finding that the state’s middle class is under stress.

### MIDDLE CLASS SECURITY INDEX

| At Risk in North Carolina |  
|---------------------------|---|
| Percent of households in asset poverty | 17.5% |
| Percent of population with a high school diploma or less | 47.4% |
| Percent of households spending more than 30% of monthly income on housing | 31% |
| Percent of households without an income sufficient to meet a basic budget | 37% |
| Percent of non-elderly population without health insurance | 19.5% |

Source: The Middle Class Security Index was constructed by DEMOS and the Institute on Assets and Social Policy at Brandeis University. The data presented here is not specific to the middle class but represents the total population due to limitations in the available data at the state level.

The middle class in North Carolina is shrinking. The middle class does not just appear. It is created through policies that support its development. A national study by DEMOS and the Institute on Assets and Social Policy found that more than two-thirds of the middle class were economically insecure. Nearly 80 percent of middle class families were at significant risk of losing their middle class status due to financial insecurity, defined as not having sufficient assets to sustain their household for three months without an income, for example if faced with a job loss.39 While this type of national analysis is not available for North Carolina due to data limitations, the factors included in the Middle Class Security Index can provide some insight into the proportion of North Carolinians that are at risk of either leaving the middle class or never reaching it.

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Too many communities are isolated from fair, functioning markets and therefore households pay higher prices for goods. There is a tremendous amount of regional variation in the distribution of factors important for economic growth and quality of life across the state, including job growth, wealth, health care and financial services, among others. Some communities do not have businesses to provide for day-to-day needs or, due to their isolation from a competitive marketplace, pay higher prices for goods and services. In the North-eastern part of the state, the areas without grocery stores or farmer’s markets require residents to travel farther to pick up groceries or make do with limited choices in food. In the Western part of the state, a lack of sufficient financial institutions means regular banking activities cost more.

Gains in earnings between 2000 and 2007 largely benefited those at the top of the income distribution in North Carolina.

An increasing body of research at the national level documents the higher prices paid in communities based on their urban or rural geography, poor or non-poor status. In North Carolina, the costs for basic goods and services have also been increasing significantly in metro- and non-metro counties. The N.C. Justice Center’s report on the 2008 Living Income Standard documents a conservative budget for households—noting that the highest costs across regions are consistently housing and childcare. Cost variation can motivate households to make every effort to reduce costs, by locating further from jobs and other opportunities, turning to debt to finance unexpected expenses, or postponing an expense.

Nearly one in five N.C. households lacks adequate savings to stay above the poverty line for three months if they experience a loss of earned income. Savings provide an important emergency cushion and a foundation for taking advantage of future opportunities. However, many households are not connected to the institutions or products that can facilitate savings. Many households do not have the option of saving for retirement through their employers and some do not hold a basic savings account. The lack of access to products, a sense that products are not designed for their needs, and the resulting poor savings behaviors leave many households vulnerable to economic shocks because their median net worth remains low or relies on homeownership alone to generate wealth. For example, the median net worth of households in North Carolina remains below the national average ($55,913 in N.C. compared to $88,803 in the U.S.) and a greater share of net worth in N.C. (53.7%) comes from home equity than is the case nationally (50%).

The median net worth of North Carolina households is only 64 percent of the national median net worth for all households. A North Carolina household has a net worth of $55,913 on average as compared to $88,803 in the United States. A greater share of net worth in N.C. (53.7%) comes from home equity than is the case nationally (50%).

Source: Concentrations of Poverty by census tract from U.S. Census Bureau, 2000, Decennial Census. Financial institution locations from FDIC, 2008, Summary of Deposits Database.
Asset poverty is a measure of whether a household can support itself with savings or available assets at the Federal Poverty Level for three months if earned income is lost. One in five households in North Carolina is asset-poor. While North Carolina does better than the United States in terms of its asset poverty rate, it is not providing the tools necessary for North Carolinians to build assets outside of homeownership, a cause for concern when considering the basic investing principle of diversifying holdings. Importantly, too, the higher rate of asset poverty experienced in certain regions and in communities of color raise concern about the degree of connections to prosperity in all communities of the state. White households in N.C. own assets, on average, that are more than five times those owned by households of color, who are also less likely to own their own homes. Without savings or the assets that can stabilize a household in tough times, North Carolina’s households are increasingly vulnerable to economic shocks and experience a greater risk of falling out of the middle class once reaching it.
Children are less likely to do better than their parents economically. Forty-two percent of children born in the bottom fifth of the income distribution will stay in the bottom as adults. Economic mobility in the United States is one of the lowest in comparison to other western industrialized nations. According to recent analysis, the Southeast does slightly better than other regions in increasing the average income from parent to children, showing a gain of 171 percent. This finding, however, is driven primarily by the far lower starting point of parents’ income in the region.

Without the needed investment in an infrastructure that can build connections and pathways to the middle class, North Carolina risks losing its competitive edge and long-term economic stability. The decline of the middle class in North Carolina presents a potentially higher cost in the loss of skilled workers and consumer purchasing power essential to a strong economy. Reconnecting all North Carolinians and their communities to the network of institutions that can deliver broad returns should be the guiding principle behind North Carolina’s next generation of assets policy.

**Asset Inequality in North Carolina between White Households and Those of Color Is Striking.**

**The United States has less relative economic mobility than many industrialized nations.**

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A prosperity grid for North Carolina requires complementary approaches to meet the short- and long-term needs in communities. The public policies that can build this grid will, at the same time, build a stronger and more inclusive economy. The goals and strategies presented below can ensure that public systems and structures align with the results we seek for North Carolina’s households and communities.

The policies presented in the following pages resulted from a two-year process of assessing local context and capacity while consulting and adapting the latest research and practice from across the country and globe for North Carolina. The Assets Alliance identified policies that: 1) Strengthen connections to work and income; 2) Generate savings and assets and 3) Protect prosperity. The policy proposals presented below sketch out the connection points that North Carolina must establish for a stronger middle class and shared prosperity to become a reality.

As the nation’s largest anti-poverty program, each year the EITC lifts roughly 5 million people out of poverty, almost half of them children. Research shows that families use the EITC to pay for necessities, to pay down debt, and set money aside for emergencies. Workers also use the EITC to repair vehicles needed to commute to work and to help boost their earning power by investing in additional education or training. These investments pay off in a more stable workforce.

Building on the success of the federal EITC, in the spring of 2007, the North Carolina General Assembly passed a state EITC which went into effect in tax year 2008. In doing so, North Carolina joins 21 other states and the District of Columbia in enacting a state EITC. All eligibility criteria that apply to the federal tax credit also apply to the state’s tax credit.

The average federal EITC refund in 2005 for a North Carolina tax filer was almost $2,000 and resulted in more than $1.5 billion circulating in local economies across the state.
and their families. Volunteer Income Tax Assistance (VITA) sites provide an essential service to these households in the form of free tax preparation that saves households hundreds of dollars annually. The sites also provide a connection to a range of benefits and services in communities across the state during tax time. Efforts to promote VITA sites and expand their operations into new communities should be supported with funding for outreach activities.

**Ensure an adequate standard of pay and benefits to North Carolina workers**

Minimum wage laws provide a key policy tool to ensure a basic standard of pay. Periodic increases have helped to maintain the essential role of the minimum wage as a floor over time, but from 1997 to 2006 Congressional inaction to raise the minimum wage above $5.15 per hour caused it to drop to its lowest inflation-adjusted value in over 50 years.\(^4^8\) States have the authority to maintain their own minimum wage, as long as it is equal to or greater than the federally-mandated minimum. In 2006, the North Carolina General Assembly passed legislation to raise the state’s minimum wage from $5.15 to $6.15 per hour. Congress subsequently passed additional increases to $6.55 in July 2008, and to $7.25 in July 2009. These phased-in increases will benefit approximately 211,000 North Carolinians.\(^4^9\) However, because neither the state nor the federal minimum wage is indexed to correct for the impact of inflation, it will undoubtedly erode in value again, leaving workers with a declining ability to afford necessities. To truly maintain the value of this policy, North Carolina must index the minimum wage to inflation. Doing so is fundamental to creating a wage floor that keeps income in line with a changing economy, provides greater certainty for business owners regarding payroll planning and ends the cycle of sporadic increases followed by periods of steady decline in value.\(^5^0\)

Like the minimum wage, employee benefits—such as paid sick days, health care and pensions—are also essential for financial security. In North Carolina, nearly half of the state’s workforce does not get a single paid sick day: In some cases, these workers are at risk for losing their jobs and jeopardizing their economic stability when they or a family member becomes ill.

While the Family and Medical Leave Act guarantees up to 12 weeks of unpaid leave for workers, there is no federal legal requirement for paid sick leave. Paid sick leave for all employees can play a key role in maintaining a healthy workforce by lowering overall health costs, increasing productivity, reducing absences, and improving retention.\(^5^2\)

The uncoupling of retirement planning from employment has left many households without a connection to a pension that can provide a critical supplement to social security providing long-term financial security. In North Carolina as of May 2006, an estimated 60 percent of workers did not have access to an employer-sponsored retirement plan.\(^5^3\) National research shows that the top 20 percent of earners own nearly 70 percent of 401(k) and Individual Retirement Account (IRA) assets.\(^5^4\) Pooled retirement accounts for employees of small businesses and universal, automatic retirement accounts for all workers are some of the more innovative policy options to combat the decline in financial security for older North Carolinians.

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37 percent of North Carolinians do not earn a living income. Source: Quinterno et al. 2008.

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\(^{5^1}\) Quinterno et al. 2008.


**Expand the availability of affordable quality childcare**

Ensuring that parents in the workforce can meet the demands of full-time employment and child rearing requires investment in quality, affordable childcare. Childcare subsidies, funded through a mix of federal and state dollars, pay part of the cost of childcare for low-and moderate-income parents so that they may work, attend school or both. Starting early to provide children with positive and developmentally appropriate environments to learn and grow is essential to their preparation for school and life. For one of every three working families in North Carolina who earned low incomes in 2006, childcare represented a significant line item in the family budget.55 Research shows, however, that investment in quality early care by parents increases their productivity and decreases costs to employers. For government, research suggests that for every $1 invested in early childhood development programs, $12 is returned.56

Despite the critical role that childcare subsidies play for North Carolina’s economy, an increase in the number of parents working and children living in low-income households has increased the demand. As of February 2008, the waiting list of children eligible for childcare subsidies but not receiving them was over 28,000.57 While the childcare subsidy waiting list may ebb and flow with the economy and the severity of unemployment, the investment in childcare provides an important stimulus in local economies. The childcare industry pumps an estimated $1.7 billion into local communities across the state and directly supports more than 47,000 jobs.58 These returns to children, parents and communities make investment in affordable childcare a win-win.

**Improve access to post-secondary education**

Attaining a college degree continues to deliver increased earnings for graduates while promising greater economic security and better quality of life. In North Carolina, college graduates earned nearly $6,000 more per year than non-college graduates.59 The post-secondary education system plays a vital role in economic development by providing students with the knowledge and skills necessary for a range of careers, training workers for emerging industries and retraining workers who have lost jobs. The increased cost of higher education and emphasis on debt-financing undermines these positive returns on investment.

Young adults have increasingly forgone attendance or completion of college or taken on more and diverse debt to finance it. Nearly three-out-of-four low-income students graduate with debt, compared to less than half of high-income students.60 Students from low-income homes take on approximately $2,000 more in debt than the average college student and, for all borrowers, one-out-of-five drops out of college without a diploma but with debt.61 In North Carolina students at Historically Black Colleges and Universities (HBCU) hold the highest levels of debt—nearly $121 million—among all HBCU students.62 Increased information regarding financial aid options and required courses on financial management would better prepare students for managing their financial lives while in school and beyond. Expanding North Carolina’s Learn and Earn and Carolina Promise programs – two worthwhile innovations to increase access to higher education and improve student financial aid – and paying particular attention to financing available to those attending HBCUs will be essential. Intervening at the college level when many students begin to manage their own finances holds particular potential to transform an individual’s lifetime financial prospects.

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55 Quinterno et al. 2008.
Improve Access to Affordable Health Insurance Coverage

Although not always considered a main factor in asset building, health insurance coverage can play an important role in protecting wealth and preventing debt. Those who lack health insurance for themselves or their children can face potentially devastating medical expenses. Conversely, having health insurance improves preventive health services that can save critical dollars for individuals, families and the state. Health insurance does not guarantee protection against rising health-related costs, but it does create some essential safeguards and protect the health of all North Carolinians.

The State Children’s Health Insurance Program, known in North Carolina as Health Choice, has been central to ensuring that children receive affordable medical care as well as preventive services. Sufficient funding of Health Choice and the expanded N.C. Kids’ Care program is vital to protecting North Carolina’s future prosperity. In addition to these programs, research indicates that children are more likely to have health coverage if their parents also have coverage. Providing affordable health insurance for children but not for their low-income working parents can harm families. Finally, employer-sponsored health plans remain a primary source of coverage. North Carolina ranks among the top two states in loss of employer-provided health care. Small business owners, who are at a disadvantage when it comes to offering health insurance to their employees, indicate that the ability to provide this benefit is a top concern. With nearly 40% of North Carolinians employed by small firms and because these businesses are especially vulnerable to increases in insurance costs, it is important to target efforts to support affordable health insurance for these businesses and their employees.

Generate Savings and Assets

Saving, investing and building assets over time is facilitated by government, supported by private institutions—financial institutions and employers—and engage all North Carolinians.

Provide incentives to low- and moderate-income savers statewide

Individual Development Accounts (IDAs) are matched savings accounts used to help low-income individuals purchase homes, pay for educational expenses, and start small businesses. Extensive research of IDA usage has revealed that “with the proper incentives and support, the poor can and do save.” In recent years, North Carolina has constructed one of the nation’s leading IDA networks, becoming recognized as a national leader on IDA utilization. More than 2,000 IDA accounts provided for the purchase of more than $12 million in assets. Currently, there are approximately 38 IDA program sites; a significant number of these sites depend heavily on funding provided by the North Carolina Department of Labor. Many of the IDA program sites are in jeopardy as increasing demand for accounts and expiring funding


“Medical debt forces families to make stark tradeoffs. For example, 40 percent of uninsured adults with medical bill problems were unable to pay for basic necessities like food, heat, or rent, and nearly 50 percent had used all their savings to pay their bills.”


The annual investment for IDA programs per low-income resident in North Carolina is 21 cents—much lower than the $200 recommended rate.

streams mean the patchwork of federal, state and private sources are becoming insufficient. State funding, administered through the Department of Labor will expire in the near future, potentially forcing a discontinuation of many IDA program sites across the state. This will leave thousands of families without a key resource necessary to obtain greater financial stability and grow assets.

**Provide households with long-term savings products with a specific orientation to children**

Many households do not have long-term savings products in which to set aside money for their children’s futures. A lack of assets during childhood has been demonstrated to limit aspirations, school achievement and affect health outcomes. A lack of financial resources during the crucial transition to adulthood can additionally limit opportunities for secondary education, narrow job choices and alter life decisions well into adulthood. There are many tools that can facilitate greater access to savings products such as encouraging the private sector to provide accounts with low minimum deposits or automatic saving triggers, providing opportunities to split tax refunds at the state level into long-term savings products or making the college savings plan or the 529 plan more accessible to low- and moderate-income families by offering initial deposits or progressive matches.

There are a number of promising policies that could be pursued in North Carolina to ensure that households have access to affordable and long-term savings products that can generate significant returns for children. An innovative policy opportunity for North Carolina is a state children’s savings account policy that would provide long-term investment accounts to children at birth that are seeded with a public investment. Children’s savings accounts have been implemented internationally in the United Kingdom and Canada and proposed at the federal level. Children’s savings accounts promote early savings and provide an orientation to a wider range of future opportunities by building children’s financial capability and available assets for a child at the critical transition to adulthood. Savings products that can support households and their children their goals for the future—such as higher education—are essential to ensuring achievement throughout childhood and establishing greater financial stability for the transition to adulthood.

**Increase the availability of affordable and accessible housing**

For more than 3 million North Carolinians, there remains a staggering and largely unanswered need for affordable housing. Currently, 300,000 N.C. households are forced to spend more than half of their income on housing, resulting in many households with far too little to spend on food, health care, and other necessities. Still more discouraging are the scores of low-income North Carolinians, many with disabilities, who are forced to simply go without homes or turn to alternative federal programs with waiting lists years long. If the need for quick and immediate action were not already apparent, the growing volatility of the housing loan market and the dire consequences of its meltdown to low- and moderate-income Americans should make action on affordable housing an even higher priority.

In 1987, the General Assembly began funding the N.C. Housing Trust Fund with the understanding that the state must provide greater affordable housing access to North Carolinians. In its two decades of existence, the Trust Fund has financed more than 17,000 North Carolina homes and apartments and $467 million of new construction and housing rehabilitation. However, due to its meltdown to low- and moderate-income households and their children their goals for the future—such as higher education—are essential to ensuring achievement throughout childhood and establishing greater financial stability for the transition to adulthood.

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69 American Community Survey, 2007. US Department of Housing and Urban Development defines “affordable housing” as “housing that costs its occupant (owner or renter) no more than 30 percent of their gross monthly household income.” American Community Survey, 2007, PUMS data.


72 Ibid.
to the Trust Fund’s markedly limited resources, many individuals go without access to an affordable home. This dearth of affordable housing stock leads to especially acute problems in the context of North Carolina’s housing market where homes are less affordable than comparable homes in half of the nation’s other states.73

**Remove asset ownership limits in public benefit programs**

In the current fiscal crisis, state agencies are being asked to make significant cuts to their programming and services. One simple way to save state dollars is to remove the eligibility terms related to countable resources or asset limits associated with public benefit programs. These asset limit tests require a significant investment of staff time and agency dollars to administer and result in only a minimal number of applications being denied for holding too many resources. Two of North Carolina’s neighbors—South Carolina and Georgia—have both eliminated these resource limits and experienced a net savings in administrative costs.

In North Carolina, fewer than one percent (0.21%) of Supplemental Nutrition Assistance Program (SNAP) applications, formerly known as Food Stamps, are denied because the household exceeds the asset limit and even fewer, 0.04%, of Work First applications, have been denied for this reason.74 However, more than 1 million applications require review, representing a significant administrative cost. By creating a disincentive to save, asset limits also undermine the ability of households to sustainably move out of poverty. Research has found that households without assets are more vulnerable to falling into poverty in economic downturns and are less likely to make the types of long-term investments—in homes and higher education—that can generate returns. Eliminating asset limits for public benefit programs would remove both the administrative cost as well as the disincentive to save.

**Ensure access to asset building opportunities for people with disabilities**

People with disabilities are often less connected to the institutions that can build assets but are also most likely to require assets to maintain long-term economic stability. People with disabilities are among the poorest of North Carolina’s citizens in terms of both income and assets. Only 4 percent of adults with disabilities own homes compared with 70 percent of all Americans. Estimates are that up to 80 percent of people with disabilities have zero or negative assets, compared with 33 percent of all U.S. households.75

Efforts by people with disabilities to build more independent and stable financial futures are stymied by public policies that need revision to remove unnecessary barriers. One of the primary reasons that people with disabilities are asset poor is that the public benefit programs on which they rely, such as Medicaid and Social Security, have low asset ownership limits. Eliminating asset ownership limits in public benefit programs is therefore the top priority for increasing access to asset building opportunities for people with disabilities. In addition, current asset building programs need modification in order to increase their usefulness to people with disabilities. For example, Individual Development Account programs could be expanded to allow persons with disabilities to save

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to retrofit a home or car or to purchase assistive technology for school or the workplace. Greater coordination among state Vocational Rehabilitation programs with entrepreneurship training programs would also support people with disabilities interested in starting their own businesses.

Rather than creating a separate set of policies aimed at people with disabilities, any new or existing asset building policy or program should be screened to ensure that it serves the needs of people with disabilities. With this goal in mind, establishing a cross-state agency workgroup on asset building for working age adults with disabilities that would make recommendations on policies and funding to reduce barriers and create incentives for a better economic future would be an important first step.

Protect Prosperity

Protecting accumulated savings and assets ensures connections to prosperity can continue to flourish.

Ensure that all North Carolina school children receive a basic financial education through the public school system

Understanding basic economic concepts has become an essential part of living and working in modern American society. Indeed, a stable and competitive North Carolina economy requires its workforce and consumers to be financially savvy. Currently only five hours of financial education are required in high school to cover basic financial concepts like budgeting, saving, checking accounts and interest rates. Financial education should start early and be relevant to the complex financial marketplace so that children learn and establish the behaviors necessary to manage their money effectively. A sample of 7th graders in North Carolina failed an assessment of their basic knowledge of financial topics including saving, credit and budgeting. In the biennial survey by the N.C. Jump$tart Coalition of high school juniors, financial knowledge has declined and continues to rank below the national average. Financial education impacts financial behaviors and decision-making. Compared with those who have less financial knowledge, those with more financial knowledge are more likely to engage in recommended

US High School Students Score Poorly on Tests of Financial Knowledge, and N.C. students Fared Worse.

financial behaviors—such as paying all bills on time, reconciling the checkbook every month, and having an emergency fund. Five years after high school, students with mandated financial education in high school had higher self-reported savings rates and increased their average net worth by roughly one year’s earnings. North Carolina must prepare its young people to successfully face the financial choices ahead of them and expose them early to the types of financial products and tools that are the building blocks of financial stability. Integrating financial education and economics K-12, requiring all high school graduates to have competency in financial concepts and coordinating the delivery of financial education statewide from cradle to retirement are essential first steps.

**Assist N.C. consumers to avoid all forms of predatory practice**

Low-income families frequently pay hundreds if not thousands of dollars more for everyday necessities. Although payday lending is no longer legal in North Carolina, other predatory financial products and practices, such as refund anticipation loans, excessive interest rates on loans and credit cards, and, bank overdraft fees continue to strip families of critical dollars and potentially trap them in a cycle of debt that becomes difficult to escape. Paying more for financial services takes money out of the pockets of families and negatively impacts the overall economy. Nationally, a 1 percent reduction in the cost of living for low-income families adds up to $6.5 million in new spending power for these families. The city, state, and federal government should focus on designing, tightening and strictly enforcing protections for consumers to ensure that savings accumulated and assets purchased are not eroded.

**Expand access to justice for low-income clients**

Access to justice, regardless of income, is not only fair, but it is also a fundamental part of our democratic society. Legal Aid attorneys represent clients with a full range of civil legal issues including foreclosure, consumer debt collection, domestic violence, child custody, foster care, landlord tenant and other rental issues, will preparation, public education and obtaining government services like social security, Medicaid, and food stamps. Approximately 3.1 million North Carolinians qualify for legal services based on income, however, only about 20 percent of these low-income individuals are able to secure representation in civil legal matters. The increasing number of bankruptcy cases and foreclosure proceedings in the state suggest that the lack of access to a fair trial and representation can encumber long-term asset building and protection.

**Address the state’s high rates of home foreclosures**

Foreclosures have devastating consequences for families, communities and the state. Lost home equity, damaged credit ratings, decreasing home values, abandoned neighborhoods, and a declining tax base are only a few consequences of the current wave of foreclosures. Researchers are still struggling to comprehend and quantify the total damage this crisis will bring. New foreclosures for North Carolina in 2009 are expected to top the more than 50,000 foreclosures that occurred in 2008.
Unemployment in North Carolina is at its highest point in recent history.

![Chart 17](image)


Looking ahead four more years, that number jumps to over 150,000 foreclosures in the state. Well over 300,000 North Carolina homes will experience devaluation due to foreclosures. The decrease in house values and tax base is over $861 million. Homeowners need assistance staying in their homes through affordable options. When legal guidance is necessary, homeowners should have access to affordable legal services to help prevent a foreclosure or help defray costs associated with litigation. North Carolina must also support a comprehensive system of both pre- and post-homeownership counseling. This critical step prepares families for homeownership as well as reduces the risks for lenders. Finally, expanding the availability of affordable rental properties in communities disproportionately impacted by the foreclosure issue is essential to stabilizing neighborhoods and families.

Support North Carolina’s unemployed workers

Unemployment insurance helps individuals who lose their jobs through no fault of their own by temporarily providing a portion of their wages. This benefit helps North Carolina families weather economic downturns by ensuring some source of income. Without it, many families would be left with no way to pay for necessities such as rent, mortgage, food, and health care. North Carolina has one of the highest unemployment rates in the nation at 10.8 percent. Although unemployment insurance is crucial during any economic climate, the current recession, which has created severe budget cuts and staggering numbers of layoffs, makes it even more imperative. Incentives currently provided by the federal government to modernize the unemployment insurance system are important to ensure that workers can access this benefit and the state can draw down already allocated federal funds.

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82 Center for Responsible Lending. February 2008. “Foreclosures and Lost Wealth from Subprime Lending.” Center for Responsible Lending: Durham, NC.


During the current economic downturn, it is more important than ever for North Carolina’s elected officials to invest in the state’s people and communities. Elected officials have made these important investments in public structures in the past resulting in the high quality of life N.C. enjoys today. From public schools to higher education, to transportation and public health, these investments are what connect households to opportunity and make our communities strong. Today’s economic environment only further confirms the interdependence of our economic fates and the need for leadership that takes a balanced approach to financing the future and the role of state government. Stimulating the economy requires that all of our communities have the job opportunities, vibrant businesses and affordable goods and services that can engage all households in productive exchange.

The N.C. Assets Alliance is committed to promoting economic opportunity for all North Carolinians and ensuring economic stability for the future of the state. The Alliance will continue to work to increase government investment in policies while building a coalition of support from public, private and non-profit organizations.

The Alliance believes North Carolina also has the opportunity to connect and layer asset-building policies discussed in this report. Indeed, many local communities have already taken the lead in modeling these approaches to economic opportunity. More than ever before, North Carolinians need to become participants in the mainstream economy by becoming banked, utilizing savings and investment tools, and making asset purchases to end the cycle of intergenerational poverty.

North Carolina is rich with community, non-profit, academic, philanthropic and business leaders that have built innovative approaches to economic life. North Carolina must leverage these resources to establish state policy that ensures all of our communities can connect to the institutions that deliver prosperity. Fully investing in these institutions and connecting them to form a prosperity network will stimulate local economies and move the state ahead.

The leadership of state government is essential to creating a more uniform distribution of the key components and structures that enhance the state’s prosperity grid. Only state government has the mandate and the reach to leverage the innovation that is happening in local communities and in the non-profit and private sectors; efforts that at scale can benefit all communities and North Carolinians.
CONCLUSION

The time is now. North Carolina is poised to lead the nation in developing a comprehensive public structure that supports communities’ connections to opportunity. The proposal of a prosperity grid for North Carolina presented here maps out the key nodes of a network that must be in place to ensure equitable development. The N.C. Assets Alliance calls on elected officials to take a leadership role and invest in the people and communities of North Carolina to ensure long-term competitiveness.
Following the 2005 N.C. Statewide Financial Education and Asset Building Conference, EITC Carolinas at MDC, Inc., the IDA and Asset Building Collaborative of N.C., and other partners met to discuss the creation of a coalition to focus on asset-building policy. In June 2006, the first meeting was held in Raleigh, and since then the N.C. Assets Alliance has met on a quarterly basis. The vision of the N.C. Assets Alliance is to build a statewide public infrastructure in all communities of the state that can serve as a connection to economic opportunity and shared prosperity. In order to achieve this goal, the N.C. Assets Alliance shares information about emerging practice, research and policy opportunities, develops and promotes a state asset policy agenda and educates policymakers and decision makers about issues affecting low- and moderate-income households in the state.

PURPOSE
The N.C. Assets Alliance educates the public and policymakers about asset-based strategies that promote economic security and prosperity for all North Carolinians. Underlying our work is a core set of shared values:

- Interdependence
- Opportunity
- Prosperity

ACTIVITIES

Educate
Assets are a key component to economic security and stability. And yet, for many this is a new way of thinking about these issues. Through quarterly membership meetings, public forums and presentations at conferences, the Alliance provides the latest information about asset-building practice and policy in North Carolina.

Communicate
The lessons learned from the innovative work going on across the state must be shared in order to connect that work to state policy. Through a website and monthly e-mail communications, the Alliance disseminates the latest news on assets—policy, research and practice.

Analyze
The participation of North Carolina researchers in the Alliance allows for greater analytical work and opportunities to connect the latest research to policy and practice. In the future, the Alliance aims to support efforts to document the impact of asset-building programs in the state.

Build
The various programs and activities going on in communities across the state provides a network of support for households and also for the work of the Assets Alliance at the state level. The Alliance conducts regional forums and supports the development of regional coalitions across the state with the aim of connecting these coalitions and grassroots members to state policy.
The organizations listed above participate in the Alliance and contribute to the expansion of economic opportunity through their organizations’ own work. The Alliance developed the policy priorities discussed in the report through a two-year process; however, participation in the Alliance doesn’t necessarily signify that participating organizations endorse individual policy recommendations.

**NORTH CAROLINA ASSETS ALLIANCE PARTICIPANTS**

- Action for Children North Carolina
- AFL-CIO of North Carolina
- The Arc of North Carolina
- Center for Responsible Lending
- CONNECTINC
- CFED
- Community Reinvestment Association of North Carolina
- Easter Seals UCP of North Carolina
- Federal Deposit Insurance Corporation, Atlanta Region Community Affairs
- Federal Reserve Bank of Richmond - Charlotte Office
- Fiscal Progress
- Good Work, Inc.
- IDA and Asset Building Collaborative of North Carolina
- Latino Community Credit Union
- MDC Inc., EITC Carolinas Initiative
- North Carolina Bankers’ Association
- North Carolina Community Development Initiative
- North Carolina Council on Developmental Disabilities
- North Carolina Department of Commerce, Division of Community Assistance
- North Carolina Department of Labor, Individual Development Account Program
- North Carolina Housing Coalition
- North Carolina Housing Finance Agency
- North Carolina Justice Center
- North Carolina Indian Economic Development Initiative
- North Carolina Institute of Minority Economic Development
- North Carolina Office of the Commissioner of Banks
- North Carolina Office of Minority Health and Health Disparities
- North Carolina Rural Economic Development Center
- North Carolina State University Cooperative Extension
- Self-Help
- Southern Coalition for Social Justice
- University of North Carolina Center for Community Capital
- University of North Carolina School of Social Work
- United Way of North Carolina
- Wilson County Department of Social Services
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