Mixing Asset Building with Energy Efficiency: A Recipe for Financial and Environmental Sustainability

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Homeownership has played an iconic role in the American dream ever since the 30-year mortgage opened homeownership to the middle class at an unprecedented scale during the New Deal in the 1930s. Not only does homeownership rival the allure of earning a college diploma or becoming a self-made entrepreneur in our culture, but it has long benefited from more public policy incentives than any other wealth creation strategy in the United States.

Housing has also been the focus of innovation by the private market and policymakers–for good and for ill–in the areas of design, finance, and more recently, energy efficiency. It has been the core business strategy of the majority of community development practitioners aiming to rebuild neighborhoods, increase access to affordable housing, and combat homelessness. But the financial crisis of the past five years, with its massive number of foreclosures and indictment of unfettered and unregulated private-sector financial practices, has raised big and largely unanswered questions on the future role of homeownership in the 21st century version of the American dream.

Yet, at the same time, Americans rarely fail to leverage a crisis into new opportunity. That is precisely what the marriage of energy efficiency strategies with asset-building products and policies has the potential to achieve. Such a marriage leverages the best advances in technology and design to meet increasingly stringent levels of environmental sustainability in new homes and to increase efficiency in existing homes. In addition to responding to climate change and its urgent demands to conserve energy in residential buildings, energy efficiency investments can also help households save money, which will have an outsized impact on low-income households who currently spend a disproportionate share of their income on utilities. The goal is to design products and services that enable these households to deploy these savings in ways that expand economic opportunity for both individuals and communities.

The growing connection between energy efficiency and savings is just one of many integrated approaches that are defining the future of social policy. We already know that it takes a village to raise a child; now we are learning that it takes multiple sectors working together to make enduring change in the lives of low-income households. In the 50 years since this country launched the War on Poverty, we have discovered that addressing poverty is as complex as the lives of the people who are striving for a better life. Many of the most successful initiatives today rely on interdisciplinary strategies that link various combinations of affordable housing, quality education, health care, financial services, or workforce training–in an aligned way. It isn't easy, but this approach works precisely because it identifies and connects the primary drivers that create a financially stable and productive life.

This issue of *Community Development Investment Review* speaks directly to a new partnership between energy efficiency and asset-building that is producing concrete opportunities to increase our stock of affordable housing, build the financial resilience of low-income families, and promote environmental sustainability. It is particularly promising because unlike many other new approaches, we have the technical tools and programmatic knowledge to execute this approach successfully, a policy environment that is becoming more friendly, and growing interest from the private sector to help bring this strategy to scale. At the same time, the promise and potential of these two strategies are undervalued in the marketplace of social change, which makes the opportunities for impact even greater.

What is Asset-Building?

Less than two decades old, the asset-building field aims to broaden the ownership of assets by low-income Americans as a means to move them toward financial stability and ultimately to wealth creation. This approach complements the invaluable work of antipoverty advocates who have focused on increasing the income sources available to the poor through safety net programs and wage subsidies. The asset-building approach concentrates on strengthening the household balance sheet in the belief that people move out of poverty only if they have the opportunity to build both short- and long-term assets.

The need to address the asset side of the balance sheet responds to the latest data from CFED's 2013 Assets and Opportunity Scorecard, which finds that 44 percent of U.S. households are liquid asset poor, meaning they lack the financial resources to subsist at the poverty level for three months if their main source of income were disrupted.[1] Equally stunning is the finding that 26 percent of households earning between $55,000 and $90,000–solid members of the middle class–are also in liquid asset poverty.[2] While much of this financial insecurity is the result of Great Recession, not all of it is. The insecurity is also a direct result of federal and state policies and a lack of financial products that meet the needs of the lower-income families, which leaves 30 percent of the population without a savings account.

The journey to asset-building usually starts with financial inclusion, as low-income families open bank accounts, thereby saving up to $1,000 a year–the average amount that an individual spends in interest and fees charged by alternative financial service providers. Individuals build financial capability by learning and applying basic rules of positive financial behavior in their daily lives. As household's financial security increases, so does the opportunity to save, whether in an "emergency" savings account or for longer-term goals, such as homeownership, education and training, or entrepreneurship.

1 CFED, Living on the Edge: Financial Insecurity and Policies to Rebuild Prosperity in America; Findings from the 2013 Assets & Opportunity Scorecard (Washington, DC: January, 2013), p. 3

2 Ibid.

Tens of thousands of low-income people have defied the stereotypes that "poor people can't save" once they have the chance to access the same products and services and incentives that middle- and upper-class people regularly use to build wealth. When we offer middle- and upper-income people financial incentives, we call it policy, but when we offer those same incentives to low-income people, we call it subsidy.

Fundamentally and practically, saving is about managing risk and creating hope for the future. It changes the objective financial condition of families, increases economic resiliency, and builds aspirations–especially for college. Recent research has shown that children in households with savings dedicated for college education are four times more likely to attend college that those without savings, and when children have a savings account in their own name, they are six times more likely to attend college.[3] If there is anything that this financial crisis has taught us, it is that the road to financial security and wealth creation is not built on debt alone.

Energy Efficiency as the New Antipoverty Strategy

Numerous studies have documented the disproportionate financial burden created by energy costs in low-income households, with estimates that the percentage of household income devoted to these costs ranges from two to five times that of a median income household. To date, this situation has resulted in two primary outcomes: the need for a broad array of subsidies to fill the gap between utility costs and ability of low-income people to pay their bills given their income levels, and the multiple, largely negative consequences when they cannot. These consequences apply not just to families, but also to their neighborhoods and communities, when rising utility costs spiral in ways that jeopardize rent payments, lead to evictions, and produce other results with repercussions beyond the household. There is broad consensus among both community development and environmental activists that improved energy efficiency should no longer be viewed as a luxury for low-income households.

Although public investment in energy efficiency is more than 40 years old, launched with the birth of the Weatherization Assistance Program in 1972, it has been in the last five years, with the allocation of $5 billion through the American Recovery and Reinvestment Act (ARRA), and expanded funding through the departments of Energy and Housing and Urban Development, that these efforts have achieved significant scale at the community level. State and local governments and nonprofit organizations supplement federal programs while utilities provide incentives to manage demand, weatherize homes, and finance improvements. Yet despite this recent expansion in resources, the nation's current subsidy system is widely viewed as fragmented, uncoordinated, and inadequate to meet demand. The goal is to create an integrated system of efficiency programs that is comprehensive, innovative, and accessible to all income levels and housing types.

3 W. Elliott and S. Beverly, "The Role of Savings and Wealth in Reducing 'Wilt' between Expectations and College Attendance." Research brief, CSD publication 10-04. (St. Louis: Washington University, Center for Social Development, 2010) p. 2.

Two relatively recent studies underscore the significant benefits of and returns to energy efficiency on poverty and the economy. Jerrold Oppenheim and Theo MacGregor, in their 2007 article on the economics of poverty, estimated that the social and economic return on investment for energy efficiency improvements is seven-fold, measuring the impact on the household, surrounding community, and society.[4] They calculate that a universal program to weatherize and/or make all homes energy efficient would free up more than $6 billion in spending on programs that subsidize utility costs, address delinquency and evictions, and other outcomes from unaffordable energy bills. McKinsey & Co. released a report in 2009 that forecasts a similar impact while also quantifying what it would cost in energy efficiency investments to generate such a return. Undaunted by the price tag, the McKinsey report affirms that in fact we can do this.[5]

Existing programs–several of which we describe in the following section-- illustrate how the benefits of lower utility bills and improved energy efficiency go far beyond the individual household. The benefits reach into the broader community, ranging from the performance of children in school to the increase in property values to job creation. As the affordability of housing is increasingly defined by the cost of energy, and as energy costs become part of the underwriting formula to determine both the appraised value of the home and the terms of the mortgage, both the opportunity and challenges become more urgent.

Case Studies of Innovation

There are two examples of how connecting energy efficiency with asset-building can redefine affordable homeownership, mobilize savings, and build wealth. Next Step USA is a social enterprise headquartered in Kentucky with a mission of providing and financing Energy Star manufactured homes–in collaboration with the industry's leading manufacturers. The goal is to make homeownership affordable, energy efficient, and a means to wealth creation for their customers. They have turned the outmoded stereotype of manufactured homes on its head. Designs incorporate technological advances to produce energy savings that even exceed the Energy Star standards, resulting in cost savings for homeowners that range from $360 to $1,800 per year. Next Step's business strategy offers another powerful case for identifying undervalued assets–in this case factory-built housing, also recognized as the largest stock of unsubsidized affordable housing in the nation–and combining it with high-quality design, technology, and mortgage finance. This provides a product with the potential to transform the economic situation of a low-income household.

4 J. Oppenheim and T. MacGregor, "The Economics of Poverty: How Investments to Eliminate Poverty Benefit All Americans," Journal of Energy Assistance, vol. 1, no. 2 (2007): 1.

5 McKinsey & Company. (2009, July). Unlocking Energy Effiiency in the US Economy.

The second example of the power of aligning asset-building with energy efficiency is The Fuel Fund of Maryland, a nonprofit organization serving central Maryland. Its mission is to ensure that low-income residents have the resources to adequately fund their energy needs. Their "Watt Watchers" program blends lessons in energy conservation and efficiency with financial education with the explicit purpose of strengthening both. The primary goal is to teach families how to reduce their energy costs to achieve significant savings. The program also intentionally uses this "teachable" moment to encourage participants to open a savings and/or checking account (thereby increasing their savings if they were formerly using high-cost alternative financial services), create a financial plan, and achieve greater financial stability.

Another powerful example is the NeighborWorks of western Vermont, which has conducted retrofits on more than 1,000 homes during the past three years, documenting an average household energy savings of $1,500 per year. The stellar performance of the unsecured loans NeighborWorks has provided to assist their customers with the upfront investment, and the benefits generated in terms of improved comfort, safety, and home value, have attracted the attention of state and federal policymakers. Their experience highlights the need to pair flexible financial incentives to address the barrier of the upfront cost and underscores the potential role of state and federal agencies in filling this gap as a strategy to take these successful pilots to scale.

Priorities for Action

Given the impressive results when energy efficiency is mixed with asset-building, the next step is to expand the scale and sustainability of this emerging field. I suggest four priority areas for action.

1. Customer information and outreach

The first challenge in expanding the use of energy efficiency measures and encouraging household savings is in providing the necessary information in the appropriate way to spark interest and participation. Given the mixed reputation of many utilities, practitioners cite the need for "trusted messengers" to reach out to low-income communities and families. There are several existing delivery channels that combine both high-quality information and local credibility: the network of homeownership counselors that integrate financial education with homeownership topics; local and regional nonprofit social service agencies that provide subsidies for energy costs, among their other services; and financial counselors who understand the central role that energy costs play in the household budget. Leaders of each of these networks should work together to share curriculum, outreach mechanisms, and encourage the development of new training protocols that ensure that critical information on energy efficiency, savings, and asset-building is integrated into their programs as appropriate.

2. Legislative and regulatory policy at the federal, state, and local levels

The policy opportunities and needs are vast, as are the number of policymakers who have a role to play. Legislatively, current federal and state programs that fund energy efficiency programs meet only a fraction of the need. Much of the new funding through ARRA was a nonrefundable tax credit, which is of little value to low-income households. Efforts must be made to quantify and address the "home energy affordability gap" through expanded funding through federal and state agencies and regulated utilities. Regulatory actions are of equal importance in terms of setting standards for both industry and government, and aligning financial incentives in support of these measures. Advocating for rigorous efficiency standards in building codes for both site-built and manufactured housing will provide the foundation for achieving market change. Finally, changes in private-sector practices, such as appraisals, to quantify the value of energy efficiency in the valuation process, are essential to strengthening the case for these investments.

3. Technology development and dissemination to low-income communities

One of the most important contributions of Next Step USA is the commitment to leverage the best design and technology innovations on behalf of low-income homeowners, rather than those who can pay the most to benefit from these advances. Philanthropists, policymakers, and social entrepreneurs should partner with industry to ensure that effective and innovative technologies are applied in places where they will have the greatest impact–creating affordable, green housing at a scale that begins to meet the need in this country.

4. Access to financial products and incentives

There is a tremendous amount of innovation underway in financial products in private financial markets, among community development lenders, and through federal agencies, ranging from savings accounts targeted to those without bank accounts to green mortgages. Energy efficiency experts have identified the start-up costs in improvements as the greatest barrier to ensuring low-income households can afford energy improvements. This is a fertile area for community development financial institutions (CDFIs), state treasurers, and other sources of social investment capital to pursue given the relatively short-term payback period. In addition, programs should explore how to ensure that customers have bank accounts and are building their credit scores through their participation in these lending programs.

Conclusion

The lesson from each of the case studies, as well as from the many other articles in this issue, is the potentially transformative impact on low-income households that can happen when energy efficiency is aligned with asset-building initiatives. Program after program provides the evidence of the savings potential, especially when viewed as a percentage of household income. This creates a payback timeline that is relatively short given the financial impact, which provides the foundation for asset-building. As we wrestle with the challenging question of how to define and achieve widely shared economic prosperity in the 21st century, it seems clear that part of the formula must include pairing energy conversation with savings mobilization and wealth creation.

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