NCLR
NATIONAL COUNCIL OF LA RAZA

Empowering Latino Consumers through Financial Counseling

Presented at:

Improving Consumer Financial Literacy under the New Regulatory System

Submitted to:

U.S. House of Representatives Committee on Financial Services
Subcommittee on Financial Institutions and Consumer Credit

Submitted by:

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June 25, 2009

Good afternoon. My name is Lot Diaz, and I am Vice President of Housing and Community Development at the National Council of La Raza (NCLR). NCLR is the largest national Hispanic civil rights organization in the United States, dedicated to improving opportunities for Hispanic Americans. I have been working in the community development field on behalf of low-income families for more than 20 years. I have managed a small business loan fund, developed single family housing and commercial property, sold multifamily housing to city agencies and nonprofit organizations, and designed various housing counseling and counselor training programs. More recently, I have focused on credit issues as they affect low income families, particularly low-income Latinos, and worked to grow the NCLR Homeownership Network (NHN). I would like to thank Chairman Luis Gutierrez and Ranking Member Jeb Hensarling for inviting us to share our views. I would also like to thank Congressman Ruben Hinojosa for his leadership in the area of financial literacy.

For more than two decades, through research, analysis, and direct service, NCLR has been building our institutional knowledge of how Latinos interact with financial markets and how that interaction affects their communities. In 2005, NCLR released a report, *Financial Education in Latino Communities: An Analysis of Programs, Products, and Results/Effects*, which found that most financial education programs did not have an impact on helping Hispanic families obtain assets. On the other hand, as a funder and developer of housing and financial counseling programs, we have learned that one-on-one counseling to low-income families is a meaningful and effective tool both for building financial knowledge and building sustainable wealth. Seeded in 1997, the NHN consists of 51 community-based counseling providers and works with nearly 38,000 families annually. We understand what it takes to help marginalized communities build and maintain financial security through asset ownership.

Over the last few years, the federal government has invested tens of millions of dollars in programs aimed at helping families of modest means obtain assets that will sustain them in times of financial emergency. Hopefully, those assets will be transferred to their children, creating financial stability and a solid path to the middle class for entire communities. NCLR has adopted this philosophy, matching federal investment with private funding to expand these programs into Latino communities. However, we are concerned that the wealth-building programs that are so important to our community are often undermined by deceptive and predatory lending practices. General financial literacy efforts will not change this dynamic. A robust, well-funded financial counseling program will give consumers the tailored advice they need to make better financial decisions and graduate to more sophisticated transactions. Coupled with strong consumer protections, financial counseling can change the landscape for low- and moderate-income consumers.

In my remarks today, I will outline the major federal asset-building programs and lay out a strategy for using financial counseling to link them. I will close with a series of recommendations.

Background

The Federal Reserve Bank 2007 Survey of Consumer Finance (SCF) shows that wealth gap between White and Hispanic households is more than 8 to one.[1] According to a Pew Hispanic Center survey, more than 35% of Latinos surveyed reported that they did not have a bank account.[2] In fact, nearly every indicator of wealth shows severe and persistent disparities between Hispanic and White families. Lack of basic bank accounts, however, does not translate into a lack of demand for banking services. Where mainstream providers fail to meet the needs of the underbanked, fringe financial providers and abusive lenders have moved in to fill the gap. Consequently, Latinos often pay too much for check-cashing, remittances, auto loans, home loans, and other financial services and products, and many are enticed into predatory or high-cost loans with exorbitant interest rates or fees.[3]

All Americans rely on financial products to help them buy homes and otherwise build wealth and financial security. Access to safe and affordable credit is a critical means to this end for Latinos as they more fully integrate into the mainstream financial system and work to gain access to the American middle class. Yet, clear disparities exist between the quantity and quality of financial products made available to low-income and minority consumers. These disparities perpetuate the wealth gap between minority and White households. Latino and other underserved borrowers need greater access to timely and relevant information that will empower their decision-making.

In recent years, the goal of increasing the nation's collective financial literacy has gained prominence among policymakers. However, despite the efforts of many, Latinos and other low-income, low-wealth families lack access to quality financial information at the time when they are likely to be making decisions. In our report, *Financial Education in Latino Communities,* NCLR found that most financial education programs consist of broad, generic information in the form of classroom-style lectures, workbooks, Internet-based seminars, and financial literacy outreach campaigns.[4] Although these efforts are important for increasing awareness, there is no evidence to suggest that these methods are helping low-income Latino families accumulate assets and build wealth. On the other hand, in an evaluation of the NHN by the Morrison Institute for Public Policy at Arizona State University, counseling participants cited the individualized advice provided by homeownership counselors as a determining factor in their ability to qualify for a home loan, more than downpayment assistance. This suggests that one-on-one counseling is a

[1] *Laying the Foundation for National Prosperity: The Imperative of Closing the Racial Wealth Gap*. (Oakland, CA: Insight Center for Community and Economic Development, 2009).

[2] *2002 National Survey of Latinos* (Washington, DC: Pew Hispanic Center/Kaiser Family Foundation, 2002).

[3] NCLR has published several reports, public statements, and testimony on each of these issues. Reports are available at www.nclr.org. Key reports include: Beatriz Ibarra and Eric Rodriguez, *Latino Credit Card Use: Debt Trap or Ticket to Prosperity?* (Washington, DC: National Council of La Raza, 2007); *Saving Homes, Saving Communities: Hispanic Brokers Speak Out on Hispanic Homeownership* (Washington, DC: National Council of La Raza and National Association of Hispanic Real Estate Professionals, 2007); and Janis Bowdler, *Jeopardizing Hispanic Homeownership: Predatory Practices in the Mortgage Market* (Washington, DC: National Council of La Raza, 2005).

[4] Brenda Muñoz, *Financial Education in Latino Communities: An Analysis of Programs, Products, and Results/Effects* (Washington, DC: National Council of La Raza, 2004).

meaningful and effective tool for both building financial knowledge and improving wealth levels.

A National Strategy to Improve Financial Decision-Making

As Congress considers major proposals to restructure the financial regulatory system, it must also consider how to improve the efforts of federal agencies to educate financial consumers. Several of the proposed reforms will curb the abusive and deceptive practices that plague financial markets. However, the reforms, including additional disclosures, will not necessarily improve the daily financial decisions families have to make, or ensure these decisions set them on a path to build true financial security. Improving these choices, meaning families make decisions that save them money and result in a more secure financial situation, requires tailored guidance from a professional that can take into consideration the totality of a family's circumstances and goals. In fact, this is the mainstream approach taken by families with the means to do so—they seek the advice of a professional financial planner or investment advisor.

While one goal of the administration's proposed Consumer Finance Protection Agency would be to streamline financial literacy and education efforts, we believe a bolder, more targeted approach is necessary to achieve our shared goal of positively changing consumer choices and behavior. There are a number of federal programs and initiatives that aim to increase asset ownership among low- and moderate-income families, such as buying a home, business ownership, or increasing savings.[5] Federally funded efforts to increase financial literacy either focus on course curriculum, such as the Federal Deposit Insurance Corporation's (FDIC) MoneySmart, or narrowly on increasing banking relationships, such as the President's Financial Literacy Council's Community Financial Access Pilot Program. Many of these programs provide valuable funding, technical assistance, materials, and other resources to local community organizations. However, none of them offer a targeted strategy for improving the choices of financial consumers and advancing them to more sophisticated products and transactions. Moreover, they are not always implemented in a cohesive model on the ground. The programs may be scattered among various agencies across the community or function as silos within organizations. This should come as no surprise since there is little cohesion or coordination at the national level among the agencies that operate these programs. As increasing financial literacy is a broad and common—though often ill-defined—goal of many of these programs, a financial counseling program could become the glue that holds them all together.

We should note that the Community Development Financial Institution (CDFI) Fund at the Department of Treasury was recently appropriated $2 million to conduct a pilot program.

[5] Major programs include the Housing Counseling Program at the U.S. Department of Housing and Urban Development (HUD), Federal Housing Administration (FHA) and Veteran's Administration (VA) loan programs, Assets for Independence Act (AFIA), Volunteer Income Tax Assistance (VITA) at Internal Revenue Service (IRS), Rural Housing and Development Programs at the Department of Agriculture, and small business programs at the Department of Commerce. In addition, there are initiatives run by federal agencies that provide materials, but do not necessarily grant funding, such as the MoneySmart program at the Federal Deposit Insurance Corporation (FDIC), consumer education materials available through the Federal Trade Commission, and the President's Financial Literacy Council at Department of the Treasury.

The program has not yet been launched, but we urge Congress and the CDFI Fund to use the pilot program as platform from which to build a robust, national financial counseling program.

A successful national financial counseling program should include the following five elements.

- **Focus on in-person, one-on-one service.** Experience and research have shown that in-person, one-on-one sessions have the greatest and most positive impact on the client, especially for Latino and underserved communities. Families will need to sit with an advisor and weed through the details of their financial and credit history, needs, and goals. To accomplish this, counselors will likely spend several hours building trust and confidence with their clients.
- **Serve families at all stages of the economic continuum.** Households of modest means will need financial advice throughout their lifecycle. Similar to relationships built with for-profit advisors, a nonprofit financial counseling program should seek to work with families at each phase.
- **Provide advice on a wide range of financial services.** Financial counselors should offer guidance on a range of transactions, such as opening banking, savings, and retirement accounts, shopping for credit cards or insurance products, and evaluating car, personal, and student loans. The program should also help families set financial goals and develop a plan for achievement.
- **Deliver through community-based organizations that already offer asset programs.** This will achieve the goal of linking the various asset-related programs together and help families graduate from one program to another. Such organizations are more likely to have the requisite expertise and experience necessary to run a case management program.
- **Build capacity and performance standards through technical assistance and training.** Since this is a new area of focus, new benchmarks will need to be established to determine impact and quality of service. Moreover, a financial counseling program will be in high demand from a wide range of communities, some of which may not have the infrastructure necessary to offer the program. In that case, the administrating agency should explore ways to build capacity, creating a network as far-reaching as possible.

One NHN member, The Resurrection Project (TRP) in Chicago, Illinois, is bringing these large wealth-building programs together through financial counseling in a way that can serve as a national model. TRP is a U.S. Department of Housing and Urban Development (HUD)-certified counseling agency, provides free tax preparation services and financial counseling, and partners with other organizations to offer job training and leadership development. As a first step in their process, TRP counselors meet with all their clients one-on-one to determine their financial status. In this initial session, they review the client's credit report, budget, and financial goals. On average, 80% of TRP clients—as is the case throughout NHN—are not ready to purchase a home and likely need to work through other financial barriers before moving to homeownership; in some cases, homeownership may not be the right choice for them. Counselors enroll these families, when eligible and if space is available, into one of two major asset programs, Individual Development Accounts (IDAs) and the Volunteer Income Tax Assistance (VITA) initiative, and use traditional financial education courses to provide a general overview of financial terms and products. TRP counselors are cross-trained on housing counseling, tax preparation, credit, and other financial topics. As a family works through the programs, they continue meeting with their counselor who helps them tackle basic and complex financial issues. For example, counselors can help families open bank accounts, establish a credit history, and improve their credit score, as well as shop for a car loan and plan for their children's education and their own retirement. Counselors become a trusted resource for unbiased and timely information that can be easily accessed before making major decisions. Families also learn goal-setting skills and receive guidance on how to plan for the long-term. NCLR has supported the development of similar models throughout its network.

TRP and other organizations run into several barriers trying to implement this model due to the structure of the current system. As stated earlier, financial counseling is not federally funded as a stand-alone service. This means counseling agencies implementing the model must either force-fit the service under a different program or piece together local funding. They are also limited by the size and scope of current federal programs. For example, most IDA programs serve less than 50 people a year. VITA sites provide an excellent opportunity to scale a financial counseling program, but many are seasonal. The Housing Counseling Program has the obvious limitation of focusing solely on housing. A federally funded financial counseling program would allow financial counselors to move families through these programs and others, as well as work with families independently, and create a real opportunity for families to make fruitful financial choices.

Recommendations

NCLR applauds the administration's and Congress's efforts to modernize our financial regulatory system. We urge you not to lose sight of a longtime bipartisan goal of improving families' understanding and choices in financial matters. A federal financial counseling program must be a core part of our national strategy to accomplish that goal. Such a program would offer meaningful, tailored financial advice, link existing asset programs, and improve relationships between underserved communities and the banking sector.

To ensure that all families have an opportunity to improve their long-term economic status, NCLR recommends that Congress:

- **Establish a national financial counseling program.** Congress should expand the scope of the pilot program currently housed at the CDFI Fund to allow services to be delivered to a wide range of modest-income families and those facing financial hardship. A national program must work through community-based organizations with a mission focused on and experience with asset programs. Nonprofits would use the resources to hire and train financial counselors, develop or obtain the necessary software to track client success, and build the capacity to expand the services they currently provide to include financial counseling services. In addition, a national program must come with a strong evaluation component that will allow it to track impact and continually sharpen the field's approach to the work.

- **Expand programs that help families obtain assets.** Programs such as the Assets for Independence Act (AFIA) that funds IDAs, VITA, and the Housing Counseling Program are critical gateways to building savings and wealth. Administrators should build in financial counseling as an eligible activity under the program. In the case of AFI, which requires financial literacy classes, efforts should be redirected to focus on counseling rather than classes. In addition, we also recommend that AFIA be expanded in scope to include a child's education, car purchase, and retirement. Doing so would open the program to a wider range of clientele.

- **Create new incentives for low-income families.** Congress should create a refundable federal income tax credit for low-income families to cover the cost of obtaining one-on-one financial counseling services. Policymakers could determine the amount of the tax credit and require that recipients of the credit consult with a financial counselor who is certified by a nationally recognized financial planning association. Additionally, policymakers should ensure that *all* tax filers are eligible for the tax credit.