A New Strategy for Building Wealth in Latino Communities

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Submitted by:

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Good morning. My name is Janis Bowdler, and I am the Associate Director of the Wealth-Building Policy Project at the National Council of La Raza (NCLR). NCLR is the largest national Hispanic civil rights and advocacy organization in the U.S. and is dedicated to improving opportunities for Hispanic Americans. I oversee NCLR’s research, policy analysis, and advocacy on issues critical to building financial security in Latino communities, such as homeownership, consumer credit, auto lending, and financial counseling. Prior to coming to NCLR, I worked for a large community development corporation (CDC) in Cleveland, Ohio, as a Project Manager developing affordable housing. During my time at NCLR, I have published on a number of housing issues important to the Latino community, including *American Dream to American Reality: Creating a Fair Housing System that Works for Latinos and Jeopardizing Hispanic Homeownership: Predatory Practices in the Homebuying Market*. In addition, I have served as an expert witness before this committee, the U.S. Senate Committee on Banking, Housing, and Urban Affairs, and the Board of Governors of the Federal Reserve. I would like to thank Chairman Frank and Ranking Member Baca for inviting us to participate in this timely hearing. I would also like to thank Congressman Hinojosa for his overall leadership, especially in the area of financial literacy.

For more than two decades, NCLR has been building its institutional knowledge through research, analysis, and direct service 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 examined financial education programs targeting Hispanic consumers. We found that most materials are overly broad and do not effectively change consumer behavior or decision-making or help families attain assets. However, through our work as a funder and developer of housing counseling, we have learned that one-on-one counseling to low-income families is a meaningful and effective tool for building both financial knowledge and sustainable wealth. Seeded in 1997, the NCLR Homeownership Network (NHN) consists of 50 community-based counseling providers and works with more than 30,000 families annually. NCLR understands what it takes to help marginalized communities build and maintain financial security through asset ownership.

Today’s hearing is timely. Rising foreclosure rates and credit card delinquencies are laying bare the cracks in our financial system. NCLR has long pointed to the systemic flaws in home, credit card, and auto markets which leave borrowers vulnerable to predatory lending. While not a substitute for strong protections and lender accountability, access to individual financial counseling can help families make better decisions and avoid common traps. Consumers need access to the same kind of individualized advice and financial planning services that affluent families rely on to make their financial decisions.

In my remarks today, I will discuss the challenges that Latinos face in financial markets and the role of financial counseling. I will conclude with a set of recommendations for the committee’s consideration.

**Background**

A recent study using data from the Federal Reserve Bank 2004 Survey of Consumer Finance (SCF) revealed that despite significant improvement, the ratio of wealth between non-Hispanic
Whites and Hispanics remains a staggering 9:1. According to a Pew Hispanic Center survey, more than 35% of Latinos surveyed reported that they do not have a bank account, and that number rises to 42% for foreign-born Latinos. 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.

All Americans rely on financial products to help them buy their 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, immigrant, and other underserved borrowers need greater access to timely and relevant information that will inform and empower their decision-making.

Financial counseling can help connect marginalized consumers to the safe and affordable financial products they demand. Unfortunately, the financial planning and advice market is largely driven by the amount of wealth the client already has. The structure of the market—where planners rely on commission or fees—does not lend itself to serving low-income families. Unless this structure changes, we will not be able to narrow the wealth gap.

**The Case for Financial Counseling**

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. NCLR analyzed a broad range of initiatives and programmatic efforts under way in the field of financial education in a report entitled *Financial Education in Latino Communities: An Analysis of Programs, Products, and Results/Effects*. The report 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. 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, the individualized

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advice provided by homeownership counselors was cited by counseling participants 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 meaningful and effective tool for both building
financial knowledge and improving wealth levels.

Each year, approximately 80% of families who seek advice through the NHN are not ready to
buy a home within a six-month period. Counselors develop work plans, some of which may
extend beyond two years. This, coupled with high turnout rates for complementary programs
such as free tax preparation and Individual Development Accounts, demonstrates a strong
demand for personalized financial advice. However, most families who are middle-income or
below cannot afford good-quality financial planning. Without a community-based program that
delivers free or low-cost financial planning services, many families fall through the cracks,
becoming targets of fraud, push marketing schemes, and predatory lending.

Below we discuss three specific barriers that prevent average families from accessing financial
counseling.

- **The lack of affordable, certified financial counselors in the marketplace.** Many
  financial counselors work for a commission and are more inclined to cater to individuals
  with large asset portfolios. Since financial planners typically earn money by managing
  their clients’ assets, serving low-income clients with little or no assets means earning
  significantly less income. Fee-only financial planners are more affordable, but their fees
  are often too high for low-income families. The going rate of $200 an hour, for example
  can be prohibitive for a family of modest means.

- **The lack of explicit economic incentives for low-income families to connect to
  financial advisors and counselors.** For low-income families, there are no direct
  financial incentives to purchase the services of a financial planner. Little is being done to
  facilitate access to certified financial counselors or to create incentives for low-income
  families to visit with them. In contrast, upper-income families who itemize their income
taxes can claim the expense of the financial planner as a deduction.

- **The lack of federal resources for targeted, community-based, one-on-one financial
  counseling programs.** Although the demand for financial counseling is high, there is
  little corresponding investment by the government to support local, community-based
  financial counseling programs. By some estimates, approximately ten million U.S.
  households and 22 million families do not have a basic checking or savings account.4

  Yet, the government invested $24.4 million in Individual Development Account (IDA)
  programs in 2007 to encourage savings among low-income families. Many low-income
  households are in need of free tax preparation services at the community level, but the
government invested only $9 million in matching grants to low-income taxpayer clinics

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in 2008. While support for the U.S. Department of Housing and Urban Development (HUD) Housing Counseling Program has been increasing,\textsuperscript{5} the demand for housing counseling services outpaces the funding available. Millions more are in need of one-on-one financial counseling services, but the government invests zero dollars in such programs while providing more than $350 billion in tax benefits to upper-income workers to save and invest their money.\textsuperscript{6}

Based on the clear demand demonstrated by low-income families, and the barriers in the financial planning market, NCLR has advocated for the creation of a new community-based financial counseling program that would complement and supplement existing housing counseling, IDA, and tax preparation programs. Financial counseling could prove to be a powerful asset development tool when attached to such services. Moreover, low-income and low-wealth communities are the most likely to become victims of misinformation. According to a Federal Trade Commission (FTC) survey, Hispanics are more than twice as likely as Whites to be victims of fraud (14.3% compared to 6.4%, respectively). In fact, many scammers pose as "certified" counselors or consultants in efforts to push their predatory product.\textsuperscript{7} We must establish a strong network of reliable, independent financial advisors who can drive fraud and scams out of low-income communities.

**Recommendations**

Low- and moderate-income families have the same need for personalized financial advice as affluent families. However, there is a severe shortage in affordable financial planning services that could meet this need. Moreover, while those lacking effective relationships with banks and other low-income communities exhibit high demand for this service, we expect that victims of foreclosure will also need one-on-one advice to help them restore their financial security. To ensure that all families have an opportunity to improve their long-term economic status, NCLR recommends:

- **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.

- **Create an infrastructure of community-based financial counselors.** Congress should authorize a program through the U.S. Department of Health and Human Services or HUD which would manage grants to community-based organizations to support financial counseling services and conduct program evaluations. Community-based organizations would use the resources to hire and train financial counselors, develop or obtain the

\textsuperscript{5} For fiscal year 2008, Congress appropriated $50 million for the HUD Housing Counseling Program and $180 million for foreclosure prevention counseling.


\textsuperscript{7} Common scams targeting Latino and other minority and low-income communities include foreclosure rescue "consultants," credit repair schemes, and affinity credit cards.
necessary software to track client success, and build the capacity to expand the services they currently provide to include financial counseling services.

- **Increase funds for low-income tax preparation sites to support a financial counseling component.** Congress should increase federal funding by $50 million to support the expansion of important Internal Revenue Service initiatives aimed at low-income families, such as outreach regarding the Earned Income Tax Credit (EITC) and the Child Tax Credit (CTC). The receipt of tax credits presents an opportunity for low-income families to connect to financial services and products and learn about investments and savings. Linking tax preparation with savings and/or investment tools, such as IDAs, would increase asset-building knowledge.

- **Help eliminate financial scams.** There is evidence of frauds and predatory scams in nearly every lending market – home, auto, consumer credit, and insurance. Unfortunately, many scams go unprosecuted. The FTC relies on victims reporting the scam, and then waits for a pattern to appear before taking action. Many state and local authorities do not have the resources to pursue financial scams. Congress should hold hearings and order research and investigations to determine how the regulatory structure can be changed to better protect borrowers.

Access to independent financial counseling should also be a part of any retirement savings package to enable workers to develop and leverage assets effectively. Policymakers can take meaningful steps to close the wealth gap and increase asset ownership among Latinos. Financial counseling may be the linchpin of this strategy.