SPOTLIGHT ON SAVINGS: PROGRAMS HELPING LATINO FAMILIES STASH CASH

Closed-door Roundtable Discussion
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National Council of La Raza

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Note-Taker
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Introduction/Purpose of Roundtable

Although the economy is improving, the recovery has been uneven for many low-income families. Many Latino households are still living paycheck-to-paycheck and perhaps tapping formal or informal credit to meet daily needs. More than ever, families are thinking about how they will pay for unexpected expenses, how to build savings for emergencies, education, and future security, and how to access information about products and services.

This session provided current research on household financial security and savings habits, followed by an open dialogue among program and policy experts to discuss innovative savings programs and effective savings policy recommendations in order to inform NCLR’s strategy and approach to savings.

Presentations
William Emmons
St. Louis Federal Reserve’s Center for Household Financial Security

William Emmons presented “The Demographics of Wealth: How Age, Education and Race Separate Thrivers from Strugglers in Today’s Economy.” Emmons opened by posing the question “Why did Latino families lose so much wealth?” focusing on the effects of recession. His presentation drew on household wealth data from 2007–2013 analyzed by the St. Louis Federal Reserve, which looked at the race, education, and ages of households.

One of the major findings Emmons presented shows that families struggling before the recession were hardest hit and have had more difficulty recovering than families who were more financially stable before the recession. For Latinos, family median net worth declined by a larger percentage than for White families, and for middle-aged families the drop was far worse. Latino families with more education lost more wealth than White families with similar educational attainment—the data found that education did not have a protective effect for Latinos. The Latino homeownership rate also took a steep decline and dropped twice as much for Latinos compared to Whites with the same educational attainment. Latinos also score below average on the financial health score (financial capability) than Whites. Given the existing correlation between financial health score and wealth, this finding is concerning for Latinos. Indeed, the recession has only served to widen the racial wealth gap, which has not closed since 1989.

Moreover, Latinos are more likely to hold tangible assets and have more debt than White families, making them more vulnerable to economic difficulties. Latinos also witnessed a larger percentage of homeowner equity losses than Whites (the median declined by 100% for Latinos). Before the recession, the median Latino family was a homeowner—today it is not, meaning this housing cycle essentially wiped out the Hispanic middle class and has left Latinos in a more economically vulnerable position in the post-recession recovery.

Questions on Emmons’ presentation centered on whether the data explored the role of predatory lending and neighborhood effects on declines in house prices for Latinos, whether the data had been analyzed by gender, and if a family's financial starting point was
considered (inheritance and family wealth). Other questions dealt with interest in further exploring why Latino households with more education lost so much wealth compared to their White peers and to what degree there were losses in equity for those who managed to save their homes. Emmons informed the group that the next report that will be issued by the St. Louis Federal Reserve on the research will focus on the education and wealth loss correlation.

**Nancy Castillo**  
**Center for Financial Services Innovation**

Nancy Castillo presented recent findings from the U.S. Financial Diaries project. The U.S. Financial Diaries project collected data from more than 240 low- and moderate-income households (annual incomes ranging from $4,000–$132,000) in four U.S. regions by tracking their financial lives over the course of a year. The data collected by the U.S. Financial Diaries project contained detailed data about how households conduct their finances, highlighted the areas where families struggle the most, and what short-term day-to-day financial decisions look like.

Castillo opened with the question “What is happening in the lives of low-and moderate-income households?” Among the major findings were that households experienced a high degree of income volatility, that there was a mismatch in spending spikes, and, that although people are saving for emergencies, they often encounter many small emergencies that make long-term saving difficult. Households experiencing income volatility came through strongly in the data, indicating that for about half of the year, people were not living on their average incomes. Instead, they were either receiving more or less than their average monthly income. Along with the income volatility, findings indicate a 61% mismatch of spending spikes that were not accompanied by increased income.

Data from the project show that on average, households are saving 17% of their income, yet by the end of the year, not much savings remain as small emergencies arise. Findings suggest that people are more often coping with smaller emergencies by using their short-term savings and/or financial help from friends, rather than payday loans and credit cards, and that 40% of households had no emergency savings. For those who are saving, informal systems of finance like savings groups—which allow flexibility while providing structure—are common vehicles for saving. The changing nature of work and increasing unreliability that accompanies hourly and part-time workers, as well as health emergencies, extra boost from tax credits, and shifting household make-up, were all among the reasons households were experiencing difficulties maintaining steady income and expenditures. Castillo’s presentation made clear that the realm of short-term savings is where policy and product design have yet to delve into.

Questions on Castillo’s presentation focused on the type of emergencies households were experiencing, whether savings and spending habits changed when income increased, and whether behavior change accompanied financial coaching where financial coaching was present.
Discussion Themes

This section reflects dominant themes and points of consensus brought up by panelists and audience members.

Developing financial products

A conversation about developing financial products to help Latinos save centered on wanting to learn more about Latino needs. Reloadable prepaid cards and money pools were mentioned among those directly working with financial products and services. Participants expressed interest in learning more about how technology can be better integrated into financial products for Latinos. Participants also expressed the importance of researching the savings needs of communities and tying new financial products (tools) to education. The need to create culturally relevant tools that keep in mind the savings mechanisms Latinos typically use also emerged as an important consideration for developing financial products that serve the Latino community.

Financial education

Financial education emerged as a prominent theme in the discussion, as many of those working directly with the community incorporate financial education into their services. One participating organization requires all lending circle participants to enroll in a financial education course and found that it has increased the financial capabilities of their clients. Another participant expressed uncertainty whether a large emphasis on financial education is the most successful vehicle for achieving financial security, forming the impetus for the research her company is undertaking to further explore the issue. Yet another thread of this conversation dealt with the success of financial education in the workplace. The development of a financial education in the workplace program by the Federal Reserve Bank of Kansas City, found a high level of success as participants enrolled in 401(k) plans, saved money, decreased use of paycheck advances, and opened bank accounts when both employers and employees were offered assistance.

Tools paired with education generate success

Pairing financial products or services with education in order to achieve the best outcomes and achieve the most positive behavior change was one discussion topic that received large group consensus. Several participants shared their clients’ stories of success in meeting their savings goals, gaining confidence and a sense of accomplishment, and not closing bank accounts after their participation in the program was over. Lessons learned were also shared by participants, as one participant found that clients in lending circles expressed interest in an active and personalized financial coaching experience, preferring to have one-on-one sessions rather than group workshops. Formalizing lending circles through promissory notes and building client credit through reporting activity to the credit bureau was another program success shared with the group.
Saving challenges

Savings challenges facing Latinos and low-income families in general was a topic of interest to participants, informed by the two opening presentations given by Bill Emmons and Nancy Castillo. Participants spoke about the difficulty many millennials and those in middle age were experiencing with saving. For millennials, one of the biggest hurdles to saving is student debt, while for those in middle age, the financial costs associated with caring both for children and parents often make saving difficult and out of reach. Saving for retirement was another issue raised, as it often proves challenging for many low- and moderate-income individuals. Responding to the need for a simplified retirement account system, the U.S. Department of Treasury’s MyRA program streamlined its process in order to become more accessible to those who have not traditionally had retirement accounts; yet, this has not yet achieved high rates of enrollment.

New and upcoming research

Participants used the discussion space to share new and upcoming research projects with the larger group. The Federal Reserve Bank of Kansas City will soon release a research paper on financial education in the workplace, including best practices for how to incorporate this program into the workplace. The JPMorgan Chase institute has new data on income volatility spikes along the income spectrum and how people respond to these spikes differently, as well as new mobile apps developed by companies participating in the JPMorgan Chase-funded CFSI Innovation Labs challenge to address income volatility. These mobile apps aim to help savings efforts by estimating average income and then putting that extra income into a savings account. Finally, the Treasury Department will be conducting a series of studies on financial attitudes, source of financial information, and employer interest in offering products beginning in fall 2015 and extending into the next two years. The St. Louis Federal Reserve Bank’s next report on the data shared by Bill Emmons will be released soon, as well.

Major Takeaways

There are many stakeholders to involve in positively enhancing the ability of Latino and low-and-moderate income households to save. New policies must mirror the financial realities facing low-income people, including the changing workforce structure, and what this will mean for the ability of these consumers to achieve long-term savings. For further information and recommendations about the ways in which low- and moderate-income communities of color are accessing mainstream and alternative financial services and products, and the extent to which they are financially engaged, see NCLR’s report Banking in Color: New Findings on Financial Access for Low- and Moderate-Income Communities.