

**FINANCIAL LITERACY AND EDUCATION: AN IMPORTANT KEY TO
UNLOCKING THE DOOR TO ECONOMIC OPPORTUNITY FOR
LATINO FAMILIES**

SUBMITTED TO:

U.S. SENATE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

Submitted by:

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I. INTRODUCTION

My name is Raul Yzaguirre and I am President of the National Council of La Raza (NCLR). NCLR is a private, nonprofit, nonpartisan organization established in 1968 to reduce poverty and discrimination and improve life opportunities for Hispanic Americans. NCLR is the largest national Hispanic constituency-based organization, serving all Hispanic nationality groups in all regions of the country through our network of 277 affiliate community-based groups and regional offices.

NCLR established its Economic Mobility Initiative several years ago in an effort to address the economic issues faced by Latino working families. An important element of this project is to explore the financial and economic security of the nation's Latino families, and to develop and propose clear public policy measures to improve the ability of Latino families to move more successfully into the ranks of the American middle class. With this charge, NCLR committed itself to focusing on an array of issues not traditionally viewed as "Latino issues," such as savings and investment, retirement security, pension coverage, homeownership, tax policy, financial literacy, and general issues of asset accumulation and wealth-building for American families.

In light of this, I appreciate this opportunity to appear before the Committee today to share with you what we have learned about the economic security of the Hispanic community and the role that financial literacy and education could play in improving the economic status of U.S. Latino families.

My comments focus, in particular, on where Latino families are positioned in today's economy and how improved financial literacy is especially important to Latinos and to the nation as a whole. I will also outline some key issues in financial education which are relevant to the Latino community and highlight "elements of success" with respect to education strategies. Finally, I call for a national partnership among government, the financial services industry, and community groups to focus both on providing effective financial education to those who want and need it and eradicating financial illiteracy within the Latino community.

II. BACKGROUND

In recent years it has become clear that the economic well-being and financial security of families is no longer simply predicated on one's income from work, but rather on the net worth, or wealth, of a family or household. The Federal Reserve recently reported that over the last decade overall household wealth nearly doubled from \$21 trillion in 1990 to about \$40 trillion at the beginning of 2001. It also reported that about 80% of this growth was attributable to capital gains, a substantial amount of which was due to the strong performance of the stock market. Thanks, in large part, to a vibrant financial services market – made more asset-friendly by favorable government intervention – American families have become wealthier and more financially secure than Americans in previous decades, even though their income has grown at a more modest rate. Today, more American workers have robust employer-provided pension

plans, Individual Retirement Accounts (IRAs), stocks, and bonds, and many have seen the value of their homes grow exponentially in recent years.

Today there are 35.3 million Hispanics in the United States; one in eight Americans is Latino. We are more than one in ten workers, one in five students, and are a vital part of the economies of states, cities, and communities across the country. The number of Hispanic-owned businesses has continued to rise dramatically, and Latinos now have a buying power that exceeds \$450 billion annually. The evidence shows that Latinos made serious contributions to the record economic growth experienced across the nation in the late 1990s with both their hard work and consumer spending. Latinos, especially Hispanic men, continue to work at high levels, which has led to rising median income and falling poverty for many Hispanic families in recent years.

That said, as the nation continued its transformation toward an asset-based economy, most, though not all, Latinos have been left behind. Recent data show that the median Latino family net worth actually decreased in the middle of the last decade to \$3,000 in 1998. In 1998 Latino family net worth was just 4% of the average net worth of non-Hispanic White families (\$81,700), a ratio of **27 to one**. And when home equity is taken out of the equation, we find that Hispanic families have a median financial wealth of **zero** compared to \$37,600 for the average non-Hispanic White family.

Although there is a small but significant share of Latinos doing well financially in the U.S., today Hispanic families are the least likely of all Americans to own a home, have employer-provided pension coverage, and save or invest in the stock market. While Latinos have experienced gains in income in recent years thanks to their hard work, the average Latino family appears to be no more financially secure than they were in the early 1990s. Not only have many Latinos failed to climb the economic ladder and attain the "American Dream," but without assets far too many remain extremely vulnerable economically to job loss – a concern that has materialized in recent months.

However, lower net worth for Latinos has less to do with lack of interaction with financial service providers than with the limited types of providers, services, and products available to Latinos. To be sure, the gulf that exists in asset accumulation and wealth among American families can be attributed largely to distinctions in income and education. But disparities in net worth persist even when access, income, and education are not factors. A considerable problem is the relatively narrow scope of providers and even more limited kinds of products that meet the distinct financial and economic needs of Latino families. In addition, many Latinos are unaware of the full range of products available in the financial services market, and many often do not have the benefit of adequate information. These factors effectively limit the ability of Latinos to become more economically mobile and help to keep Hispanic families prey to unscrupulous agents and providers who offer high-cost products that effectively eat away at the financial security of families.

In view of demographic trends and the increasingly important role that Latinos are playing in the U.S. economy, ensuring that Latino workers and families can reach their full economic potential, unimpeded by elements in the industry such as discrimination, is critical to the future prosperity of the nation. An important means of opening up the doors of economic opportunity and

financial security to more Latino workers are improvements in financial literacy and more financial education opportunities for Hispanic families.

III. FINANCIAL EDUCATION

As a practical matter, a basic understanding of how the financial services industry operates helps workers and their families make more informed choices about how best to progress economically. Even a modest degree of financial literacy helps families to stay away from harmful personal debt, fight discrimination, avoid predatory practices, and invest wisely and purchase and accumulate assets. But for Latinos, financial education and improvements in literacy are especially important to begin the process of purchasing and accumulating assets. For some Latinos it is a matter of more effectively understanding the particular ebbs and flows of the financial services industry in the United States and determining which are the most useful and cost-effective services and products. But for most Latino families, most of whom are native-born, low participation in financial markets can be largely attributed to a lack of familiarity with financial institutions and the process of building wealth.

For most Americans, including some Hispanics, financial knowledge is simply passed down from one generation to the next. And because the process of maintaining assets often naturally leads to greater knowledge and literacy, those Americans born into families with assets have the easiest road to a relatively secure middle-class life. Accordingly, financial education services tend to be more vital to those workers and families who have some means but no experience with assets – a circumstance that best characterizes the position of many Latinos in the market today. Clearly, although financial education alone is insufficient to narrow the wealth gap significantly between Hispanic and non-Hispanic families, it is a necessary component of any anti-poverty and asset-building strategy. As such, good quality, well-developed, financial education programs targeted to Latinos offer enormous economic benefits for families, the industry, and the nation.

IV. ELEMENTS OF SUCCESSFUL PROGRAMS

There are a variety of financial literacy and education programs currently operating across the country targeted to Latinos. These programs range from those with a focus on consumer protection to those targeted toward helping Latinos purchase homes. Notwithstanding the volume of financial education activity, it remains unclear what specific model or approach works best for Latinos. That said, there are detectable elements of success.

First, successful financial education and outreach programs tend to be sophisticated and responsive to nuances among Latinos. The Latino community is extraordinarily diverse. Financial education programs that have not recognized the significant, distinguishing characteristics between Latinos and non-Latinos, or even between native and foreign-born Latinos, have often proven unsuccessful. For this reason, especially, translating materials directly from English to Spanish often fails to elicit the hoped for response.

Second, successful financial education programs for Latinos have tended to link education to an actual product or service. As general rule, the promise of actually engaging in saving and

purchasing of a product at the end of a specified period have provided strong incentives for Latinos to take time to attend classes and ask questions.

Third, financial education programs that are delivered by a group the community knows and trusts, and which is culturally sensitive, are often successful. Evidence suggests that for Latinos the best vehicles for such strategies are community-based organizations that already have strong relationships with the community and provide a range of social services for Latino families. Such strategies provide culturally relevant materials and training that directly link Latino families to appropriate wealth-building products.

There are two noteworthy programs that combine these elements: the Individual Development Account (IDA) program and homeownership counseling programs. The IDA program is a federally-supported program that matches the savings of low-income families in accounts that are held by financial institutions. IDAs are designed to provide financial incentives for savings and asset accumulation among low- and moderate-income people. As part of this program, accountholders must attend mandatory financial education classes, often provided by a community-based organization. Besides providing basic finance and budgeting information, many classes are structured around issues related to the asset development activities a person chooses to pursue. The act of saving and the promise of an asset at the end of the process has offered a strong incentive for Latinos to attend and participate in these financial education classes. Preliminary evaluation studies have found that Latinos save at higher rates than other IDA participants.

Also, the federally-supported homeownership counseling programs offer another model for effective financial education. A number of NCLR affiliates provide prepurchase counseling, both to people who are ready to buy a home and to people who are just starting the process of saving for their first home. The education and assistance are effective for both groups because they are working toward a goal and the information provided is directly linked to achieving that aim. These programs are geared to serve the distinct needs of the local community population, promise a product or service, and are delivered by an agent that the community trusts.

V. CONCLUSION

While more information is needed about best practices and approaches to improving financial literacy, we do know that such measures are only useful insofar as they result in material improvements in the asset levels and financial security of Latino families nationwide. For this reason, approaches to this issue must be comprehensive but also sophisticated and responsive to the nuances of the Latino community. It is also clear that there are existing models that ought to be a central part of the solution and offer good insights into how best to address the financial education issues of Latinos. For instance, any approaches must include a national partnership among the financial services industry, community groups, and government which can work on determining effective strategies and then help to implement various programs and policies that will address these financial literacy concerns.

The government can play an important role by taking public policy measures to foment financial education efforts. The IDA program is still a relatively modest demonstration project.

Moreover, the program has failed to take serious steps to include Latino community-based providers and, as a result, this program does not serve many Latinos, even though studies show Latinos to be ideal participants. NCLR recommends expanding the existing IDA grant program to \$500 million and including a clear intent to target such programs to serve more Latinos.

The homeownership counseling program is also a modest program, even though it is proven to be highly successful for Latinos. NCLR recommends expanding this program to \$35 million this year. Creating initiatives that entice the financial industry to play a role in providing services, education, and opportunities for underserved communities would do a great deal to reach millions of people and increase financial literacy. For our part, advocates and community groups are here to provide the services. We are committed to reaching out to the community and providing the education to underscore the importance of financial literacy and the opportunities it presents.

Finally, the financial services industry has an important role as well. It should make the effort to learn about the Latino community and become involved by partnering with community-based organizations. Distrust of banks and financial institutions is also common among many Hispanics. Some Latino immigrants have deposited money in banks in their home countries only to have it lost when the bank went out of business or devalued because of a weak economy. Such personal experiences lead some Latinos to prefer whatever is perceived to be safest to the possibility of a profitable rate of return. Again, further exacerbating the problem is the failure of most banks and other financial institutions to reach out to the Latino community, especially in a way that addresses these concerns. Yet, by educating Hispanic immigrants about the financial market in the United States, especially if the teacher is a trusted member of the community, Latino families can begin to gain familiarity with and confidence in these institutions.

Increasing financial literacy is an important goal and an endeavor in which we must all embark together. It is important for the country that *all* Americans understand the financial market and have the opportunity to participate fully. I thank you for allowing me to speak here today, and I look forward to working with you in the future to help make all American families financially secure.