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“The Importance of Financial Education”
By Beatriz Ibarra

- I'd like to thank Greg for allowing me to speak here today. It's an honor for me to be here to share with you the work that we're doing on financial education as well as provide the Latino perspective on this issue.
- For those of you who are unfamiliar with the National Council of La Raza, we are the largest Hispanic constituency-based organization in the U.S.
- We reach more than four million Hispanics through our network of 350-plus Hispanic community-based organizations (CBOs).
- My job at NCLR is to do research and analysis on financial security issues affecting Latino families. More importantly, though, I am an advocate for my community and I spend a lot of time thinking about how to level the economic playing field.
- I would like to take this opportunity to: (1) provide you with some basic statistics and background information; (2) describe the most critical issues for Latinos with respect to financial education and offer some policy solutions; and (3) give you a sense of what we are doing in terms of our policy efforts and our programs in the field.

Basic Statistics and Background:

- Before I get into the details of our financial education initiative, I would like to start with the numbers. I think it's important to paint a picture that explains the vast inequity that exists between ethnic groups and why I believe there is an urgency surrounding this issue.
- In 2002, the median net worth of Hispanic households was \$7,932, compared with \$88,651 for White households. In other words, Latino families earned nine cents for every dollar that White families earned.

- In this same survey, we learned that one out of four Latino households do not own any assets other than a vehicle or unsecured liabilities, compared with one and 16 White households.
- Now there are a number of reasons why Latino families have low personal savings rates:
 - Latinos earn significantly lower wages, which limits disposable incomes. As a result, about half of Latino families have no savings at all.
 - Remittances to family members abroad are significant. Almost half of all Latinos in the U.S. remit money to their family and friends abroad.
 - The failure of some mainstream financial institutions to market effectively to Hispanics, combined with the fact that many predatory establishments do target Latinos, also contributes to the problem.
 - Many Latinos pay too much for check-cashing, remittances, and other financial services; others are enticed into predatory loans with exorbitant interest rates or fees.
- Given these numbers and facts, it's clear that meaningful policy solutions are needed to create more opportunities for asset-poor families.

Current Status of Financial Education Efforts:

- In recent years, efforts to increase financial literacy have been primarily focused on launching national public financial literacy campaigns, developing financial education classes, seminars, and internet-based tools, and translating or “transcreating” brochures and pamphlets.
- Although these methods are important, I believe the vote is still out on whether or not these methods are effectively increasing wealth and asset levels of low-income families.
- NCLR’s research shows that Hispanics in the U.S. need and demand custom-tailored, product-centered, one-on-one financial counseling.

- Thus, we feel that more needs to be done to support a community-based financial counseling infrastructure.
- Let me describe what I mean by this to show how this may help address the most critical issues for Latinos with respect to financial education.

Most Critical Issues with Respect to Financial Education:

- First, the challenge of wealth building for Latinos does not result from a cultural attitude about personal finance and savings.
 - The principal problem is that the market does not meet the demand among Latinos for one-on-one financial counseling.
 - Access to financial counseling depends on the ability to pay and asset levels. When people with means want to obtain financial information and advice, they purchase it. Low-income workers and families don't have the same option.
 - Financial institutions and CBOs must form meaningful partnerships to deliver financial counseling services to Latino families. CBOs have already earned the trust of the community and understand its needs.
 - By creating a business model that incorporates CBOs, financial institutions will also be able to more effectively deliver their low-cost products to the community.
 - Financial institutions must also improve outreach and marketing efforts. For example, institutions must ensure that their staff includes bilingual and bicultural employees to create a connection with this growing market.
- Second, there is a serious lack of resources to support meaningful community-based financial counseling efforts, a problem, we believe, that the federal government can help address.
 - Housing counseling, Individual Development Accounts, initiatives to target the unbanked, and federal enforcement of anti-discrimination laws amount to a relatively small share of government spending.
 - To implement a financial counseling infrastructure at the community level, resources are needed to support training

and certification of financial counselors, to support technology to track clients' progress, conduct program evaluations, and improve database management.

- Third, tax preparation and planning also serve as an opportunity for families to be educated and develop long-term financial goals.
 - We must expand community-based tax preparation sites to include a financial counseling component aimed at low-income taxpayers to increase savings.
 - Annual tax filing and the receipt of sizable tax returns present an opportunity for low-income families to discuss a wide range of investment and savings options for their income tax refunds.
 - To meet these goals, policy-makers must more adequately fund and support the development of community-based tax preparation and education efforts to identify families who qualify for such assistance and maximize potential tax return benefits.

NCLR's Work:

- On the policy side, NCLR is currently working to develop legislation that would create a government-supported financial counseling infrastructure at the community level.
- With the wealth gap widening each year, the time has come for Congress to so support a network of financial counselors to provide more basic financial advice and information to asset-poor families.
- Creating a financial counseling infrastructure similar to the housing counseling program that the Department of Housing and Urban Development oversees, would be the most meaningful method for improving the ability of low-income families to accumulate assets and wealth.
- In the field, NCLR is launching three pilot projects this summer called Economic Mobility Centers (or EMCs) in Phoenix, Denver and Kansas City.
- The Economic Mobility Centers will provide financial counseling and other financial services to poor families.

- Basically, an individual will be able to go to a community center and meet with a counselor for a one-on-one consultation.
- Financial counselors will be trained to understand asset-building strategies, such as investing Earned Income Tax Credit refunds and opening Individual Development Accounts.
- Counselors will also be able to counsel on issues surrounding budgeting, saving, homeownership, retirement security, and good remittance sending practices.
- Financial counselor will have access to the clients' entire financial file and will be able to insert this information into a database. We feel that technology tools are essential for counseling and tracking the progress of families, which is why we have developed software to fill this need.
- These community groups serve a key intermediary role and compete against unsavory players that are more successful than mainstream institutions in reaching the community.
- Eventually, with the help from some of our financial partners, we will be able to incorporate a low- or no-cost remittance tool, so that Latinos will have greater options as consumers.

In closing:

- Wealth building for Latinos is more structural rather than cultural. In our view, the challenges have more to do with the shape of the market than the behaviors of Latinos.
- Financial institutions should form meaningful partnerships with community-based organizations to more effectively deliver financial counseling services and their low-cost products to the community.
- Lastly, we need to develop a network of financial counselors on the ground, in the community, to provide meaningful financial information and advice to low-income families. The federal government must play a role in this effort and provide the additional resources that are desperately needed.

Thank you.