

November 3, 2009

Dear Financial Literacy and Education Commission:

We write in response to your inquiry regarding the national strategy for financial education programming. The National Council of La Raza (NCLR)—the largest national Hispanic civil rights and advocacy organization in the U.S.—has spent years researching and developing model programs, providing technical assistance and training to practitioners, and advocating for program expansion. Overarching all of our efforts, we have long advocated for the delivery of financial planning services to those of modest means. NCLR has also advocated for tax incentives to be used to draw for-profit planners into the middle-income market where their services are greatly needed.

Since most financial advisors are fee-based or require clients to have a minimum net worth before they will work with them, their services are often out of reach for the average family. As the majority of families living paycheck to paycheck stand to benefit most from tailored financial advice, the national strategy should be augmented through community-based financial counseling programs to reach lower-income families. Unlike general financial literacy efforts, one-on-one financial advice can be tailored to the unique needs of individual families and timed to influence their decisions on major transactions. Moreover, one-on-one service has shown to be particularly effective with Latino families, who are disproportionately underbanked with growing household debt. A new national strategy to make financial planning more accessible is critical to improving the financial decision-making abilities of Latino and other consumers.

In the section below, we respond directly to your questions.

1. In your view, what should be the most critical objectives of the new national strategy?

We believe that effective delivery of financial advice at a meaningful point in a family's decision-making process should be the focal point of the new national strategy. Tax or other incentives can be used to bring professional financial planners into the market while federal competitive grants to community-based organizations can extend free services to low-income borrowers.

Financial counseling should be executed with a deep commitment to helping borrowers and consumers make smarter decisions, resulting in increased savings and decreased exposure to expensive and risky financial products. However, most families need more than just basic financial literacy materials or courses to accomplish this. They need advice tailored to their unique circumstances. Experience and research have shown that in-person, one-on-one sessions have the greatest impact on helping clients improve their household finances.

NCLR advocates serving families at all stages of the economic continuum, for example, households of modest means who will need financial advice throughout their life cycle. A nonprofit financial counseling program should seek to work with families each step of the way,

just as for-profit services do. Families should sit with an advisor and carefully examine the details of their financial and credit history, needs, and goals.

2. What should be the key measures of successfully reaching those objectives?

A successful financial education program helps families accomplish their goals for debt reduction, access to safe and sustainable credit, and savings. To get to this point, and as means of measuring success, programs should demonstrate an ongoing relationship with their clients and steady progress toward the client's expressed goal. The specific measures may vary based on the desired outcome for different families. For example, a planner or financial counselor may help a family establish a credit history or open a retirement account, and then improvement in credit scores and regular deposits into the account would be applicable measures of success for this family. The financial advisor should also help clients in making prudent decisions about large purchases such as a home or vehicle and taking full advantage of tax incentives and credits such as the Earned Income Tax Credit.

In addition, planners and counselors should work with families to envision a long-term financial plan regardless of the immediate question that drew them in, as their household circumstances will evolve throughout their lifetime.

3. What are the most important issues that financial education should be addressing today?

We believe that those providing financial advice to middle- and low-income families should be trained to offer guidance on a range of transactions: opening checking, savings, and retirement accounts; shopping for credit cards, car loans, or insurance products; and making wise homeownership decisions. An agency should not simply distribute personal finance pamphlets. Financial education should respond to the specific needs of an individual or family. In particular, the new national strategy should focus on assisting families in recovering from a financial disaster, such as job loss, medical debt, bankruptcy, or foreclosure. Given the current economic turmoil, many families have been forced to change their long-term plans for retirement and their children's education and shift their focus to short-term survival strategies. Households in such circumstances could greatly benefit from personalized recovery strategies.

4. What do you see your organization's role in executing a national strategy for financial education?

NCLR is dedicated to promoting policies and programs that advance the delivery of financial advice to low-income Hispanic families. We conduct research and policy analysis to identify effective strategies and best practices around consumer empowerment tools. In addition, we work to strengthen our Affiliates' ability to run successful financial counseling programs by securing grants, providing technical assistance, and offering counselor training.

5. How can the Federal government best help to coordinate and promote financial literacy/capability? Please give us your suggestions and include policies, initiatives, or actions the government has not yet undertaken but you think would have an impact.

NCLR is encouraged by the recent announcement of the Financial Counseling and Education pilot program housed under the Community Development Financial Institutions (CDFI) Fund.

The pilot program should be expanded to include a broader range of eligible grantees and potential clients. For example, the target clientele should not be limited to potential homebuyers but should also include those who have experienced economic hardship, the underbanked, low-income families, and those living in areas hardest-hit by the recession. Furthermore, the program would benefit from incorporating other community-based organizations that already offer asset programs but which may not fit the existing eligibility criteria. Following this path will link 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.

In addition to building on the pilot program, NCLR strongly supports establishing tax incentives that would subsidize the cost of retaining a professional financial planner. The tax break would be targeted toward middle- and low-income households. The mere existence of such incentives would encourage financial planners to seek out middle- and working-class families, market their services accordingly, and build long-term relationships with families. A tax incentive would have the added benefit of boosting the job market built around financial advice, making room for job growth and innovation in the field. This growth in professional services to the modest-income market should also be accompanied by strong ethical and legal standards, ensuring that the highest level of care is taken, services are culturally relevant, and abuses are avoided.

6. What would you name the new national strategy (e.g. A National Strategy for Financial Literacy/Capability/Security) and why?

A “National Strategy for Financial Security” would appropriately articulate the strategy’s most important objective: to help families make wise decisions that will lead them to financial security. We feel that the expression “Financial Literacy” focuses on dispensing general information and creating vague awareness rather than improving family financial decisions. Furthermore, it does not highlight the depth of one-on-one counseling.

Thank you for your consideration. Should you have any questions, please contact Janis Bowdler, Deputy Director, Wealth-Building Policy Project, at (202) 776-1748 or jbowdler@nclr.org. We look forward to the unveiling of the new national strategy.

Sincerely,

NCLR