National
Urban League

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TESTIMONY OF

MARC H. MORIAL

PRESIDENT AND CEO
NATIONAL URBAN LEAGUE

Before the

HOUSE FINANCIAL SERVICES COMMITTEE

Hearing on

"Financial Literacy and Education: The Effectiveness of Government and Private Sector Initiatives"

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Chairman Frank and Ranking Member Bachus, I am Marc Morial, President and CEO of the National Urban League. I thank the committee for the invitation to testify on the very important issue of financial literacy and education. Our views and key findings are based on decades of program delivery experience.

Established in 1910, the National Urban League is the nation's oldest and largest civil rights and direct services organization serving 2 million people each year in over 100 urban communities. Economic Empowerment – assisting clients to attain economic self-sufficiency through job training, good jobs, homeownership, entrepreneurship and wealth accumulation – leads the five-pronged strategy to advance the mission of the Urban League Movement and is imperative to an improved "State of Black America." Today's hearing examining the need for financial literacy and the status of current governmental and private sector financial literacy initiatives falls squarely within the economic empowerment discussion.

At the outset, it is important to note that this country's increasingly complex financial services market offers consumers a vast array of products, services, and providers to choose from to meet their financial needs. While this degree of choice provides consumers with a great number of options, it also requires that they be equipped with the information, knowledge, and skills to evaluate their options and identify those that best suit their needs and circumstances. This is especially the case for populations that have traditionally been underserved by our financial system, such as African Americans, which comprise the core constituency of the National Urban League.

From the National Urban League's perspective, one fundamental problem with improving financial literacy is defining the term itself. A formal definition of personal *financial literacy* is the ability to read, analyze, manage, and communicate about the personal financial conditions that affect material well-being. The Urban League Movement employs a more expansive approach to this work which includes the ability to discern financial choices, discuss money and financial issues without (or despite) discomfort, plan for the future, and respond competently to life events that affect everyday financial decisions, including events in the general economy.

Financial literacy is at the core of the Urban League's mission to empower African Americans to attain economic self-sufficiency. The rationale for our emphasis on financial literacy is buttressed by some startling data, as revealed in our annual *State of Black America* report and the accompanying *Equality Index*, a statistical measurement of African Americans' progress toward closing the equality gap in wealth, health, education, social justice and civic engagement.

- African Americans' economic standing is 57% that of mainstream America (*2008 Equality Index*)
- Blacks hold nearly five times more installment debt than whites, and more than three times more debt than whites overall (*2008 State of Black America)*
- The median net worth of African Americans is $11,800, versus $118, 300 for whites (*2008 Equality Index*)

These astonishing statistics highlight the urgency of improving financial education in urban communities. The Urban League strategy is to create culturally competent programs that address both financial principles and long-term behavioral change. The National Urban League operates financial literacy programs in more than 75 Urban League Affiliates throughout the country. Through workshops, one-on-one counseling, and easily accessible learning materials, individuals develop effective money management strategies and, ultimately, build lasting wealth for themselves, their families, and their communities. The Urban League's financial literacy programs provide the education, tools and encouragement for individuals at all income levels to shape their own financial destinies.

Through our program experience we find that the pressing need for improved financial literacy comes from three emerging national trends. First is the deterioration of personal finances. Second is the proliferation of new, and often complex, financial products that demand more financial expertise of consumers. Third is the replacement of defined benefit pension plans with defined contribution plans that shift responsibility to consumers to fund their own retirement. Turbulent market conditions, changing tax laws, and homeland insecurity compound the need for sound financial literacy.

As a nation, we have only recently recognized our financial literacy education shortcomings. In response, many groups such as the National Urban League have taken action, developed initiatives and programs, and offered their services to various segments of society. A collection of anecdotal and quantitative data from our affiliate financial literacy programs identifies four themes characteristic of the African American community which are almost certainly universal in their applicability:

- Many people are failing to plan ahead
- Many people are taking on financial risks without realizing it
- Problems of debt are severe for a significant proportion of the population, and many more people may be affected in an economic downturn
- The under-40s are, on average, less financially capable than their elders

The National Urban League has traditionally worked in tandem with banks and foundations to design, implement, and evaluate various financial literacy curricula. Currently, we administer five such partnerships – each targeting a specific socio-demographic cohort from youth and young professionals to prospective home purchasers and established business owners and investors. In aggregate, these programs provide basic, intermediate and advanced financial counseling and education to more than 25,000 clients per year. Overall evaluation research of our financial literacy programs consistently finds significant correlations between the level of financial knowledge and good financial management practices. Individuals who are familiar with financial concepts and products are found to be more likely to balance their checkbook every month, budget for savings, and hold investment accounts. Similarly, we find that client creditworthiness and consumer

literacy determine that financial knowledge is the single best predictor of behavior, such as budgeting, saving, and shopping responsibly, that translate into positive outcomes on credit bureau reports.

However, the *National Strategy for Financial Literacy* developed by the Financial Literacy and Education Commission has helped to crystallize our understanding and recognition that limited access to the financial mainstream and poor financial literacy skills are major barriers to asset development. Poor financial literacy has a detrimental impact on personal financial management – affecting the consumer's ability to own a home, find employment, buy a car to get to work, purchase life insurance, rent an apartment, or pay tuition. Consumers without a relationship with a mainstream financial institution also pay high transaction fees at check cashers. According to a recent Woodstock Institute study, check cashers charge up to three times as much as financial institutions for basic financial services but do not provide key services like savings accounts and financial advice. In addition, some check cashers offer predatory services with exorbitant fees, including payday loans.

Financial literacy barriers related to institutional distrust can be addressed through effective financial literacy training. Banks as well as the public sector must work in partnership with community and other nonprofit organizations such as the Urban League to provide financial literacy workshops and counseling to overcome issues of trust which are undoubtedly the residue of generations of discrimination in American society.

Basic financial literacy – such as owning a bank account, managing household finances, and being able to save for the future – is critical to success in the modern American economy. Working families need bank accounts in order to conduct the transactions of daily life, but more than 10 million U.S. households lack this basic financial tool. Account ownership is also critical to saving for short-term emergencies, and for establishing credit history to access consumer, home mortgage, and business credit. A bank account can help low-income families plan better financially and save for the future. Lack of a bank account can be quite costly to low-income families as they cash their checks and conduct transactions at alternative providers. Use of these costly alternatives impedes government initiatives to move families from welfare to work and to reward work with the Earned Income Tax Credit, which the National Urban League strongly supports. In addition, low-income and minority families need better mechanisms to foster savings for important life events, including buying a home, sending their children to college, or retirement. Yet, few low-income workers have access to tax-preferred savings plans, such as Individual Retirement Accounts, that millions of middle- and upper-income families use today. New incentives are needed to transform the basic financial services landscape for the poor. The National Urban League's Homebuyer's Bill of Rights, for example, champions the right to save for homeownership tax free. It recommends creation of Individual Development Accounts for Homeownership as matched savings plans for the future purchase of a home.

In conjunction with financial literacy education, housing counseling also plays a key role in support of the goal to increase financial awareness and sophistication and to close the wealth gap between minority and non-minority households. Based on our experience in recent years, we project that more than 30 of our Urban League affiliates will help about

5,000 families become homeowners this year. Moreover, an additional 10,000 families will continue to work with their counselors to become mortgage-ready during the following year. These 15,000 families represent approximately 1/3 of the clients who will receive one-on-one counseling from Urban League Affiliates supported by HUD grant funds secured under the National Urban League's National Intermediary designation. Of the remaining families who receive homebuyer counseling, a portion will determine that they are simply not in a position to become homeowners – a key, yet basic, indicator of financial awareness and aptitude. We believe that this decision is equally as important as the decision to buy a home. These educated consumers are making a wise decision about their financial capacity to sustain homeownership. In so doing, these families are avoiding subprime, or even predatory, loan products and are putting themselves in a better position to achieve homeownership in the future.

The National Urban League's Housing Counseling Program, through 30 of our affiliates, supports the delivery of a wide variety of housing counseling services to homebuyers, homeowners, low- to moderate-income renters, and the homeless. The primary objectives of the program are to expand homeownership opportunities and improve access to affordable housing. Counselors at our affiliates provide guidance and advice to help families and individuals improve their housing conditions and meet the responsibilities of tenancy and homeownership. Counselors also help borrowers avoid predatory lending practices, such as inflated appraisals, unreasonably high interest rates, unaffordable repayment terms, and other conditions that can result in a loss of equity, increased debt, default, and foreclosure.

In addition to a deeper national commitment to housing counseling – which is also a core tenet of the Homebuyer's Bill of Rights the National Urban League advocates three key objectives that the federal government and the Financial Literacy and Education Commission should pursue to promote economic opportunity for minority and low-income families and communities:

- Expand access to capital and financial services through mainstream banks and thrifts, particularly by ensuring that CRA remains effective.
- Bank the unbanked with innovative new private sector products and services, driven by new incentives for financial services for the poor.
- Promote saving among the poor by catalyzing wide-scale establishment of Individual Development Accounts and other mechanisms that help low-income families save for homeownership and other key assets.

But what more can be done?

First, we ***CAN*** end predatory lending. There is no place for it in American housing or lending practices – no place at all!!! Predatory lenders have targeted homebuyers – especially African Americans – and successfully manipulated many in our community into unwarranted, illegal, or unethical loans. For low- and moderate-income African Americans, in particular, affordable loans are hard to come by which is why slick and sinister predatory lenders often appear to be the only option for many. HUD must aggressively pursue all predatory lenders, and I ask the Committee to continue to make this a top priority.

Second, as I touched on earlier we must have more housing counseling. Consumers must be educated. Our citizens need to be empowered with the tools to know when to spot a sham. The key is to be able to read and understand the fine print, and also to know when to ask for help. The U.S. Conference of Mayors, an excellent organization I once had the privilege of chairing, has reported that in many cities homeowners facing foreclosure are simply afraid to contact their lender for help. That's right – instead of picking up the phone and asking for help, people are willing lose their house. While most people facing foreclosure are afraid of their banks, the National Urban League knows that they are much more open to speaking with a local non-profit counseling agency that is reflective of their community, such as the Urban League, about their problems – I am here to announce that the Urban League is open for business in more than 100 cities across the country. Through our Affiliate network, we have provided professional, certified financial education and pre- and post purchase housing counseling services to those in need for the past forty years.

Finally, and as the Committee well knows, we need FHA reform.

Despite the successes of the FHA program, too many potential homeowners in underserved populations continue to be left out from the American dream of owning a home. FHA's market share has dwindled because its loan limits, inflexible downpayment requirement, and fee structure have not kept pace with the current mortgage marketplace. If FHA had been a viable mortgage alternative, many homebuyers would not have explored non-traditional mortgages, many of which are very risky.

Regrettably, this Administration seems perpetually in need of prompting to help more minorities, first-time homeowners and low-income Americans – the groups FHA and HUD were designed to serve, and to serve safely. I have long warned that gains in African American homeownership would be undone without FHA reform. Additionally, we now understand that minority homeowners who experience foreclosure usually need longer than the ten-year average to qualify for another home. Many African Americans just get one chance at homeownership. So we all need to make sure it works for them the first time.

Everyone should have access to a safe, affordable mortgage product, and this should not change just because that person is a first-time homebuyer or a minority homebuyer.

In our view, particular emphasis should be placed on reaching neighborhoods with minority populations, since a recent Federal Reserve study shows that credit scores are significantly lower in census tracts with high minority populations. HMDA data also reinforces this point. Recent surveys show that public understanding of credit scores is low, which provides a great opportunity for the Financial Literacy and Education Commission to lead industry efforts aimed at educating consumers on the role of credit scores in the approval process.

On all these key issues, be assured that the National Urban League is poised to do its part with the critical resources that Congress is making available for major non-profit partners with the experience and infrastructure required to attack this crisis head-on.

I thank you again for the opportunity to present our views, and I look forward to working with you in the days and weeks ahead to stem the tide of our nation's financial crisis – individual by individual, family by family, community by community!