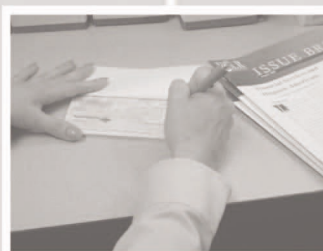


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# **Financial Education in Latino Communities:**

**An Analysis of Programs,  
Products, and Results/Effects**



**T**he National Council of La Raza (NCLR) is a private, nonprofit, nonpartisan, tax-exempt organization established in 1968 to reduce poverty and discrimination and improve life opportunities for Hispanic Americans. NCLR has chosen to work toward this goal through two primary, complementary approaches: (1) capacity-building assistance to support and strengthen Hispanic community-based organizations, and (2) applied research, policy analysis, and advocacy. NCLR strengthens these efforts with public information and media activities and special and international projects. NCLR is the largest constituency-based national Hispanic organization, serving all Hispanic nationality groups in all regions of the country, with more than 300 formal affiliates who together serve 41 states, Puerto Rico, and the District of Columbia – and a broader network of more than 35,000 groups and individuals nationwide – reaching more than four million Hispanics annually.

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# 1 Introduction: Need for an Assessment

**I**n recent years, there has been a considerable rise in public attention on the issues of financial education and financial literacy. Changes within financial markets have created more options for consumers while record-high household and credit card debt as well as a striking increase in bankruptcy filings have elicited greater public concern. For Latinos,\* financial education is an especially important subject because many remain disconnected from mainstream financial institutions in the United States, and experience with financial tools is essential to long-term economic growth, prosperity, and wealth.

In addition, the Latino population now constitutes 13.9% of the total U.S. population – 39.9 million persons – and represents great economic and financial potential.

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\* The terms "Latino" and "Hispanic" are used interchangeably by the U.S. Census Bureau and throughout this report to identify persons of Mexican, Puerto Rican, Cuban, Central and South American, Dominican, and Spanish descent; they may be of any race.

## Economic Status of Latinos

Information on the economic status of Latinos is increasingly available, and several characteristics are especially relevant to the discussion of financial education for Latinos. For example:

- ▶ Almost 80% of Hispanic men are in the labor force, representing the highest workforce participation rate of any other major racial and ethnic group.
- ▶ The purchasing power of the U.S. Latino population is projected to reach \$926.1 billion by 2007, far outpacing other segments of the U.S. population in terms of growth.<sup>1</sup> Remittances to Latin America reached a record \$30 billion in 2002, and that number continues to rise dramatically each year.<sup>2</sup>
- ▶ Up to one-half of Latinos do not have a transaction account, such as a savings or checking account, which is a basic starting point in financial management and wealth-building for American families. Foreign-born Latinos, in particular, are unlikely to use basic financial services at mainstream institutions. In one study, over six in ten (62%) foreign-born Latinos with incomes below \$20,000 had no formal relationship with a financial institution.<sup>3</sup>
- ▶ Forty-three percent of Latino workers described their personal knowledge of investing or saving for retirement as "knowing nothing" compared to 12% for all workers.<sup>4</sup>
- ▶ The overall wealth gap between White and Hispanic households stood at 8 to 1 (\$79,400 vs. \$9,750) in 2000. While Latino households did experience an increase in wealth levels between 1998 (\$7,189) and 2000 (\$9,750), largely attributable to homeownership, financial wealth levels did not improve significantly over this period, as shown in Table 1.<sup>5</sup>

As these points show, the contrast between the growth of Hispanic purchasing power and the limited use of mainstream and/or standard financial tools by Latinos overall suggests that considerable economic potential is being lost, for both the Hispanic community and the cities and states in which they live.

## Importance of Financial Education for Latinos

The importance of financial education is widely accepted and universal. Today there is a broad range of financial education providers representing various sectors, including industry, government, and community-based organizations. Financial education providers choose and tailor different curricula, teaching methods, case management styles, and partnerships to meet the needs of various clientele.

TABLE 1

**Median Household Net Worth and Financial Wealth (net worth excluding home equity) By Race/Ethnicity 1998 and 2000**

NET WORTH	1998	2000
Hispanic	\$7,189	\$9,750
Non-Hispanic White	\$70,954	\$79,400
Non-Hispanic Black	\$6,200	\$7,500
FINANCIAL WEALTH		
Hispanic	\$1,823	\$1,850
Non-Hispanic White	\$20,106	\$22,566
Non-Hispanic Black	\$1,024	\$1,166

Source: Orzechowski, Shawna and Peter Sepielli, *Net Worth and Asset Ownership of Households: 1998 and 2000*, U.S. Census Bureau, May 2003.

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In particular, the growing Hispanic market, which has a solid foot in the labor force and represents a young population of potential consumers and business developers, continues to hold the attention of key industries and businesses, which has resulted in the development of new tools tailored to the financial needs and demands of Latinos. Despite the volume of activity and widespread availability of educational materials, the impact of these new products and services on the increased financial stability and wealth of Latinos is not clear. For Latinos, questions remain as to which financial education providers are effective, how efforts and programs should be designed, what type of financial information is especially pertinent, when information is most useful and valuable, how this information can be presented effectively, and what the appropriate measures of success are for financial education efforts. Additionally, information continues to emerge about the growing number of Latinos who have become victims of predatory and unscrupulous financial operators, and the evidence reveals that mainstream players in the market may also engage in negative behavior or institute policies that disproportionately harm Latinos financially.

Though more financial knowledge alone may be insufficient to close the wealth gap between Latino and other American families, the effective delivery of financial education to Hispanic consumers could help families to save wisely, accumulate assets over time, steer clear of harmful personal debt, fight discrimination, and avoid predatory lenders. In addition, it is imperative that Latinos, especially immigrants, develop a stronger relationship with mainstream financial service providers and gain experience and exposure to the basic financial tools that help American families become prosperous over time. Therefore, before continuing to encourage development of Latino-focused financial education efforts and risk saturation and duplication, an assessment of the field highlighting elements of effective programs is timely and needed.

## NCLR's Approach

To address some of these questions and inform its analysis, NCLR conducted the following activities over a 16-month period between 2003 and 2004:

- **Convened Roundtables.** Roundtable discussions consisted of financial education researchers, policy experts, financial industry players, and community leaders. Held at NCLR's Annual Conference in Austin, Texas (2003) and Phoenix, Arizona (2004), both interactive discussions focused on key questions about the value and effectiveness of existing efforts and strategies. The discussion ranged from broad challenges related to collaborative efforts to specific contents of effective curricula. One session focused heavily on review and feedback related to this report. (See Appendix A for a summary of the financial education roundtable discussion held in Austin and Appendix B for a list of peer review panelists.)
- **Conducted Field Visits.** NCLR staff visited nine community-based financial education models and programs in six states. Staff interviewed organizational leaders and key personnel responsible for the direct implementation of financial education programs to examine the

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impact of implementation on immigrant and Latino families. The interviews provided valuable insight regarding the barriers to asset accumulation in local communities; the unique financial needs of Latinos; the difficulties in administering effective programs; and the means by which practitioners measure program success. Some of these programs are described throughout this report. Each of the programs highlighted was selected because of both its success in reaching Latino clientele and its reputation as a good service provider. (For a full list of groups see Appendix C, and for the list of questions used during the interviews see Appendix D.)

- **Examined the Research.** A brief summary of what the research reveals is provided in this report. There has been very little primary research about the impact of financial education on Latinos, especially low- and moderate-income families. When appropriate, findings that stem from general empirical research recording the outcomes of certain programs or approaches are also included, even though they lack Latino-specific information. (For more information on the research reviewed for this report, see Appendix E.)

## Purpose of the Report

The objective of this report is to describe the current status of the financial education field, particularly as it relates to Latinos and their utilization of financial services, and to make recommendations that, if implemented, will result in better financial outcomes for Latino families. First, the report analyzes the most prevalent products, approaches, and agents of financial education found within Latino communities and how these factors affect the development and delivery of programs.

Second, the report is designed for use by government, corporate, and nonprofit sectors, which have unique interests and different approaches in serving the Hispanic market. To this end, the report offers an analysis of the field of financial education targeted to Latinos based on the experience of community-based and other providers.

Third, the report is largely focused on financial education efforts and strategies targeted to low-income families and is heavily weighted toward programs that purport to connect participants to a financial tool, product, or service. The report also includes much of what is known about financial education, especially vis à vis Latino communities.

Finally, the study identifies elements of success\* in financial education, with an emphasis on community-based approaches, and provides recommendations for improving financial education opportunities for Latinos.

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\* Although success can be measured in very different ways, the report generally defines success as an outcome resulting from a change in behavior, specifically financial behavior, coupled with increased access and utilization of financial tools, products, or services. While the authors agree that there are other useful measurements of success (e.g., higher level of financial literacy), the task of prioritizing them would be overwhelming and beyond the scope of this report.

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## Endnotes

1. Humphreys, Jeffrey M., "The Multicultural Economy 2002: Minority Buying Power in the New Century," *Georgia Business and Economic Conditions*, Vol. 62. Athens, Georgia: The University of Georgia, 2002.
2. *Sending Money Home: An International Comparison of Remittance Markets*. Washington, DC: Multilateral Investment Fund and Inter-American Development Bank, 2002.
3. Bendixon and Associates, "Survey of Remittance Senders: U.S. to Latin America," prepared for the Multilateral Investment Fund, 2001.
4. *2003 Minority Retirement Confidence Survey*, Employee Benefits Research Institute, American Savings Education Council, and Mathew Greenwald and Associates, Inc., May 2003.
5. Orzechowski, Shawna and Peter Sepielli, *Net Worth and Asset Ownership of Households: 1998 and 2000*, U.S. Census Bureau, May 2003.

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## **Background:** **Making the Case for Financial Education of Latinos and Other American Consumers**

**U**.S. financial markets and systems have changed strikingly over the last few decades. The market has become much more complex while shifting increasing responsibility and choice to individuals to manage their finances. Just a few decades ago, consumer goods were purchased on a cash-only basis, savings were invested in passbook accounts, mortgage rates were fixed, and almost all pensions had defined benefits for retirement. Today, American consumers are faced with a complex set of financial options that give rise to the need for more knowledge if they are to make informed financial decisions.

There is consensus among experts in the field that financial education is a lifelong process designed to give individuals the tools they need to become financially independent and capable of self-learning. Under the broadest definition, financial education includes a wide array of topics that have degrees of relevance for selected age groups, worker and family types, and communities. Financial education subjects include homebuying, small business development, and basic personal finance.

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Most experts also agree that there is a distinction between financial literacy and financial education. Whereas financial literacy is geared toward acquiring basic knowledge or competency in personal finance, financial education is generally perceived as a means of achieving an end, such as the purchase of an asset or a change in personal financial behavior (e.g., paying bills on time).

There is also general agreement that increasing the amount of generic financial information does not necessarily result in better financial decision-making on the part of individuals.<sup>1</sup> Many factors and variables shape how individuals receive and respond to information about financial matters. There is even some reasonable doubt as to whether improved financial knowledge alone has a meaningful effect on financial behaviors, status, and outcomes. Many argue that individual financial decisions are the result of a dynamic process that includes information and knowledge, but also individual characteristics, traits, attitudes, and behaviors. While practitioners and experts are closer to understanding the myriad factors, variables, and characteristics that shape financial decision-making for the typical American, the profile of Hispanic consumers is not as clear. Accordingly, a review of the relevant research provides a foundation for further analysis of Hispanic-focused financial education efforts.

## The Research on Financial Education

The amount of accessible financial education materials and activities outstrips the body of evaluation research by a considerable margin. While a number of studies focus directly on financial education programs, far more deal with the subject in general terms. For instance, many reports document the importance of financial education for increasing participation in, demand for, or engagement with a particular financial tool or product, such as an Individual Development Account (IDA), but other measurements used to evaluate programs, such as greater knowledge (as self-reported) of financial topics, are less instructive. In light of this, rather than summarize and reference the complete body of work on the subject of financial education, highlights of Latino-specific findings are provided along with other relevant research. (A more thorough examination of several relevant studies is provided in Appendix E.) Because this report is geared to financial education for Latinos, research on efforts targeted to low- and moderate-income, asset-poor, and/or "unbanked" families was predominantly reviewed; this is a reasonable proxy for the financial status of the broader Latino population, given the economic profile of the average Hispanic worker/consumer in the U.S.

Many of the studies cited below examine several major aspects of financial education, including evaluation of the impact of certain programs ("program outputs," also known as outcomes-based research); analysis of the effects on personal financial behavior (behavioral studies); and survey data demonstrating preferences in program design and curricula.

### Outcomes-Based Research

- A study of participants in the Federal Depository Insurance Corporation's (FDIC) Money Smart financial education program found that only 20.3% of unbanked Latinos indicated that they



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would open a bank account, compared to 74.3% of unbanked African Americans and 80.4% of all unbanked participants. The study suggested that Latinos, in particular, were less inclined than African Americans to open an account because of immigration status and/or distrust of financial institutions.<sup>2</sup>

- ▶ The 2002 American Dream Demonstration (ADD) project, which evaluated 14 IDA programs, revealed that Latino participants in the IDA system deposited \$23 monthly, on average, compared to \$13 for Black participants and \$23 for White participants; 67% of Hispanic participants saved the maximum amount eligible for a match, compared to 57% for White and 38% for Black participants; and Hispanic participants made regular deposits 45% of the time, compared to 52% of the time for White participants and 43% of the time for Black participants. Although Latinos constituted only 9% of the sample size, ADD data are encouraging and demonstrate, in part, that financial education coupled with a savings tool can be effective at increasing savings for Latinos.<sup>3</sup>

## Behavioral Studies

- ▶ A National Bureau of Economic Research Working Paper points out that while most Americans acknowledge the benefit of savings, the most effective means of savings is through "forced" methods, such as high tax withholdings or pension plans, whereby savings are automatically deducted from a worker's wages.<sup>4</sup>
- ▶ While there exist explanations for irrational financial behavior, including lack of self-control and the desire to consume certain luxuries, research also contends that if consumers know more they will engage in better financial practices.<sup>5</sup> However, knowledge is not merely a matter of acquiring information; it is a product of life experiences.<sup>6</sup>

## Program Design

- ▶ The way a program is designed makes a difference in the effectiveness of financial education efforts. In one survey of Chicago households, the Internet (65.2%) was the most popular medium of choice for obtaining personal finance information followed by videos (64.6%), formal community courses (62.7%), informal seminars (55.2%), and radio programs (49.6%).<sup>7</sup> Latinos in particular demonstrated a preference for formal community courses, which suggests that Latinos are more inclined than Whites to choose communal learning settings.<sup>8</sup>
- ▶ In 2001, less than one-third (32%) of Latino workers and a similar share (35%) of all workers surveyed reported that an employer provided them with educational materials for retirement during the previous year.<sup>9</sup> When educational activities and materials about retirement benefits are provided to workers, a large share of Latinos rate both direct investment advice (42%) and individual access to a financial planner (42%) as "very effective."<sup>10</sup>
- ▶ The educational product of choice among Latino workers is an employee benefits statement (48% of Hispanics rated as "very effective" compared to 43% of all workers) as opposed to

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videos, online services, and computer software, which received less favorable ratings among Latino workers.

- ▶ Moreover, a significant number of Latino workers who responded did not utilize common educational activities in the workplace. For example, newsletters, brochures, and seminars were used by few Latino workers (25%, 22%, and 29%, respectively). The survey information suggests that employers can be key providers but, as with other programs in other settings, workplace financial education as currently delivered may not resonate evenly with all Latino workers.<sup>11</sup>
- ▶ One-on-one homeownership counseling increases the likelihood of success in a homeowner's ability to make mortgage payments on time. In a study that examined the effectiveness of pre-purchase homeownership counseling, a program that NCLR community-based affiliates implement for low- to moderate-income families, the Freddie Mac Corporation found that face-to-face counseling reduced the probability by 34% that mortgagors would be 90 days or more delinquent on their mortgage payments if counseling were provided individually, and by 26% if it were provided in a classroom environment.<sup>12</sup>

#### Chicanos Por La Causa Tucson, Arizona

Chicanos Por La Causa, Inc. (CPLC-Tucson) is a community development corporation (CDC) which provides pre-purchase homeownership counseling, housing construction and rehabilitation programs, and assistance with meeting rent and utility payments, among other services. CPLC-Tucson serves approximately 600 clients, most of whom are Mexican American families, in its homeownership counseling program. In addition to its housing programs, CPLC-Tucson provides group financial education classes and uses both the Neighborhood Reinvestment Training Institute (NRTI) curriculum and Freddie Mac's CreditSmart Español. CPLC-Tucson's major partners include Bank of America, The Home Depot, and Freddie Mac.

Altogether, the research highlighted above suggests that the effectiveness of financial education efforts often hinges on the following factors: 1) the financial outcomes being sought; 2) the availability of resources to track clients, measure success, and use technology; 3) the extent to which the behaviors, attitudes, and traits of clients being served have been weighed by program developers and administrators; 4) who provides the service; and 5) the manner in which services are provided.

## Reaching Latino Consumers: Challenges and Opportunities

The experience of Hispanic-focused financial education providers suggests that no matter who is served, what approach is chosen, or what curriculum is used, there are some common challenges to – and opportunities for – reaching Latinos effectively. The cumulative experience and knowledge of practitioners have helped to identify a baseline or core set of issues, outlined below, that providers must address if they are to build greater financial awareness among Latinos:

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- ▶ **Language.** When targeting materials and products to Latinos, financial education materials often are translated from English to their literal equivalent in Spanish, which may be unintelligible or difficult for the reader to understand. Instead, "transcreation" attempts to convey an image or message identically from English to Spanish without regard to literal phrasing. The objective is to ensure that the Spanish-dominant speaker can learn the same concepts with as much ease as an English-dominant speaker. Unfortunately, while there are many publications in Spanish, very few have been transcreated from their English original. Exacerbating this issue is that access to Spanish-language instruction is not always available. Some organizations serve a diverse community and, therefore, English-language instruction is the only feasible option. Others designate some classes in English and others in Spanish in order to accommodate all clients, while others provide instruction almost solely in Spanish. Providers now recognize the importance of providing Spanish-language instruction to Spanish-dominant speakers, and that transcreation is much more useful than translation. Moreover, providers are increasingly recognizing that English-language materials may also need to be tailored to the interests and needs of English-speaking Hispanics if the message is to penetrate the market.
  - ▶ **Ability to Participate.** A disproportionate number of low- and moderate-income Latino families live paycheck to paycheck, in part because Latino workers are concentrated in the sectors of the workforce with the lowest paying jobs. Frequently Latino workers hold multiple jobs and are limited to fixed periods of time during the day or week in which to participate in programs. Therefore, in addition to choosing the right curriculum and financial education program, Latino-focused financial education providers have become increasingly mindful of the conditions under which low-wage Hispanic workers are able to participate at all in such efforts. Providers now often need to make other key decisions before they implement and design a program that affects a working family's ability and willingness to participate, including child care, transportation needs, and length of the program.
  - ▶ **Cultural Experience.** A sizeable share of Latino immigrants lack a tradition of using reliable and insured financial tools and, in some instances, may be less inclined to access banking services at financial institutions which, from their experience, are unreliable havens for savings, especially during economic downturns. Furthermore, Latino immigrants tend to be more risk averse and conservative with investments than most Americans, which explains, in part, why they avoid debt and are less likely to have a credit history. In a University of Michigan Survey of Consumers, only 17% of Latinos had money in more than one type of investment compared to 53% of all respondents.<sup>13</sup> To complicate matters, U.S. banks do not always employ bicultural, bilingual staff who can meet the diverse needs of Latinos, especially immigrants. Financial education providers have become more attuned to the perceptions and views that immigrants hold of mainstream U.S. financial service providers and are taking steps to minimize the effects. For example, financial institutions are opening branches in predominantly Latino neighborhoods, hiring bilingual tellers, producing marketing materials in both English and Spanish, and offering less expensive international wire transfer services to attract new Hispanic members.

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- **Immigration Status.** While a majority (60%) of Latinos are native-born, a significant number of them are immigrants. Latino immigrants, like other workers, have a desire and need to access low-cost savings and asset-building tools to provide for their children and stabilize their families financially. Latino-focused CBOs that provide financial education often provide other services to immigrant Latinos. The degree to which organizations provide services to immigrants beyond group financial education varies considerably. For example, some organizations admit that they can provide one-on-one counseling services only to clients who are legally present in the U.S. mainly because undocumented families are ineligible for downpayment assistance (or other government funding). On the other hand, other organizations provide immigrants, regardless of legal status, access to IDA accounts and/or auto and mortgage loans as long as immigrants have an identifier, such as an ITIN.\* Surprisingly, those organizations that provide more access to financial services to immigrants are located in the Midwest and the Southeast, despite the fact that most Latinos are concentrated in the Southwest and Northeast. Financial education providers have become much more familiar with immigration status issues and the statutory requirements that relate to an immigrant's ability to access financial services.

To gain a complete picture of the status of Hispanic-focused financial education efforts, it is important to consider the driving force underlying the development and implementation of programs. Providers of financial education products and programs tend to be motivated by the perceived, reasoned, and observed need that Latinos may have for acquiring greater financial knowledge. Some contend that low levels of financial literacy are adequate grounds for the development and implementation of financial education programs, but developing programs, producing informational materials, and acquiring financial knowledge impose real costs in money and time on both providers and participants. An analysis of the cost-effectiveness of a program, however informal, can assist in determining whether financial education efforts are effective and worth doing.

There is consensus that financial education is useful and necessary to the extent that individuals have financial decisions to make and are presented with choices. This general agreement confirms that timing, or when an individual is exposed to financial information, is also a key factor in reaching Latinos in a meaningful way. Without a genuine opportunity to improve financial well-being, activities that increase only financial knowledge tend to be less valuable than those aimed at a specific end result. Therefore, indicators of low financial literacy levels among Latinos are insufficient to warrant greater financial education efforts. This explains, in part, low attendance and participation in financial education classes in financially underserved communities.

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\* Community Development Financial Institutions that provide ITIN mortgages must keep them in their portfolio because they are unable to sell them to the secondary market.

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Accordingly, the need for financial education among Latinos is best demonstrated in areas where Hispanic consumers have choices and important financial decisions to make. In that vein, several key indicators of need for Latinos are worth mentioning. Specifically:

- ▶ **Credit and Debt.** Latinos are more likely to have a thin credit file or no credit history, which may affect not only their access to affordable credit, but also their insurance premiums and employment opportunities given the ubiquitous and ever-increasing role that credit status plays in the U.S. According to one study, 22% of Hispanic borrowers had no credit score, compared to 4% of Whites and 3% of African Americans.<sup>14</sup> In another study, Latinos and African Americans were more likely than Whites to have credit scores below 620, which is a common dividing line between prime and subprime lending.<sup>15</sup> Perhaps aversion to debt, whether good or bad, among Latino immigrants and lack of familiarity with the role of credit in the marketplace partly explain why Latinos are more likely to have no credit history or lower credit scores. Many immigrants are also unaware of how ITINs can be used as identification to establish credit. In sum, many Latinos are making financial choices related to credit and debt which may not be optimal and could be mitigated by a modest degree of timely financial education.
- ▶ **Banking Services.** For Latino immigrants, in particular, many of whom may never have had a basic bank account in the U.S. or in their country of origin, financial education seems appropriate and needed. More than 35% of Latinos surveyed reported that they did not have a bank account, and that number rises to 42% for foreign-born Latinos (and to almost 50% for those in Puerto Rico).<sup>16</sup> Many Mexican immigrants are also unaware that Mexican consular ID cards, also known as *matrículas consulares*, can be used to open bank accounts. Undoubtedly, for many unbanked immigrants the issue is less about education and knowledge and more about the limited convenient financial options available to them. However, a basic relationship with a mainstream financial institution is central to growth and asset accumulation over time. One study showed that 51% of households that have a relationship with a bank save regularly, compared to 14% of households that did not.<sup>17</sup> The long-term benefits of establishing and maintaining a relationship with mainstream financial institutions may be realized through effective financial education efforts.
- ▶ **Savings.** Research shows that Latinos have the ability and willingness to save with interest-bearing accounts, but often do not. Fifty-four percent of Latinos do not have a standard passbook savings account.<sup>18</sup> According to the results of a quiz administered by the University of Michigan Surveys of Consumers, only 60% of Latinos, compared to 72% of other respondents, said the following statement was true: "With compound interest, you earn interest on your interest as well as your principal."<sup>19</sup> While a significant number of Latinos reportedly do not understand fully the benefits of having a savings account, other surveys reveal that Latinos understand the importance of saving and believe they can save more. More than three in five (62%) Latino non-savers in one study said they could set aside \$20 per week, compared to 54% for all similar U.S. workers.<sup>20</sup> In this instance, more information may in fact lead to greater savings levels and enhanced savings behavior for Latinos.

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- **Fringe Financial Services and Bad Actors.** The proliferation of new players in the financial services markets which target low-income, minority neighborhoods is another important indicator of need for financial education in the Latino community. For instance, there is a rise in the number of financial services, such as wire transfers, payday lenders, check cash outlets, and others that provide a convenient service that the Hispanic market demands and which went unfilled for many years. However, Latino consumers have more choices of financial products and services than ever before, and evidence continues to emerge that Latinos are paying more for services than they should.

Moreover, there is more evidence documenting that policies and practices within the entire financial services industry may be adversely impacting the financial well-being of Latinos. According to one study, African Americans and Hispanics are disproportionately represented in the subprime home refinance mortgage market. Lower-income Hispanics in particular received 1.4 times as many subprime loans as did lower-income Whites, while upper-income Hispanics received 2.2 times as many of these loans.<sup>21</sup> Further, new information about the practice of financing auto loans raises serious questions about policies set in place by the country's major auto lending agents. Recent litigation against the financing arms of auto manufacturing companies has revealed that, compared to Whites with similar credit histories, Latinos, on average, pay additional interest unnecessarily for financing at car dealerships. In one study, Latino borrowers paid, on average, \$300 more in finance charges compared to similarly-situated White borrowers.<sup>22</sup> In many instances, with a modest increase in financial awareness Latino consumers might be able to identify these predators or unfair practices.

There are many more examples that indicate where Hispanic-focused financial education is needed and valuable. But need for targeted efforts and customized information is only part of the equation in assessing adequacy and effectiveness in the aggregate. For many providers, the primary challenge lies in measurements of demand for financial education.

Arguably, if demand for acquiring greater financial knowledge among Latinos were robust, the market would satisfy it. In this sense financial education can be viewed as a financial tool or product in itself that many consumers seek and are willing to pay for. For the overall population, some indicators of demand include the number of people who access web-based financial information, subscribe to *Consumer Reports* and other similar publications, and/or purchase the services of a certified financial planner or tax advisor. In these instances, demand is measurable and largely satisfied in the marketplace; individuals are willing to pay for information and services that build their financial knowledge and help them navigate through financial markets.

While it is unclear how many Latinos use these more mainstream educational services, the data and research suggest that the numbers are low and that affordability is a key barrier. That said, at least one anecdotal measurement of demand for Latinos is reflected in requests for homebuyer counseling services at the local level, which frequently exceed capacity.<sup>23</sup> Furthermore, survey data

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of Latino workers (see other key findings in Appendix E) found that of those who said financial education was not provided by their employers, six in ten said they would be likely to take advantage of professional investment advice if it were in person.<sup>24</sup>

Accordingly, there is at least partial evidence of demand from Latinos for interactive, in-person financial counseling, and much weaker indicators of demand for more generic informational materials. Notwithstanding this, providers of Hispanic-focused financial education seem to have gravitated toward a focus on the broad financial needs of Latinos and an emphasis on production and dissemination of basic educational materials. In this sense, the supply of generic financial education materials targeted to Latinos is arguably sufficient, if not excessive.

That said, information on a selected set of issues (e.g., use of ITINs) with implications for the financial status of Latinos could be valuable. Furthermore, there is a growing body of evidence that, at the local level, demand on the part of Latinos is rising for intensive financial advice and counseling services. Altogether, this suggests that the level of valuable financial education available to Latinos currently is inadequate despite the volume of materials and efforts currently under way.

**El Centro, Inc.**  
Kansas City, Kansas

El Centro, Inc., a Community Development Financial Institution (CDFI) and multiservice organization in Kansas City, Kansas, provides mortgage lending, homeownership counseling, homebuyer education, housing development/rehabilitation, IDAs, and tax preparation assistance, in addition to other social and educational services. The community served by El Centro, Inc. consists predominantly of Latino immigrant families, many of whom are from Mexico. El Centro, Inc. has approximately 700 clients in its pre-purchase homeownership counseling program and 175 clients enrolled in the IDA program, which requires participants to attend ten hours of financial education. El Centro uses the FDIC's Money Smart along with Freddie Mac's CreditSmart Español curriculum. U.S. Bank, Bank of America, Capital Fed, Metcalf Bank, IRS, NHSA/Bank Midwest, Freddie Mac, and Heart of America Family Services partner and/or provide financial resources to El Centro, Inc.

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# 3 Status of Hispanic-Focused Financial Education Efforts

**E**fforts targeted to Latinos are diverse and involve a wide range of providers that use various approaches, formats, and curricula. An overview of the most prevalent financial education providers, types of efforts, popular curricula, as well as challenges to delivery helps to describe the atmosphere within Hispanic neighborhoods throughout the nation. Moreover, where, how, and from whom Latinos access financial information – and what types of information they seek – are key factors in understanding whether such efforts are meaningful.

## Financial Education Providers

Because there are many public and private entities involved in financial education efforts, Hispanics may access, receive, or become exposed to financial information in a variety of ways from a range of providers with distinct motives and interests. Efforts vary depending on many factors, including the mission of the institutions, the resources available to them, and more importantly their access to and engagement with the persons and communities they intend to

serve. The following is a summary of goals, intended impact, and different approaches/designs of the major financial education providers in the field. Table 2 summarizes this information.

TABLE 2

Most Popular Financial Education Providers			
Provider	Program Goals	Intended Impact and Design	Program Approaches
Financial institutions	New customers	Increased deposits	<ul style="list-style-type: none"> <li>- Educational materials</li> <li>- Group workshops</li> <li>- Financial products and services</li> </ul>
Schools	Increase financial savvy of students as they prepare for college and early adult life	Discourage students from accepting excessive lines of credit; encourage some form of basic budgeting and savings	<ul style="list-style-type: none"> <li>- Mandate course included in junior high and high school curricula</li> </ul>
Employers	Increase the financial sophistication of employees	Increased 401(k) participation; increased direct deposit; increased productivity; and decreased absenteeism	<ul style="list-style-type: none"> <li>- Educational materials</li> <li>- Group workshops</li> <li>- Referrals to local experts</li> <li>- Partnerships with local organizations (banks, credit unions, investment companies, financial planners, etc.)</li> <li>- Financial incentives (e.g., matched retirement savings)</li> </ul>
Government	Increase financial literacy and improve financial behaviors of general public and/or federal employees	Lower consumer debt and number of bankruptcy filings; increase personal savings; lessen vulnerability to predatory lending	<ul style="list-style-type: none"> <li>- Develop curricula or other educational materials</li> <li>- Conduct research activities</li> <li>- Provide limited programming at local level</li> <li>- Convene discussions about various aspects of financial education</li> </ul>
Community-based organizations (CBOs)	Increase financial literacy of clients; protect assets of clients; sustainable homeownership	Decreased delinquencies and defaults; connect clients to asset-building opportunities	<ul style="list-style-type: none"> <li>- Educational materials</li> <li>- Group workshops</li> <li>- Individual counseling</li> <li>- Partnerships with local financial institutions</li> <li>- Financial incentives (e.g., special programs for first-time homebuyers, IDAs)</li> </ul>

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- ▶ **Financial Institutions.** Beyond the standard set of targeted marketing and promotional efforts, many banks and credit unions see financial education as an opportunity to market and co-brand products with reputable community organizations and as a means of enrolling accountholders in new markets. Community Reinvestment Act (CRA) credit and good corporate citizenship also play a role in motivating financial institutions to develop financial education strategies or activities.

A few banks and credit unions print brochures or produce videos on different financial topics and disseminate this information to their members; some may disseminate similar materials at community events, such as state fairs. Other financial institutions develop curricula and instructional manuals and partner with local organizations and businesses as part of a broader, more rigorous dissemination strategy. It is important to distinguish between the marketing and philanthropic functions of corporations. In general, the marketing arm of a company is more focused on co-branding as well as media and marketing opportunities whereas the philanthropic arm may be willing to make significant investments in developing, implementing, and evaluating programs.\*

- ▶ **Schools.** Financial education experts have long argued that teaching financial skills needs to begin at an early age in the classroom. This year the Jump\$tart Coalition for Personal Financial Literacy conducted a national survey of high school seniors and asked them questions about income, money management, saving, and spending; 65.5% of the students failed the exam.<sup>1</sup> Additionally, college student debt, stemming primarily from credit card offers, provides alarming anecdotal evidence of how ill-prepared most young persons are financially when they graduate from high school. In 2000, undergraduates with credit cards carried an average balance of \$3,071.<sup>2</sup>

Congress, through the No Child Left Behind Act, as well as some state legislatures, corporations, and other organizations have attempted to promote and deliver financial literacy to youth through the school systems. A majority of states have passed mandates, with varying degrees of enforcement, that require schools to incorporate consumer education or personal finance into the high school curriculum.<sup>3</sup> On the other hand, some states, such as Washington and Virginia, choose not to offer consumer education or personal finance courses due to insufficient funding or other administrative considerations. Of those schools that do engage in financial education, many are able to obtain curricula, educational materials, and funding from organizations that provide financial education resources for youth, including the Jump\$tart Coalition and the National Endowment for Financial Education (NEFE), although such resources are limited.

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\* For example, Citigroup recently announced the creation of a financial education office, which will reportedly oversee its financial education efforts throughout the world and provide \$200 million in funds for such efforts. Citigroup has also begun to partner with CBOs to teach a comprehensive curriculum it developed, which includes lessons for K-12 students, young adults, and persons ready to purchase a home or invest in the financial markets.

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Other states, such as Utah, have decided to design their own curriculum for when financial education becomes mandatory for their students in 2006.

Some corporations, particularly credit card issuers, have also developed programs to address the financial literacy of youth. For example, Visa has partnered with leading consumer advocates, educators, and financial institutions to launch a national program called Practical Money Skills for Life. In addition to providing computers and online tools and resources, Visa has created free classroom materials in English, Spanish, and Chinese, which educators can use to teach personal finance. According to Visa, Practical Money Skills for Life reaches more than 2.5 million educators and 37 million students throughout the country.

- **Employers.** Many employers, especially those who offer pension benefits to workers, often have a legal obligation to provide a measure of financial education related to those benefits. Statutory nondiscrimination pension rules also encourage employers to enroll low-compensated employees in pension plans. Employers are encouraged to provide some form of retirement or investment planning information to employees.

Employees can be required or are encouraged to attend classes, seminars, or workshops, and their progress can be measured through activities such as 401(k) enrollment and increased employee contributions. For example, Weyerhaeuser, an international forest products company that employs 38,000 persons (19% of whom are ethnic minorities), offers workshops in financial education, including basic personal finance, retirement, and estate planning. These workshops are offered in a series of sessions, ranging from eight hours to two and a half days.

- **Government.** In response to political and public pressure, some government agencies have created offices and initiatives to promote financial education, such as the U.S. Department of Treasury's Office of Financial Education; the Federal Deposit Insurance Corporation (FDIC); the U.S. Department of Agriculture's (USDA) Cooperative State, Research, Education, and Extension Service (CSREES) Financial Security Program; the Department of Labor's (DOL) Women's Bureau Hispanic Financial Security forums; and the Department of Treasury's recently-created Financial Literacy and Education Commission under the Fair and Accurate Credit Transactions Act of 2003 (FACT Act). While their activities and effectiveness remain unclear and are undoubtedly uneven, their general mission appears to be to increase financial literacy and craft best practices.

For example, in addition to CSREES's work in promoting research and education in agriculture and the environment, the agency has also undertaken efforts to implement family and community programs that offer financial education through CSREES's university network and partner organizations. CSREES has also partnered with NEFE to provide train-the-trainer sessions for teachers who, because of recent state legislative mandates, must now teach financial education courses. However, while some government agencies, such as FDIC, have made a great effort to develop materials, they have been remiss in providing financial resources directly to community-based providers for implementation.

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Another important source of government-sponsored financial education is the military. Military personnel and their families have increasingly become victims of predatory schemes, and there is concern that financial stress on soldiers can interfere with the performance of their duties at home and abroad. Junior enlisted soldiers in particular experience more difficulties with managing their personal finances. In one study, 27% of junior enlisted service members had difficulty paying their bills on time, compared to 19% of similarly-situated civilians. In response

#### Social Marketing: Financial Education Campaigns

Recently, there have been efforts to incorporate Latinos into social marketing and financial education campaigns. The goal of these campaigns is to change negative financial behaviors that hinder a family's ability to save and build wealth. Most of these campaigns run ads in television, radio, and print media. Interested persons are often directed to a website where they can obtain more information about personal finance. For example, the American Savings Education Council (ASEC) runs an ad campaign to encourage personal savings and discourage Americans from accumulating too much consumer debt. On the ASEC website there are interactive tools that allow a person to estimate how much he or she needs for retirement, along with other resources to assist consumers with other financial planning issues. ASEC also partners with the Employee Benefits Research Institute (EBRI), which conducts the Retirement Confidence Survey, a survey that assesses Americans' attitudes toward savings as well as their preparedness for retirement.

The America Saves program, spearheaded by the Consumer Federation of America, represents another financial education campaign that uses social marketing techniques. America Saves works with a coalition of local and national organizations that coordinate local campaigns, such as Cleveland Saves, and constituency-based campaigns, such as Hispanic America Saves, to promote financial literacy efforts that increase personal savings. On the main America Saves website, consumers can access advice about personal savings, sign up to receive a brochure by pledging to save, and use a wealth calculator to estimate net worth. Local campaigns vary significantly, with some programs placing radio and paper ads and connecting participants to financial advisors while others merely host financial classes. While there is evidence that social marketing works to change behaviors (e.g., seatbelt use) and could potentially change financial behaviors, success for Latinos may depend heavily on the availability of relevant financial tools or products.

Surprisingly, financial institutions tend to conduct relatively little, if any, marketing for their financial education products. In fact, corporations are often content with co-branding materials, such as guidebooks, rather than integrating their use in any business plan. One explanation for this may be that marketing departments must justify that such products will affect the company's bottom line and have a significant positive financial impact, which is often not the case with financial education materials. Financial institutions may also need to invest significantly in financial education efforts at the community level to achieve financial gains.

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to these findings, the Department of Defense (DOD) through its Morale, Welfare, and Recreation Directorate launched the Financial Readiness Campaign, which sought to encourage military leadership participation; develop a marketing strategy; partner with private, nonprofit organizations and federal agencies with financial education materials; and establish measures to track the progress of service members. As a result of these directives, DOD signed a Memorandum of Understanding with 26 federal agencies and nonprofit organizations to provide in-kind resources to the various personal finance management programs at various military installations. For example, the National Endowment for Financial Education (NEFE) will provide education materials to service members and has developed pamphlets with the National Military Family Association (NMFA) entitled "Military Families: Money & Mobility," which it plans to distribute to service members and their families. NEFE will also offer military financial educators access to its web-based training program.

## Community-Based Financial Education Approaches

Community-based organizations (CBOs) are also major providers of financial education, especially to low- and moderate-income families. Many Latino-serving CBOs are social service providers that have connections reaching deeply into the community and a history of community support. By virtue of their location and reputations, many CBOs serve as repositories and conduits of information to other financial education providers or financial service providers about the experience, traits, needs, demands, and financial characteristics of the community.

CBOs are diverse in terms of size, resources, structure, environment, and capacity. The level of engagement and the sophistication of their financial education efforts, therefore, are dependent on these factors. For Hispanic-serving providers in particular, the most prevalent financial education strategies include the following:

- **Information and Referral.** Many organizations choose to serve as a source of financial education information and refer clients to financial education providers rather than provide such services in-house. Given that CBOs often receive financial education materials from financial institutions or government entities, providing information about financial topics is relatively easy and requires the least amount of resources to implement.

For example, Branch Banking and Trust (BB&T) in Winston-Salem, North Carolina developed a unique information tool to help Latino immigrants build traditional banking relationships. In partnership with the North Carolina Office of Hispanic/Latino Affairs and El Pueblo, Inc., a Latino advocacy group based in Raleigh, BB&T developed a series of 60-minute Spanish-language audiotapes, which include useful banking and community service information. Using a *novela* storytelling format, the tapes speak to a range of important topics from how to call 911 to explaining the process for obtaining a driver's license. The tapes also cover basic banking and credit information and how the U.S. banking system works. Since November 2002, BB&T has distributed more than 20,000 tapes through churches and community groups.



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- ▶ **Service-Delivery Model.** This model enables core financial education providers to reach the community with services and products through a CBO. Financial education and related services can be administered on-site and can be linked to other programs or services offered by the organization. For example, in 2003 Freddie Mac launched CreditSmart Español, a bilingual consumer education curriculum. As part of its implementation strategy, Freddie Mac partnered with seven national Latino organizations, including NCLR, to offer CreditSmart Español through their various membership networks. Freddie Mac provided instructional materials as well as train-the-trainer sessions to prepare instructors to teach CreditSmart Español. A few of the partnering national organizations do not provide direct services to their members; however, by enlisting the expertise and financial resources of Freddie Mac, these organizations can now offset the programmatic and staff costs in the area of financial education.

A related common strategy is for a CBO to work in partnership with other institutions and service providers. These partners may include credit and homebuyer counseling agencies, financial institutions, insurance agents, realtors, and financial planners.

- ▶ **Business or Retail Model.** This model often includes a major financial institution as a partner, utilizes technology, and yields measurable outcomes (e.g., homeownership). Organizations implementing this type of model, or close variations, tend to have accumulated a considerable degree of experience, contacts, credibility, resources, and partnerships. Adding a full-scale financial education program, such as homebuyer counseling, not only allows organizations to provide more comprehensive services to their clients, but may also open opportunities to solicit funding from a variety of new sources that can be used to strengthen key operations of the organization. The NCLR Homeownership Network includes over 35 CBOs implementing pre-purchase homeownership counseling. These CBOs have established business relationships with major mortgage lenders, such as Wells Fargo, and governmental agencies to use technology to process mortgage applications and deliver homebuyer counseling services for low-income Latino families. In some instances, the counseling groups are paid a fee by mortgage lenders for the services they provide. The business model is entrepreneurial with the goal of establishing a sustainable income-producing community-based financial education effort with growth potential over time.

None of the above CBO models is mutually exclusive. In other words, even organizations that run full-scale financial education programs can take advantage of other features included in other models. For example, some organizations have relationships with other entities to provide a service, such as credit counseling, as a condition for pre-purchase homeownership counseling for those clients not ready to purchase a home due to credit problems. Also, these groups often engage in partnerships to pool resources for financial education activities. For instance, some organizations in NHN which run full-scale financial education programs are also CreditSmart Español sites. Therefore, community-focused groups can exercise a great deal of flexibility and creativity when developing and implementing their programs.

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## The Unity Council Oakland, California

The Unity Council, a community development corporation, has embarked on projects that involve housing, commercial, and retail development. Other programs and services include homeownership counseling, homebuyer education, small business assistance, job readiness and employment services for limited-English/low-income persons, and early childhood services, such as Head Start and Early Head Start. The Unity Council serves a largely immigrant community – 45% Latino (predominately Mexican) and 22% Southeast Asian. Its homeownership counseling program consists of approximately 600 participants and reports about 80 closings per year. The Unity Council offers general financial education classes and provides a certificate of completion; Money Smart and Citibank's financial education curriculum are both used. Citibank and the Fannie Mae Foundation provide financial support for The Unity Council's financial education programs.

## Delivery of Financial Education

In addition to looking at the different types of financial education providers and the various community-focused efforts providers engage in, what financial information is provided and how it is delivered are also key factors in assessing the effectiveness of programs.

Financial education providers use brochures, pamphlets, the Internet, and a full range of other methods to build knowledge and awareness among Hispanic and non-Hispanic consumers. At the community level, the most prevalent format is classroom style. Financial education classes typically focus on a subject or they are organized in a series, including topics such as basic budgeting, credit, banking, and homebuying.

Another approach is one-on-one financial management counseling services. Homebuyer counseling is a common form of community-based one-on-one case management. These efforts are generally resource intensive, include technology/software, and require a number of partners. For example, NCLR, with the support of Freddie Mac, worked with a software company to develop CounselorMax™ – a patented and trademarked database technology tool that allows housing counselors to manage and expand their client load effectively, complete funder reports, and compare mortgage products. Since many clients are not immediately ready to purchase a home or start a business, CounselorMax™ enables a CBO to work with these families through counseling sessions, budgeting, and credit counseling, sometimes for a few years.

More importantly, CounselorMax™ informs the CBO on whether or not it is having the intended programmatic impact. Since funders almost always place reporting requirements on CBOs with regard to their counseling work, the data derived from the tracking technology are critical. Reports include demographic and financial data, numbers of closings, lender information, and the duration of

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counseling, among other things. CBOs generally have to meet mortgage closing targets or other benchmarks to ensure continual funding. While some CBOs find reporting time-consuming and administratively burdensome, it does ensure overall accountability to funders and demonstrates an organization's performance.

Finally, counseling agencies often provide monetary incentives to clients in conjunction with their counseling services. Grants, often in the form of downpayment assistance, are channeled from state and/or local sources to CBOs and, ultimately, to eligible families. Low-income families are generally eligible for such assistance upon establishing a healthy financial portfolio, which, subsequently, allows them to qualify for a mortgage. Downpayment assistance, which can be very high in some housing markets, can have a significant impact on the ability of a family to purchase a home. Therefore, many families are willing to commit to intensive one-on-one counseling services for a long period of time. Such incentives are often not available as part of an ad hoc financial education class.\*

Counseling activities are generally more sophisticated and intensive than group classes. However, counseling is also more expensive to administer. Community-based organizations must rely on stable funding streams for their counseling activities. For example, many CBOs receive funding from the Department of Housing and Urban Development (HUD) through intermediaries, such as NCLR, or other governmental sources for their homeownership counseling activities. CBOs have very little resources to conduct group classes, with the exception of a few grants from financial institutions or Government-Sponsored Enterprises (GSEs), such as Fannie Mae and Freddie Mac. Because funding affects an organization's capacity, many CBOs dedicate more staffing and resources to their counseling activities and significantly less for their group classes, which some groups view as an ancillary service that augments one-on-one counseling. Other organizations place a higher importance on their classes by requiring clients to attend group classes in addition to their counseling services or as a prerequisite for enrolling in one-on-one counseling.

## Curricula

For those Hispanic-focused financial education providers that use an open classroom setting, many curriculum options exist that complement their program objectives and address the interests of their clients. Despite the fact that over 400 different financial education curricula are available, no one curriculum is perfectly tailored to the needs of low-income Latino families. Selecting an existing curriculum can be a daunting task, given the range of materials currently in use – from one-page fact sheets to extensive curricula that include directions for instructors, slides, handouts, and other materials, as well as group and individual activities. Many of the financial education providers interviewed for this report use one or a combination of the following curricula:

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\* There are exceptions, however. For example, in the City of Chicago, the receipt of downpayment assistance funds is contingent upon completion of six hours of homebuyer education.

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- ▶ **Federal Deposit Insurance Corporation's (FDIC) Money Smart.** Perhaps the most popular government-sponsored financial education product is the Money Smart curriculum, which was designed primarily for people with little or no banking experience. FDIC has conducted considerable outreach to banks, national organizations, and CBOs in an attempt to get various organizations to sponsor workshops using the curriculum. Money Smart consists of ten training modules that cover a range of topics from basic budgeting to homeownership and is available in five languages, including Spanish. Many CBOs state that they like Money Smart because it covers topics in a comprehensive manner yet provides a basic foundation for unbanked persons which they can tailor or supplement with additional educational materials and tools for their clients. Most also believe that Money Smart appropriately targets persons with low literacy levels, making concepts easy to understand.
  - ▶ **CreditSmart Español.** Freddie Mac's CreditSmart Español, a bilingual consumer education curriculum, consists of 11 modules that introduce participants to the importance of credit in U.S. society and teach money management skills with the goal of positively affecting consumers' credit and improving their prospect for homeownership. (See "Service Delivery Model" bullet under "Community-Based Financial Education Approaches" section for more information about CreditSmart Español.) Freddie Mac and Fannie Mae have established relationships with CBOs and their intermediaries that provide homeownership counseling and/or homebuyer education, and Freddie Mac piloted this curriculum with a number of Hispanic-serving CBOs that were also providing homeownership counseling.
  - ▶ **Curricula Developed by Intermediaries.** Intermediary homeownership counseling organizations, such as NeighborWorks, have created their own homebuyer education curricula. In addition to developing materials for CBOs, NeighborWorks provides training to member organizations through its Neighborhood Reinvestment Training Institute. Attendees can obtain a Certificate of Professional Recognition in Homebuyer Education by completing a five-day course offered in both English and Spanish. A few housing counselors have obtained this credential, which serves as a special designation for practitioners who deliver homebuyer education workshops and/or seminars.

The National Community Reinvestment Coalition (NCRC) is made up of over 600 organizations that seek to encourage community reinvestment and increase the flow of private capital into underserved communities. NCRC engages in policy, advocacy, and lobbying activities on a national level, provides research and technical assistance to its members to assess the performance of community lenders, and administers local programs through CBOs, including small business development and financial education. NCRC's Financial Education Campaign provides train-the-trainer courses to community organizations, which then train their community members, who often sponsor group classes. NCRC has developed an extensive curriculum to accompany its training, which includes an instructor's guide, participant

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workbooks, and activities on topics including credit and debt management. Training materials are available in Spanish and other languages.

- **Custom-tailored Curricula.** While most organizations use existing curricula and modify them according to their community's needs, some make the decision to create their own curriculum. Those organizations often feel that existing products do not address the needs of their clientele or they dislike the teaching format. For example, the Latino Community Credit Union (LCCU) in Durham, North Carolina believed that products targeting unbanked English language learner (ELL) recent immigrants did not exist. Consequently, after conducting focus groups and consulting with local organizations LCCU launched a new financial education product tailored for a mostly new immigrant population. The curriculum is based on a popular education strategy, where participants' input is actively solicited and instruction is based on a peer-to-peer, or *promotora*, concept.

In most cases, the curriculum described above is free and accessible, and training for providers, trainers, or teachers is available at no or low cost.

#### Latin United Community Housing Association (LUCHA) Chicago, Illinois

The Latin United Community Housing Association (LUCHA), located in Chicago's Humboldt Park, provides housing counseling, homebuyer education, senior home repair, and affordable housing to over 1,000 households each year. LUCHA serves a diverse clientele – 25% White, 18% African American, and 54% Latino (mostly of Puerto Rican or Mexican origin). Approximately 600 clients make up LUCHA's homeownership counseling caseload, and LUCHA reported 85 closings last year. In the City of Chicago the receipt of downpayment assistance funds is contingent upon the successful completion of six hours of homebuyer education. Therefore, unlike many other organizations who report low attendance for their group financial educational classes, LUCHA has between 40 and 50 participants for each homebuyer education session; the class consists of two three-hour sessions. LUCHA teaches a curriculum originally produced by the Fannie Mae Foundation (rights later sold to Consumer Credit Counseling Services). Community partners include U.S. Bank, Citibank, Harris Bank, Chicago Department of Housing, and the Chicago Housing Authority (Vouchers).

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## Endnotes

1. Mandell, Lewis, 2004 *Personal Financial Survey of High School Seniors*. Washington, DC: Jump\$tart Coalition, 2004.
2. National Postsecondary Student Aid Study figure cited on U.S. PIRG "The Truth About Credit" website, <http://www.truthaboutcredit.org/>
3. Bernheim, B. Douglas *et al.*, "Education and Saving: The Long-Term Effects of High School Financial Curriculum Mandates." Working Paper 6085, National Bureau of Economic Research, 1997.
4. Buddin, Richard and D. Phong Do, "Assessing the Personal Finance Problems of Junior Enlisted Personnel." National Defense Research Institute, Santa Monica, CA: Rand, October 2000.
5. Beauregard, Col. Marcus J., Paper submitted to the National Endowment for Financial Education Think Tank: *Motivating Americans to Develop Constructive Financial Behaviors*. Greenwood Village, Colorado: May 2004.
6. Notes from NCLR focus group, *Promising Strategies in Financial Education for Latino Communities*, held July 10, 2003 in Austin, Texas.

# 4 Elements of Success in Hispanic-Focused Financial Education

**A**s the previous sections note, there exists a broad array of financial information and educational materials from a variety of sources in the marketplace targeted to Latinos. Although the breadth of efforts is considerable, there are some common noticeable threads among financial education programs. NCLR's assessment of the field identified five key elements of effective implementation of Latino-focused financial education programs.

## **I. Successful Financial Education Programs Are Product-Centered**

Given the financial needs of Latinos, gaining more knowledge about personal finance is arguably a sufficient goal to motivate families to participate in programs. However, financial education providers often struggle to attract families or workers to attend classes and educational seminars. The likelihood that someone will participate in a financial education activity is greater when "teachable moments" occur – those life events, such as divorce, bankruptcy, and retirement, typified by the need for individuals to make important and critical financial decisions when faced with many choices.

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But in the absence of teachable moments, effective incentives are needed to motivate Latino consumers to seek financial education. One of the most effective practices is the promise of access to a financial tool or product. Most providers recognize that financial education is least effective as a stand-alone service and most meaningful when linked to tangible products or tools that participants could receive (e.g., savings accounts, mortgage products).

While there are also instances where providers attempt to motivate clients with prizes or services, such as child care, financial education providers acknowledge that incentives need to be stronger to appeal to many low- and moderate-income Latinos who juggle more than one job and work nontraditional hours to support their families.

## **2. Successful Financial Education Programs Are Customized**

The research on financial education reveals that programs that take into account the various factors that influence the way individuals absorb financial information and make financial decisions have a higher likelihood of success than those that do not consider these issues. Moreover, many community-based financial education providers note that Latinos face unique and complex financial challenges and that tailored information often is needed, as well as answers to detailed questions and specific advice, in order to influence financial behavior and improve financial status.

One-on-one counseling can be defined as individualized consumer education provided to individuals with an identified need or barrier.<sup>1</sup> Studies have confirmed that one-on-one counseling is the method with the most desirable outcomes, though it is also the most labor and resource intensive. Purchasing customized advice and assistance from certified financial planners, investment brokers, or tax preparers is often the route taken by middle- and upper-income families and workers who need assistance in making critical financial decisions. The need for such services is just as great and arguably greater for low-income families, and the demand for such services is growing at the local level. For instance, low participation in counseling programs is not often a problem for organizations providing pre-purchase homeownership counseling.

With intensive, customized counseling, organizations can evaluate more closely the financial status of clients and provide relevant information about services, products, and tools that meet their specific financial needs. In the case of homebuyer education, counselors are often able to connect clients to other resources, including downpayment assistance or matching funds, to acquire an asset, such as a home. The ability to leverage other resources serves as an enhanced incentive to motivate clients to participate in financial education sessions, and such monetary assistance can be as high as several thousand dollars depending on the program and market.



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### 3. Successful Financial Education Programs Are Community-Based

Among the many different providers, interests, and approaches that make up the financial education field, Hispanic-focused efforts developed and implemented through a community-focused lens hold the most potential for making an impact on families.

CBOs play a critical role in shaping, refining, and improving the delivery and meaningfulness of such efforts for Latinos. First, CBOs are most often located directly in the target community while many providers are not. This is especially critical for providers that have an interest in new markets, such as financial institutions, yet do not have offices or branches in these communities.

Second, CBOs serve as conduits and delivery agents to their networks, which allows for greater quality interactions with Latino clients. Many community-based financial education providers build up experience and knowledge that can shape and guide the creation of relevant financial products. For example, many CBOs became aware of the use of alternative identification, such as the *matrícula consular* and the ITIN, to open bank accounts before established financial institutions knew of these options. Organizations, primarily Community Development Financial Institutions (CDFIs), then created unique products for special populations within the Latino community, including undocumented immigrants, such as ITIN mortgages, which many mainstream financial institutions have yet to develop. Financial education providers that choose to rely exclusively on survey, polling, or other market research often fail to execute and reach Latinos effectively with relevant products.

Finally, Latino-serving CBOs often act as community advocates, which also builds trust and respect between the CBO and the community it serves. Many CBOs have relationships with their respective elected officials and lobby city councils, state legislatures, and Congress on measures affecting Latinos. Many organizations have become engaged in advocacy efforts to fight harmful legislation, such as efforts to limit the use of *matrículas consulares*, or promote measures that benefit Latinos, including improvements to the Fair Credit Reporting Act. Compared to other providers, CBOs are uniquely positioned to understand the needs of the Latino communities they serve and to engage in grassroots advocacy on behalf of these communities to address these needs. Corporate, government, and other private and public providers are often viewed as self-interested or less than objective in the information that they provide. Altogether, Hispanic-serving CBOs can provide access as well as credible and quality financial information to both Latino consumers and major financial education providers.

### 4. Successful Financial Education Programs Are Relevant

Financial education instructors cite that good instruction is critical to engaging Latino audiences and encouraging them to participate in future classes. Many financial education instructors also serve as counselors for one-on-one homeownership counseling or as IDA case managers, and

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frequently are individuals directly from the community whom attendees know and tend to trust. According to financial education providers, good instruction involves connecting with audiences by telling anecdotes or using *novelas* to make lessons more appealing; interacting with participants to determine their financial interests; tailoring classes to meet those interests; and involving other knowledgeable experts, such as realtors and bankers, to address participants.

Financial education providers often have choices when deciding which curriculum to use. As noted earlier, the most prevalent curricula are comprehensive (i.e., Money Smart or CreditSmart Español), designed as modules, offered in a bilingual format, and include worksheets or interactive activities. Most provide similar financial information, which can be too general or too basic for a diverse Latino audience. In this light, many providers modify work plans and lessons to better suit the particular financial needs and demands of their clients. For a Latino audience, information often needs to be added on such topics as identification requirements for establishing bank accounts, distinctions between remittance products, tax benefits for low-wage workers, and how to buy or lease a car. Providing more customized or tailored financial information on specific issues is key to engaging Latinos effectively.

## 5. Successful Financial Education Programs Are Outcome-Focused

On balance, far too many financial education providers are not results-oriented. Though it is difficult to measure long-term behavioral change and a lack of program evaluation resources hamper efforts, many financial education providers fail to take even modest steps to determine whether programs “work.” Financial education providers that did emphasize outcomes include several key elements in their program design which helps to make them more effective.

- **Technology.** To handle large caseloads of clients, providers use technology to record intake and track the progress of their clients through the program. Case management software can reduce the administrative burden of implementing a financial education program and expedite services and information flows, creating greater efficiencies for both the provider and families. Both the housing counseling field and the IDA field currently offer and utilize a software product, and technical assistance is often provided to educate counselors and caseworkers on its use.
- **Accountability and Reporting Requirements.** Few financial education providers administer programs under strict accountability or reporting requirements. Only in instances where providers receive considerable, mostly federal, funding for their programs does reporting become a critical focus. For example, both housing counseling and IDA programs maintain reporting requirements, and refunding is often dependent on meeting some performance standards. However, even within these areas, financial education performance specifically is less a focus than other measurements such as mortgage closings or IDA participation levels. More

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often the case is that a community organization may receive a small grant (generally between \$5,000 and \$10,000) along with instructional materials for group financial education classes, with donors often placing minimal reporting requirements. In general, supporters want to know how many persons attended classes and how participants felt about their curricula or materials.

Though there are often minimal requirements for most financial education providers, those that at least attempt to measure and report results and build accountability into the program design appear to administer more effective programs. In some instances, and mostly where technology is not available, providers use participant surveys. Participants fill out a survey at the end of the classes (sometimes also a pre-test to assess financial knowledge before taking the class) and are asked whether they found the information presented in the class useful. One organization, El Centro, Inc. in Kansas City, Kansas, has gone a step further in conducting a community survey to assess the social, educational, civic, and financial status of community residents. Its most recent survey found that 52% of community residents have bank accounts compared to 37% in the year prior.<sup>2</sup> While El Centro cannot wholly attribute this increase in the proportion of banked residents to its programs and outreach services, the survey does assist them in assessing the financial status of residents and potential clients in their service area as well as in monitoring trends in their local market. Participant surveys, however, need to be developed carefully if they are to measure results accurately.<sup>3</sup>

- **Tracking.** For most financial education providers, tracking and following up with participants is impossible without dedicated case management services and technology. An NCRC study also found that providers were remiss in following up with participants after completion of their program, which is a requirement. Unfortunately, this often means that the performance – even if measured – is often understated, since information provided at times leads to participants acquiring an asset at some later point. For example, some counselors state that some participants who attended their group homebuyer education classes eventually secured a mortgage and purchased a home. Nonetheless, because these participants were not formal clients and did not receive pre-purchase homeownership counseling, providers are unable to count them as closings in their reports to intermediaries. Survey forms are also unable to capture this information since they give insight only into what a participant has learned over the duration of a class or series of classes, not into subsequent behaviors or activities. However, some CBOs realize the shortcomings of class pre- and post-test survey data and are working on keeping participant information in a database for future follow-up. Those that utilize technology in their programs can track performance and outcomes more effectively over time.

Furthermore, one important goal of financial education efforts is to create more lifelong learners and enable individuals to make more informed financial decisions. In this context, “framing” or “messaging” is especially important. For Latinos, the most successful learning seems to occur when

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information is framed as a means of overcoming obstacles, fighting for equal opportunity, and working hard to achieve important goals for their children and families. Moreover, financial education that heavily emphasizes "how to" and "who to contact to get answers and assistance," as well as "know your rights" and other methods that encourage experience-based learning are very effective. Positive experience in financial markets can build confidence and knowledge that is essential to developing more financially self-sufficient and aware Latino consumers.

Notwithstanding these elements, there are also several cautionary notes with respect to effective Hispanic-focused financial education programs. Specifically:

- ▶ **Participation levels alone do not denote effective financial education programs.** From the perspective that only by connecting families to tools or services can they improve their financial outlook in a meaningful way, increasing the number of participants who attend financial education classes is not a desirable objective by itself. Participation is not as significant as the potential outcomes each program produces consistently over time.
- ▶ **For effective programs, visibility, marketing, and promotion of financial education efforts have limited utility.** Good quality and intensive financial education programs within the Latino community are in high demand and often require very little formal marketing. At the community level, word of mouth or referrals from other organizations are prevalent. For those providers that choose to market minimally, efforts include posting flyers, placing ads in local English and Spanish papers, and making announcements on radio programs or cable access stations, among others. While most organizations cite funding as the major barrier to marketing on a greater scale, CBOs also concede that the effects of successful marketing (i.e., more clients) would be problematic given resource limitations. Specifically, while organizations would like to drive up demand for more community participation for group classes, they are less inclined to encourage greater participation for their intensive counseling programs. Counseling programs are time and labor intensive for counselors and case managers, who often are assigned the maximum number of clients. Therefore, marketing is less a priority for those organizations that have maximized their capacity for counseling services and administer programs that aim for quality interactions with families over volume.
- ▶ **Brochures, pamphlets, guidebooks, and web-based materials containing generic financial information are not effective or especially useful for many Latinos even if translated into Spanish.** No financial education provider interviewed for this report used these materials widely even though many knew of their existence and had access to them, and even though web-based materials, including curricula, have become increasingly popular in the last few years. For example, Citibank has its curricula available online, and the FDIC recently launched its web version of Money Smart. Given that many Latinos do not have access to a computer or the Internet, these media have limited utility. Moreover, even for those Latinos

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who do have access, it is highly doubtful that web-based learning is a preferred method of acquiring financial knowledge given the survey data. Also, very few organizations provide financial education instruction via the Internet.

Finally, financial education providers must also recognize that most Latinos are fully proficient in English and that English-language materials and instruction targeted to Latinos also should be tailored to address the specific needs and demands of the community.

**Latino Community Credit Union (LCCU)**  
Durham, North Carolina

The Latino Community Credit Union (LCCU) has over 16,000 members and more than \$14.5 million in assets. LCCU, a full-service credit union, serves many recent Latino immigrants, a majority of whom are Mexican, by providing mainstream financial services such as checking/savings accounts and loan products, including car loans and mortgages. Financial education classes are offered to members and non-members. With the support of NEFE, LCCU created its own curriculum called "Building a Better Future," which is based on a popular education strategy, whereby participants are fully engaged as peers rather than "taught to." LCCU receives some funding from American Express to administer its financial education classes. For its operational and administrative expenses, LCCU has received support from the North Carolina State Employees' Credit Union, Self-Help Credit Union, Latino Community Development Center, North Carolina Minority Support Center, and local community-based organizations.

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## Endnotes

1. Hízel, Erika *et al.*, *Increasing Hispanic Homeownership: Strategies for Programs and Public Policy*, NCLR Issue Brief No. 7. Washington, DC: National Council of La Raza, 2002.
2. Lewis, Melinda K., "La Promesa del Progreso: Examination of the Social, Economic, Educational, and Civil Realities of Latino Immigrants in the Kansas City Metropolitan Area." Kansas City, Kansas: El Centro, Inc., 2003.
3. As simple as administering a survey may seem, some financial education providers are not comfortable with survey questions. Recently, the National Community Reinvestment Coalition (NCRC) completed a study examining its evaluation tool and found that many instructors were hesitant to hand out the survey because they found the questions too invasive. While NCLR did not find similar occurrences with the groups it visited, as program evaluation tools are developed, providers will need to remain mindful of protecting the privacy of participants and ensuring the full cooperation of instructors in implementing survey tools and following up with participants.

# 5 Recommendations

**F**inancial education is a unique issue because, while specifically related to economic and social policy, it lacks a substantive and meaningful policy framework and coherent delivery system. Notwithstanding consumer protection and pension laws, the delivery, availability, and content of financial education today are largely carried out in the absence of any meaningful federal role. NCLR believes, however, that the experience of low-income families in the modern U.S. financial marketplace suggests the need for more vigorous government intervention.

The challenge of narrowing the wealth gap between Hispanic, Black, and White families in the U.S. is made considerably more difficult when income and wealth alone determine the ability of families to receive objective information as well as high-quality and customized financial advice and guidance. Moreover, while low-income families arguably have more opportunities to save, purchase, and accumulate assets than ever before, there are also more ways for them to be unknowingly stripped of equity and income in the process. Instead of a hodgepodge of efforts that largely amount to coaching of consumers on financial matters, policy-makers and providers need to consider more meaningful intervention strategies that help shape the financial opportunities that low-income families have. The answer lies, in part, in enhancing the current

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infrastructure and delivery systems that provide a measure of timely and objective information and advice on financial matters to all American families.

Based on this analysis, NCLR recommends three sets of efforts:

**I. Community-based initiatives can play a significant role in helping to increase financial education among Latinos and increase their economic prospects. To that end:**

- **Target private and public resources to develop a network of community-based providers of customized and intensive one-on-one financial counseling for low-income families.** The homeownership counseling model demonstrates the effectiveness of intermediaries in serving as conduits for the delivery of homebuyer education and services to low-income families. As in the homeownership case, financial institutions and CBOs will be key partners in this initiative, and the government can support the training and certification of counselors and providers, support technology to track clients, conduct program evaluation, and improve database management. Such efforts will not only raise the standards of effectiveness for community-based financial education programs, but also streamline costs and reduce administrative burdens.
- **Expand community-based tax preparation and education efforts aimed at low-income taxpayers.** Like other Americans, most low-income families have to file taxes each year. Many low-income taxpayers qualify for tax credits and deductions that result in significant tax returns. For example, more than one-third of Hispanic households have benefited greatly from tax credits such as the Earned Income Tax Credit (EITC) and the partially refundable child tax credit (CTC). The average EITC refund for Latino families in 2001 was \$1,856.<sup>1</sup> Tax filing, and especially claiming the EITC and CTC, has become increasingly complicated, leaving many with few options but to purchase the services of a professional tax preparer with sometimes serious financial consequences for the taxpayer.<sup>2</sup>

Tax filing and the receipt of sizable tax returns on an annual basis present an opportunity, “a teachable moment” for low-income families to make a connection to financial services and products and learn about investments and savings. The community tax preparation field helps low-income families to file taxes and to maximize the potential tax return benefit.\* Financial education providers should invest in community-based efforts that link tax preparation with savings and/or investment tools, such as IDAs. The EITC is the largest antipoverty program in the country, and if even a modest portion of an EITC tax refund is

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\* Specifically, the Volunteer Income Tax Assistance (VITA) program is an IRS-sponsored effort that supports community-based programs that provide free tax preparation services to low-income tax filers. Another IRS initiative is the Low Income Taxpayer Clinics (LITCs) program which provides limited aid to groups that offer legal assistance as well as those engaged in outreach services, tax education, and free tax preparation in communities with English language learner (ELL) populations.



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channeled into savings, it potentially results in measurable increases in wealth and financial security for Hispanic and other low-income families.

Nonetheless, these efforts are woefully underfunded, especially the outreach and education efforts that are needed to raise awareness about the EITC and connect taxpayers with refunds to other important asset-building financial tools.<sup>3</sup> Policy-makers need to fund more adequately and support more effectively the development of community-based tax preparation and education efforts. NCLR recommends increasing federal funding to at least \$50 million to support expansion of these IRS initiatives.

## **2. Innovative approaches in financial education for Latinos from financial institutions must be more strategic and collaborative. For instance:**

- ▶ **Encourage financial institutions to establish meaningful and specific partnerships with CBOs and other financial education providers.** While corporations have entered into more partnerships with Hispanic-serving organizations than ever before, the degree of engagement and level of sophistication of these partnerships has changed little over the decade. Beyond the merits of good corporate citizenship, the financial services industry is missing opportunities to engage the Latino community in a meaningful way and, consequently, this hinders the development of new responsive financial service products and services for Latinos. Meanwhile, partnerships with financial intermediaries, such as Community Development Financial Institutions (CDFIs), have been very effective, especially in mortgage lending, because they enable investors to capitalize initiatives in low-income and minority communities without directly bearing the entire risk or servicing individual clients. The investments that financial institutions make into CDFIs receive favorable tax treatment. Policy-makers should consider similar incentives for investments in nonprofit community-based financial service providers. CBO intermediaries are familiar with their markets, communities, institutions, and leaders and, therefore, are willing and able to conduct the necessary due diligence that conventional institutions could not without bearing greater costs. However, too many financial institutions are focused on immediate bottom-line returns and/or volume rather than on good investments and quality interactions with clients.<sup>4</sup>
- ▶ **Hold financial institutions accountable for serving low-income Latino families.** Those in the policy arena can support such strategies by highlighting successful practices through field hearings. More importantly, Congress should protect laws that encourage financial institutions to invest in low-income communities. Statutes such as the Community Reinvestment Act (CRA) hold banks and thrifts accountable for their participation in community development and small business lending investments that are critical to Hispanic communities and organizations. Efforts by regulators to dilute CRA by eliminating

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the service and investment portions of the exam by changing the definition of "small bank" should be opposed by policy-makers, CBOs, and advocacy organizations.\*

### **3. Federal-level strategies can also enhance efforts in the financial education arena. For example:**

- **Integrate federal funds allocated to various low-income economic programs to maximize outcomes.** Strategies supported with federal dollars involving IDAs, homeownership programs, and tax preparation which target low-income families have become more popular in the field, many as stand-alone programs. By themselves, these strategies may be moderately effective, often producing inconsistent results, and almost all have problems of adequately funding administrative costs, including those imposed by convening financial education classes. Integrating programs reduces administrative costs by centralizing management through a single program structure, thereby allowing administrative funds from a variety of programs to leverage each other more effectively while maximizing the impact on families.
- **Direct the U.S. Department of Health and Human Services or U.S. Department of Housing and Urban Development to develop a new competitive grant program for community-based financial counseling.** Such funding would enhance and strengthen the CBO case management structure and expertise, using counselors to help connect families to wealth-building information, programs, and a range of financial products for which low- and moderate-income families qualify. NCLR proposes that such a new initiative be authorized as a pilot program and funded at \$100 million.
- **Improve oversight, administration, and coordination of financial education efforts administered by federal agencies.** Many are surprised to discover that the U.S. Treasury Department has an office dedicated to financial education efforts called the Office of Financial Education; the specific activities and function of this office remain unclear. While various other federal entities are involved with financial education, there is very little effective interagency coordination between programs or agencies. The Fair and Accurate Credit Transactions Act (FACT Act) created a financial education commission to encourage public and private participation in financial education activities and to coordinate the various financial education efforts administered by federal agencies. Currently, the Government Accountability Office (GAO) is developing a report, required under the FACT Act, to examine ways that the federal government can enhance its financial education

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\* The FDIC issued a proposed regulation, which NCLR opposed, on August 20, 2004 which would eliminate the service and investment portions of the CRA exam for "small" banks that have between \$250 million and \$1 billion in assets and replace them with a less vigorous community development criterion; comments from the public were due October 20, 2004.

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efforts. Greater funding and authority should be granted to the Commission or another experienced agency to evaluate, support, and assist in the implementation of effective financial education strategies. Moreover, greater congressional oversight, hearings, and public scrutiny by stakeholders may help to effectively shape the outcomes of these various fledgling federal efforts.

The above measures would result in more opportunities for low-income Latino and other families to access customized and intensive financial counseling where they live.

One other piece would complement these strategies: enable all families who meet certain income requirements to gain access to a certified financial planner (CFP), counselor, or advisor on an annual basis. Allowing families to access financial counseling\* could result in significant changes in the financial well-being of thousands of working families with substantial benefits to the nation over the short- and long-term.

While many Latino families could benefit from the services of a CFP, most either do not meet the minimum income and asset requirements many CFPs establish or have the ability to pay the required fee. Since financial planning is not regulated as an industry by either state or federal authorities (but rather by the type of services financial planners provide as stockbrokers, insurance agents, etc.), families should have access to CFPs only until more expanded certifications and standards are established in other fields, such as credit counseling. CFPs must meet a high standard of ethics, experience, and education; must complete the CFP's Board of Standards certification requirements; are required to fully disclose all fees and conflicts of interest to their clients; and are subject to oversight by the Board, which makes formal complaints available to the public.

In order to facilitate greater access to professional financial advisors for low-income families, policy-makers should consult with financial education providers to consider the following:

- **Explore and develop options to enable low-income families to purchase professional financial planning or counseling services, including tax preparation services.** To this end, policy-makers should take the following steps:
  - Authorize funds (up to a certain amount) directly to families to use only for the services of a CFP who works on a fee-only basis.\*\* These direct funds would allow Latino consumers a choice in the service provider they select.

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\* The financial planning process generally entails the assessment of a family's financial situation and development of a plan of action for meeting a family's short- and long-term goals, including buying a home, saving for retirement, caring for aging parents, and/or buying or selling a family business. Financial counseling and planning allows families to establish and meet financial goals through the right combination of savings (debt reduction) and investments.

\*\* Although financial planners can be compensated from commissions, salaries, fees, or a combination of these methods, fees remove most conflicts of interest and ensure that the client is being provided objective information and presented with the most competitive financial products. Furthermore, services are geared toward achieving the client's financial goals rather than selling products since compensation is derived from an hourly rate, a flat fee, or a percentage of a person's assets and/or income and not by third-party commissions for products sold.

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- Test the program as a pilot in several cities at a reasonable cost to determine its viability as a universal system.
  - Involve CBOs, which could become eligible (once certification standards are in place) over time, to receive these funds from families and charge a modest cost-recovery fee that ensures a continued role as a full service financial education provider within the Latino community.
  - **Create a new tax incentive directed to certified financial planners to provide services at no or very low cost to low-income families.** Many CFPs currently donate a small share of time in pro bono services to the community and would dedicate more time to low-income families if not for the significant time commitment it requires and corresponding loss of fee income that it entails. A targeted tax credit, capped at a certain amount, could create a powerful incentive or enough of an incentive for CFPs to allot more time to low-income families. Working with the industry, Congress should set the threshold and limits of the tax credit at an appropriate amount, and federal agencies could set standards for providers to monitor and study the impact and effectiveness of this tax benefit. The financial planning industry would also need to engage CBOs to work with the low-income families it would need to serve in order to receive the tax credit.
  - **Create a refundable tax credit for low-income families who purchase the services of a professional financial counselor or advisor.** A refundable tax credit should be created to reimburse low-income families who seek and obtain professional financial counseling services from a certified financial planner. The credit would be capped and available to those who do not itemize.

If market forces prevail, these incentives would create greater demand and supply of customized, intensive, and objective financial education for low-income families. In addition, if effective, the market undoubtedly would evolve to create more appropriate and effective Spanish and other language options for limited English speakers.

Overall, these measures could go a long way to level the playing field for low-income families and create an environment that promotes equal financial opportunity and economic stability for all Americans.

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## Endnotes

1. Annual Demographic Survey, *Income Distribution Measures by Measure of Income*, U.S. Census Bureau, 2001.
2. According to the Brookings Institution, of families who did receive the EITC in 1999, 39% accessed their funds through high-interest anticipation loans, costing an estimated \$1.75 billion.
3. The Urban Institute surveyed Hispanic parents to test their knowledge of EITC and found that only 32% of low-income Hispanic parents knew what EITC was and only 18.4% received the credit, compared to 75.9% of White families who knew of the credit and 53.1% who received it.
4. For more recommendations for financial institutions, please see Kamasaki, Charles and Laura Arce, *Financial Services and Hispanic Americans*, NCLR Issue Brief No. 2. Washington DC: National Council of La Raza, 2000



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# Appendix A

## Summary of Financial Education Roundtable, NCLR Annual Conference, Austin, Texas, July 14, 2003

### Meeting Summary

#### Participants:

Natalie Abatemarco, Citigroup, New York, NY

Orson Aguilar, The Greenlining Institute, San Francisco, CA

Carlos Aguirre, MAAC Project, National City, CA

William Anthes, National Endowment for Financial Education (NEFE), Greenwood Village, CO

Tillie Arvizu, Chicanos Por La Causa (CPLC), Tucson, AZ

Ian Bautista, El Centro, Inc., Kansas City, KS

Erika Bell, Latino Community Credit Union, Durham, NC

Marco Bracomontes, Nexo Latino, Houston, TX

Patricia Fennel, Federal Reserve Advisory Board member and NCLR Board member, Oklahoma City, OK

Latanya Garza, Freddie Mac, McLean, VA

Diana Mendoza, Federal Reserve Bank of Dallas, Dallas, Texas

Andrew Moss, National Community Reinvestment Coalition (NCRC), Washington, DC

Fernando Orfila, Univision, Miami, FL

John Sepulveda, Freddie Mac, McLean, VA

Geralyn Thompson, Allstate Insurance Company, Northbrook, IL

Michal Urrutia, Rural Opportunities, Inc., Liberty Center, Ohio

Rebeca Vargas, Citigroup, New York, NY

Eloy Villafranca, Federal Deposit Insurance Corporation (FDIC), Dallas, TX

#### Moderator:

The Honorable Arabella Martinez, Executive Director, The Unity Council  
and NCLR Board member, Oakland, CA

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## Summary

### Purposes and Objectives:

- ▶ Highlight effective financial education curricula for Latinos and immigrants.
- ▶ Identify promising strategies that enhance financial education among Latinos.
- ▶ Underscore efforts that demonstrate how high-quality financial education leads to increased wealth-building opportunities for Latino families.

### Key Points:

- ▶ **Purpose.** Financial education should be a lifelong process.
- ▶ **Demand.** Greater demand for financial education needs to be generated. Demand exists for persons who are better positioned economically and/or for persons who have a personal attachment to their financial education goals.

The number of unbanked Latinos without access to basic financial services proves there is a significant need for financial education in the Latino community.

- ▶ **Changes Needed.** Behavioral change needs to occur not only with individuals, families, and communities, but also among industry players and regulators. Financial institutions need to be more like fringe banking providers in the sense that they need to be more accessible, more conveniently located in Latino communities, and more committed to setting aside marketing resources for outreach efforts. The media as well as the financial services industry have a role in disseminating and educating the Latino community about financial education opportunities.
- ▶ **Evaluation.** Evaluation of financial education remains a key challenge to assessing the effectiveness of programs because most initiatives have been established only for a short time, and a standard assessment tool does not yet exist.

## Defining Financial Education

Most participants agreed that financial education covers a wide array of age groups, communities, especially historically underserved populations, and areas of interest (e.g., homeownership, small development, basic family economics). Ideally, financial education should be a lifelong process designed to give individuals the tools they need to become financially independent, to develop skills to build wealth, and to safeguard their investments. Financial education also plays an important role in overcoming barriers to asset accumulation, enabling people to make good credit choices in a credit-obsessed economy, and steering people away from fringe banking services that erode wealth.

Many financial education products are targeted to families. Participants felt that financial education efforts also need to target the following groups:

- ▶ **Youth.** Financial education must be intergenerational and should heavily target children of all ages. Children are instrumental in teaching their parents and other family members. For



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example, the community-based organization, El Centro, in Kansas City, is thinking about starting an early financial education program for children ages five and up. Financial education in the schools is also key to instilling knowledge about personal finance at an early age. Yet, it is important to note that not all teachers are trained to teach financial education.

- ▶ **Disabled.** Commonly, people with disabilities participate in the full array of social service poverty-related programs at a very high rate. By ensuring that specific financial education needs are met, disabled persons are more likely to achieve or maintain financial independence.
- ▶ **College students.** College students are especially vulnerable because of the numerous credit offers they receive. Many students acquire serious debt and damage their credit at a time when credit is becoming increasingly important in our society.
- ▶ **Small business owners.** Small business owners often have good ideas; however, they need more technical assistance and knowledge as their businesses develop and change.
- ▶ **Recent immigrants.** Many are unaware of Individual Taxpayer Identification Numbers (ITINs) to establish credit or the use of matrícula consular IDs to open bank accounts. Nonetheless, immigrants are often in dire need of these tools since they are less likely to have bank accounts (or ever to have had accounts).

### Creating Demand for Financial Education

All participants agreed that there are numerous financial education products and materials. Some argued that new products are not necessary to target the Latino community but that effective implementation strategies were needed to deliver existing products. Others countered that it was necessary to tailor certain products to meet the specific needs of Latino communities. For example, the Latino Community Credit Union in Durham, North Carolina recently launched a new financial education product after conducting focus groups and consulting with local organizations to develop an appropriate curriculum for the emerging immigrant population.

There was considerable discussion about the difference between need and demand for financial education. Some felt that financial education efforts are more focused on need rather than demand. If there were true demand, providers would not experience significant problems implementing financial education programs and filling classrooms. For this reason, some stated that it did not make sense to develop new products because there was no demand to meet. Therefore, investing in research about learning rather than investing in the development of new products would be more beneficial to financial education providers. Some niches may exist but most are covered. The challenge lies in creating demand commensurate with need.

Demand needs to be generated, especially among those not in the banking system. The various players in the financial education arena need to play a role in creating demand. The financial services industry, in particular, needs to be enlisted in this effort. Now is a good time to tap into the banking

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community's interest in capturing more Hispanic market share while simultaneously making it more culturally competent. Some participants went on further to say that the financial services industry has a social responsibility to generate demand for financial education.

Corporations target different groups in different ways. It is a challenge to integrate the Hispanic market segment into the core business plan, according to participants representing corporations. When developing new products, financial services entities need to look at their credit policies, identification requirements, branch operations, bilingual and bicultural employees on staff, and their relationship with the community and Latino-serving CBOs. Ideally, products developed for the Hispanic market should not solely promote the interests of the firms and, more importantly, the pricing of new products should be fair and affordable to Latino consumers.

CBOs concurred saying they often find themselves serving as advocates, in addition to service providers, on behalf of their clients because financial institutions can sometimes discriminate and engage in predatory behavior. As such, there seemed to be some consensus among CBO representatives that behavioral change needed to occur not only with individuals, families, and communities but also among industry players and their regulators.

Participants suggested that financial institutions could learn from fringe banking providers. For example, check cashers are very accessible, are located in the community, and commit substantial marketing resources. Poor marketing or advertising may hinder demand for financial education. Some CBOs admit that they do not market well, and some mentioned that they were unable to engage in marketing because of limited resources. Because information about financial education programs in the Latino community is not always accessible, participants felt the local media could be very useful in this capacity. The media has a role in disseminating and educating the Latino community about financial education opportunities. Therefore, the media as well as the financial services industry should be enlisted more aggressively in outreach efforts.

### **Meeting Latino Needs in Financial Education**

Not everyone agreed with the claim that demand for financial education was weak. Some participants asserted that the experience of CBOs has been quite different. For instance, CBOs that provide housing services, including homebuyer education, know demand because they see their capacity maximized by the number of people seeking their direct services. Demand exists for persons who are well-positioned economically (e.g., people ready for homeownership) and/or for persons who have a personal attachment to their financial education goals (e.g., homeownership, credit card). It is important to make the distinction between those who need financial education for basic financial survival and others who may need more sophisticated assistance for homeownership or small business development.

All participants agreed there was a real need for financial education, demonstrated by the intense proliferation of check cashers, payday lenders, and other fringe banking providers. Additionally, the

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number of unbanked Latinos without access to basic financial services proves there is a significant need in the community. This is especially true for Latino immigrants who have never had a basic bank account either in the U.S. or in their country of origin.

### Challenges to Meeting Existing Need

- ▶ **Culture and language.** Culturally and linguistically appropriate materials remain a challenge because of the considerable diversity in the community. Trying to modify materials for Latinos, which are designed for other audiences, is generally ineffective. Materials and instruction should be available in a bilingual format when appropriate. Having someone available to answer a family's questions and help them assess their financial situation in English or Spanish provides the flexibility and family-focused orientation needed to make a program successful.
- ▶ **Access to technology.** Many Latinos do not have access to material available on the Internet, although some people are more apt to learn if they have the opportunity to ask questions.
- ▶ **Trusted providers.** In order to meet need adequately, it is important to work with existing organizations and their networks to build capacity and provide tailored methodologies and curricula for their clients. This is especially important for communities with no experience in financial education. Participants agreed that there is no substitute for working with those organizations that Latinos trust and, therefore, an effective implementation strategy should involve organizations located in communities where Latinos work and reside.
- ▶ **Socioeconomic considerations.** Latinos are disproportionately employed in industries that pay lower wages and require irregular work schedules. Therefore, Latino families often need support services, such as transportation and child care, in order to attend financial education classes.
- ▶ **Establishment of linkages.** There is little evidence that stand-alone financial education efforts are effective in Latino communities. To realize the full potential of financial education, efforts must be linked to asset-building programs, such as homeownership counseling and IDAs, since the promise of an asset at the end of the process will increase incentives for Latinos to enroll in and complete financial education courses.

### Evaluating Financial Education Programs

Evaluation of financial education remains a key challenge to assessing the effectiveness of programs. Most financial education initiatives have been established only for a short time, and a standard assessment tool has yet to be developed. NCRC, with the support of Citigroup, has embarked on a study to evaluate the effectiveness of financial education programs by looking at new ways to evaluate behavioral changes. Specifically, NCRC will chart the longitudinal progress of participants in six-month intervals over a period of three years to track the program from inception. The study

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will attempt to show whether participants have saved money, established an emergency fund, or opened a bank account as a result of the instruction they received. Participants agreed that a national survey is needed, but unfortunately it would be very expensive and very complex to conduct.

### **Next Steps**

NCLR will develop a report that examines financial education models, highlights the most promising approaches, and provides guidance for governmental and industry professionals targeting educational and outreach efforts to Latino families. Specifically, NCLR will examine the latest research on financial education and identify financial education materials and strategies targeted to both immigrant and Latino communities; coordinate two roundtable discussions that include leading experts on financial education, industry players, and community leaders; conduct field assessments to observe financial education programs in targeted cities and states; and compile and analyze findings on promising strategies in financial education for Latino communities.

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## Appendix B

### Peer Review Panel Participants, NCLR Annual Conference, Phoenix, Arizona, June 29, 2004

NAME/TITLE	ORGANIZATION
Natalie Abatemarco Director of Community Programs	Citigroup <a href="http://www.citibank.com/">www.citibank.com/</a>
Ann Baddour Program Manager	Texas Appleseed <a href="http://www.texasappleseed.net/">www.texasappleseed.net/</a>
Peter Debrecency Vice President of Corporate Relations	Allstate Insurance Company <a href="http://www.allstate.com/">www.allstate.com/</a>
Jeanne Hogarth Program Manager for Consumer and Community Affairs	Federal Reserve Board <a href="http://www.federalreserve.gov/">www.federalreserve.gov/</a>
Andrew Moss Senior Vice President	National Community Reinvestment Coalition <a href="http://www.ncrc.org/">www.ncrc.org/</a>
Maggie Amado Tellez Director of Housing	Chicanos Por La Causa <a href="http://www.cplc.org">www.cplc.org</a>
Dr. Karen Varcoe Human Resources Program Leader	Cooperative State, Research, Education, and Extension Service <a href="http://www.csrees.usda.gov/">www.csrees.usda.gov/</a>

# Appendix C

## Program Information for Community-Based Organizations that Participated

ORGANIZATIONS	FINANCIAL EDUCATION PROGRAM	CURRICULUM USED	PRINCIPAL CONTACT
ACCION San Antonio, Texas	Case management for micro-entrepreneurs and IDAs	No curriculum used; no group classes	Lorraine Robles
Chicanos Por La Causa (CPLC), Tucson, Arizona*	Homebuyer education; closing cost assistance; basic homeownership counseling services; homebuyer club; incubation program; homeownership debt counseling; financial fitness; and mortgage default and rental delinquency counseling	CreditSmart Español (CSE) and Neighborhood Reinvestment Training Institute (NRTI) curriculum	Maggie Amado Tellez
El Centro, Inc., Kansas City, Kansas*	Homebuyer education; loan origination services; basic homeownership counseling services; IDA case management; and group classes	Money Smart and CreditSmart Español	Kelly Moema Connell
Latino Community Credit Union (LCCU), Durham, North Carolina	Full service credit union	Created its own curriculum called "Building a Better Future"	Erika Bell
Latin United Community Housing Association (LUCHA), Chicago, Illinois	Rental housing, pre-purchase homeownership counseling; and homebuyer education classes	Old Fannie Mae curriculum (rights sold to Consumer Credit Counseling Services)	Eliseo Barbosa
New Economics for Women, Los Angeles, California*	Homeownership counseling; IDAs; and group financial education classes	Money Smart	Stephanie Taylor
The Unity Council, Oakland, California*	Homebuyer education classes; basic homeownership counseling services; financial fitness; IDA program; tax preparation	Citibank curriculum and Money Smart	Nancy Sebastian
Watts Century Latino, Los Angeles, California*	Homeownership counseling and IDA program	Fannie Mae curriculum; IDA participants receive financial education through Mainstream, a United Way provider	Arturo Ybarra
* Denotes that this organization is an NCLR affiliate.			

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# Appendix D

## Field Visit Interview Questions

(Field visits were conducted between November 2003 and March 2004)

### General

1. What made you decide to run a financial education program? How long has your program been in existence?
2. What particular groups is your financial education program tailored to? What are key differences between these groups?
3. How many people do you serve and how many of them participate in your financial education program?
4. What are your funding sources for financial education?
5. What is the makeup of your clientele (urban/rural, age, gender, subgroup diversity, etc.)?

### Program Information

6. What financial education curriculum do you use? Do you like the format? What do you like and dislike about the curriculum?
7. Who are your financial education instructors? Did they receive any training? Do they teach in a group setting or one-on-one?
8. Do you link financial education to other programs? If so, what kind of programs?
9. How useful is it to have translated financial education materials?
10. How do you encourage participation in your financial education programs? What is an ideal level of participation? What factors influence Latino participation?
11. How do you differ in your approach to financial education compared to other entities (e.g., CBOs, corporations, government)?
12. Is it always necessary to market? Do you market your programs? If yes, how? If not, why? What messages work with Latino communities?
13. Do you partner with other entities? If so, who?

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### **Challenges in Financial Education**

14. What are some difficulties you experience running the program?
15. What do you see as the specific socioeconomic challenges Latinos face (e.g., lack of time for financial education because of long and/or irregular hours)?
16. What nuances in the Latino community (e.g., subgroup differences, life stages) present unique challenges to meeting financial education needs?
17. Do you work with undocumented families? What are the financial questions they frequently raise with your staff?
18. Has the local population been difficult to work with? Why or why not?

### **Measuring Success**

19. Is your program successful? How do you assess the effectiveness of your program? Do you document outcomes to measure behavioral change and/or asset acquisition?



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# Appendix E

## Review of Financial Education Research

At the start of this project, NCLR conducted research to inform its thinking on the type of information available related to financial education, and the areas of focus and interest for providers and researchers. Most of the research does not reflect the experiences of consumers by race or ethnicity and there are few studies specifically on Latinos. To provide background on the literature NCLR reviewed for this report, below is a summary of the two principal types of research in the financial education field.

### Research Type: Outcomes-based Research and Behavioral Studies

In outcomes-based financial education research, the focus is on measuring the outputs, or outcomes, of programs. Program evaluation, one form of outcomes-based research, is critically important to assess the quality and effectiveness of financial education efforts.

In general, resources to track clients and evaluate outcomes are scarce. Both IDA and homeownership counseling programs have case management tools and technology that can help providers to track participant progress over time. Nevertheless, current financial education providers often struggle to identify ways to demonstrate the impact of their programs. Although there is no consensus about what makes a financial education program successful, some organizations have developed tools for short-term evaluation and pre- and post-tests to measure outcomes. Some of the factors that providers can measure include: purchase of an asset, such as a home; the amount of money saved in an account; routine payment of bills; the amount of debt repaid; and, in some cases, increases in credit scores.

Short-term evaluations, such as customer satisfaction surveys, provide immediate feedback about the potential impact of a particular program. Evaluation can also provide some anecdotal information about long-term behavioral change participants may make as a result of participating in a program. For example, some participants might plan to open a bank account, create a family budget, or begin paying off debt. Because these types of surveys are based on self-reporting, there are limitations as to how they accurately predict current and future financial behavior.

Pre- and post-tests are another method to assess the knowledge that participants gained as a result of their participation in a program. Pre-tests assess the current state of financial understanding or the general financial situation of an individual or class, and post-tests assess the information and concepts learned in the financial education program. As with short-term evaluations, because there is no follow-up, it remains unclear if participants will use their newly-acquired financial knowledge to change negative behaviors or situations.

Finally, a critical means of measuring the outcomes of financial education efforts includes longitudinal studies. While it remains a challenge to conduct financial education research activities in various

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settings, it is more difficult to find studies that observe participants over the span of several years. Such studies are generally very expensive and difficult to administer, yet they provide the most detailed information about certain clients, their experiences with certain programs, and whether or not they met the goals of the program in the long term.

There is also a body of research that examines the dynamic relationships among knowledge, attitude, and financial behavior. Known as "behavioral economics" it explores the psychological factors (e.g., procrastination, risk aversion, and altruism) that influence financial decision-making. This body of work also seeks to understand some of the elements that explain seemingly irrational financial choices made by consumers. While there exist explanations for irrational financial behavior, including lack of self-control and the desire to consume certain luxuries, research also contends that if consumers know more they will engage in better financial practices. However, in this sense, knowing is not merely an outcome of obtaining information; rather, acquiring savings or building wealth or economic socialization may better explain positive financial knowledge and behavior, which is best obtained through life experience.

Similar research examines the internal and external factors that motivate decision-making and the role of quality of life in shaping financial choices. In this vein, cultural and linguistic factors matter, though research has yet to document the scope of their influence. Nevertheless, the central point is that many elements influence the financial choices and decisions that people make, and shaping and influencing this behavior requires a comprehensive understanding of these issues. The subtle finding is that financial education efforts that do not weigh these factors will not produce the intended results.

# Appendix F

## Financial Education Resource Guide

ORGANIZATIONS GOVERNMENT AGENCIES	FINANCIAL EDUCATION ACTIVITIES	FIANCIAL EDUCATION CURRICULA
America Saves <a href="http://www.americasaves.org">www.americasaves.org</a>	Coordinates local campaigns, such as Cleveland Saves, and constituency-based campaigns, such as Hispanic America Saves; provides website tools, such as wealth calculator, and other materials.	
American Savings Education Council (ASEC) <a href="http://www.asec.org">www.asec.org</a>	Provides interactive financial tools on website; ASEC partners with the Employee Benefits Retirement Institute (EBRI), which conducts the Retirement Confidence Survey	
Department of Defense Morale, Welfare, and Recreation Directorate	Launched the Financial Readiness Campaign, partnering with private, nonprofit organizations and federal agencies with financial education materials	
Department of Labor's (DOL) Women's Bureau <a href="http://www.dol.gov/wb">www.dol.gov/wb</a>	Sponsors financial education forums, Las Mujeres y el Dinero (Women and Money); funds research activities	
Fannie Mae Foundation <a href="http://www.fanniemaefoundation.org">www.fanniemaefoundation.org</a>	Produces guidebooks and other materials about homebuying process; partners with CBOs	Growing Your Money: Personal Financial Tools Building Native Communities: Financial Skills for Families
Federal Deposit Insurance Corporation (FDIC) <a href="http://www.fdic.gov">www.fdic.gov</a>	Works with organizations to teach Money Smart curriculum	Money Smart
Federal Reserve	Conducts research activities	
Federal Trade Commission <a href="http://www.ftc.gov">www.ftc.gov</a>	Office of Financial Education sponsors forums to discuss best practices in financial education; provides resources to Hispanic Consumer Protection Initiative; oversees new Financial Education Commission	

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Freddie Mac www.freddiemac.com	Provides pass-through grants for organizations to use curriculum; provides resources online regarding homebuying process	CreditSmart CreditSmart Español
Jump\$tart Coalition www.jumpstart.org	Serves as clearing house for financial education products targeting youth; conducts research on financial literacy levels of youth	
National Endowment for Financial Education (NEFE) www.nefe.org	Clearinghouse for financial education materials	Provides funding to organizations to develop curricula
Small Business Administration (SBA) www.sba.gov	Provides information online about starting, financing, and maintaining a small business	
Social Security Administration www.ssa.gov	Partnered with the American Savings Education Council to promote the "National Save for Your Future" Campaign	SSA offers a curriculum program for grades 9 through 12 entitled, "Social Security and You"
USDA Cooperative State, Research, Education, and Extension Service (CSREES) www.csrees.usda.gov	Offers programs through their extension program; sponsors research activities	Money 2000

