Testimony of Commissioner Julie Menin
New York City Department of Consumer Affairs
Before the
New York City Council Committee on Consumer Affairs

Oversight Hearing on
Education and Outreach on Financial Literacy for Young Adults

February 9, 2015

Good morning Chairman Espinal and members of the Committee on Consumer Affairs. I am Julie Menin, Commissioner of the Department of Consumer Affairs ("DCA"), and I am joined by my colleagues Nicole Smith, Deputy Director of DCA's Office of Financial Empowerment ("OFE") and Mary Cooley, Director of City Legislative Affairs.

Thank you for inviting us to testify about improving financial literacy among young people, an issue that DCA agrees is of paramount importance and is integral to our work.

DCA's overall mission is to empower consumers and businesses alike to ensure a fair and vibrant marketplace. The agency licenses approximately 80,000 businesses across 55 different industries, mediates complaints between consumers and businesses, conducts patrol inspections and legal investigations, educates businesses about laws and rules, and also enforces New York City's Earned Sick Time Act, commonly known as the "paid sick leave" law. In addition to its licensing, consumer protection, and labor-related work, DCA operates the Office of Financial Empowerment ("OFE").

OFE was founded in 2006 as the first local government program in the country with the specific mission to educate, empower, and protect individuals and families with low incomes, so they can build assets and make the most of their financial resources. At its core, the goal of OFE's financial empowerment work is to ensure that New Yorkers with low incomes have the guidance to make crucial financial decisions and have access to affordable and safe products and services that will stabilize and improve their finances in the long-term. To achieve this goal, OFE employs several financial empowerment strategies including: providing high-quality financial education and professional one-on-one financial counseling; connecting New Yorkers to safe and affordable mainstream banking products; improving access to income-boosting tax credits and other asset building opportunities; and engaging in public outreach and legislative advocacy to advance the cause of consumer financial protection. OFE also looks to build the financial empowerment field through technical assistance, partnerships, and cutting-edge research. To this end, OFE works with government agencies, community-based organizations, philanthropic partners, think tanks, and the private sector.

The Office of Financial Empowerment

I will now describe some of OFE's services and the outreach it conducts.

OFE's flagship program is its network of nearly 30 Financial Empowerment Centers ("FECs"), which provides free, confidential, one-on-one financial counseling across sites in all five boroughs. For a minimum of 30 minutes, financial counseling sessions at our FECs involve conducting a full financial health assessment with clients and enrolling clients in one or more service plans that can help clients become more financially secure, in areas such as banking, savings, credit, debt, or budgeting. Additionally, each financial counselor works with his or her clients to identify and/or complete at least one milestone, or "action step." Such milestones can include the completion of a realistic budget, a review of a client's credit history, or the formal launch of a dispute with a creditor.

Since the program begin in 2008, the Financial Empowerment Centers have served over 33,000 clients, conducting almost 55,000 counseling sessions and helping clients to build more than $3 million in savings and reduce more than $21 million in debt. In the calendar year 2014, our FECs served almost 10,000 clients, including 7,122 clients seeking debt reduction assistance. OFE served 921 clients between the ages of 18 and 24 and of these, 414 sought debt reduction services. Since the inception of the Financial Empowerment Center program, OFE has focused on refining the model to ensure clients receive the highest quality service and to identify opportunities to reach New Yorkers before they are in crisis and before they are struggling with credit cards, student loans, and other debt.

As can be expected, many of OFE's clients have been victims of the very type of predatory lending that today's hearing seeks to address – student or credit card loans with high interest rates or hidden fees, for example, and also automobile loans, particularly those given for the purchase of a secondhand car. DCA has launched several investigations with the goal of preventing New Yorkers from falling victim to deceptive and predatory tactics such as those that have been employed by some second hand auto dealers.

Pursuant to its mission, DCA also develops public awareness campaigns and engages in robust advocacy and outreach around many topics, including financial literacy and empowerment. For example, each year during tax season, OFE leads the City's Tax Credit Campaign, partnering with Volunteer Income Tax Assistance (VITA) and community providers to help families avoid paying high fees for tax preparation services and to support asset building. In 2014, our partners prepared over 96,000 returns and helped low- and moderate-income families receive close to $133 million in refunds. This year DCA launched the largest public education and outreach tax credit campaign in the City's history, securing over $3 million in public and private funding with the goal of increasing the number of eligible New Yorkers who use the City's coalition of professional tax preparation services by approximately 50%. In addition, the City's Annual Tax Credit Campaign increases awareness about tax credits that put money back in the pockets of working New Yorkers, including the Earned Income Tax Credit (EITC), the largest poverty reduction tax program in the U.S. For working families in New York City, EITC claims average $2,500 and can be worth as much as $8,293. Combined with other tax credits such as the New York City Child Care Tax Credit, these credits can total almost $10,000. For those with low incomes, tax refunds are often the largest lump sum payment received all year and create a critical moment to start building savings.

OFE also partners with city agencies and organizations throughout the city that focus on youth. One of the most common and challenging issues faced by youth – one which can often persist well into adulthood – is that of student debt. In 2011, in partnership with the then-Mayor's Office of Adult Education, OFE launched the "Know Before You Enroll" campaign to highlight abuses of proprietary and for-profit schools and to encourage New Yorkers to research training programs, explore free and low-cost education options, to be aware of taking on a large amount of school debt, get help understanding school contracts, and report negative experiences. Many students are not aware of the consequences of enrolling in for-profit schools, which often engage in aggressive marketing and advertisement. As part of this campaign, DCA contracted with the Coalition for Debtor Education to develop materials that were used to train financial educators on how to talk to youth about student debt. Several trainings were delivered and OFE has access to and ownership of the materials. We also prepared a list of tips to help New Yorkers understand how to protect themselves before they take on debt or pay to enroll in one of these for-profit programs. These tips are available in English, Chinese, Spanish, Russian, Haitian Creole, Vietnamese, Arabic, and French.

OFE has offered technical assistance to the New York City Department of Youth and Community Development ("DYCD") for financial literacy workshops to participants of its Summer Youth Employment Program ("SYEP"). In 2014, five-hour financial literacy workshops were offered to over 12,451 younger youth participants – aged 14 to 15 – in 2014. Older youth, aged 16 to 24, receive two hours of financial literacy education prior to the start of their SYEP job. In addition, DCA assisted DYCD in researching and securing banking access for SYEP participants.

OFE has also been providing assistance to the financial empowerment partner with DYCD on the Cities for Financial Empowerment Grant, which funded 725 SYEP jobs last summer. Since 2012, OFE has overseen grants to nine social service organizations and trained staff to deliver and track high-quality financial counseling through and beyond the grant year. Of these nine organizations, four have specifically targeted youth: Brooklyn's Opportunities for a Better Tomorrow, Brooklyn's St. Vincent's, Queens' Forestdale Inc., and Manhattan's Northern Manhattan Improvement Corporation. These organizations have integrated financial counseling into their programs, such as college readiness, GED prep, foster care, internships, and others.

As these examples demonstrate, OFE is committed and will remain committed to equipping young New Yorkers with the tools to manage their money and be cognizant of unscrupulous tactics by businesses and industries.

Consumer Protection Issues Affecting Young Adults

There is no question about the necessity for outreach and education on consumer protection issues for people of all ages, including young adults. We are pleased that this hearing will give DCA and the City Council the opportunity to highlight the nature and gravity of the consumer issues specifically mentioned in the bill - and beyond.

Student Loans

According to the United States Department of Education's ("USDOE") National Center for Education Statistics ("NCES"), the average annual cost of tuition at both four-year public and private institutions approximately doubled between 1995 and 2012, with the average annual tuition at a private, non-profit, four-year institution standing at $43,500 in 2012.[1] During this same time period, the NCES also estimates that the number of students at public four-year institutions receiving aid or loans climbed 78%, from 32% to 57%. In 2012, student loan debt exceeded the level of national credit card debt, topping one trillion dollars.[2] Approximately 28% of New Yorkers between 18 and 34 years old are in debt with students loans.[3] Graduates who attended schools in New York State went from having an average student debt of $18,847 for the 2003-2004 school year to $25,537 in 2011-2012.[4] This is higher than the national average.

As tuition has continued to rise, young adults are struggling under the burdens of their often high-interest, stipulation-riddled loans. In October 2014, the United States Consumer Financial Protection Bureau ("CFPB") issued findings from a survey of approximately 5,300 student complaints. The report found that many private lenders do not transparently communicate consistent information on how to avoid default in times of trouble and that borrowers are routinely rebuffed by lenders when they submit complaints about challenges with repayment. Additionally, the report found that when relief options do exist, they are often inadequate; that processing times can be lengthy and extra fees unaffordable; and that many lenders' policies force students to choose between completing their educations and attempting to find employment to repay their loans. The statistics on default rates further illustrate the serious challenges faced by many young adults. The national student loan two-year default rates have more than doubled since mid-2000s,[5] with default rates rising for the sixth year in a row in 2013.[6]

Despite sharp increases in the cost of and dependence on student loans, many student loan interest rates – including those provided by the federal government – remain high. Some current federal loans, such as the Direct PLUS Loans, carry rates of more than 7%, and the Federal PLUS Loan, issued from 2006 to 2010, carried a rate of 8.5%. A brief scan of private student loans rates is even more concerning, with one major bank displaying on its website a chart showing that a student might have to pay as much as a total of over $31,000 for a $10,000 loan over a 15-year repayment period.[7]

In light of these alarming statistics, it is critical that students and families develop a plan for college that will not imperil their finances and that assistance is provided to young adults who are now faced with the overwhelming burden of financing and repaying student loans. That is

[1] Trends in Student Financing of Undergraduate Education: Selected Years, 1995-65 to 2011-12: http://nces.ed.gov/pubs2014/2014013.pdf

[2] The State of Lending in America & its Impact on U.S. Households, December 2012. Available at http://responsiblelending.org/state-of-lending/reports/6-Student-Loans.pdf

[3] http://www.amny.com/news/student-loan-debt-crisis-in-nyc-worse-than-other-cities-1.8456439

[4] AM New York, "Student Loan Debt Crisis Hits New Yorkers Hard," June 15, 2014. Available at http://www.amny.com/news/student-loan-debt-crisis-in-nyc-worse-than-other-cities-1.8456439

[5] National Student Loan Two-year Default Rates: http://www2.ed.gov/offices/OSFAP/defaultmanagement/defaultrates.html

[6] http://chronicle.com/article/Student-Loan-Default-Rates/142009/

[7] Charter One Bank: http://www.charterone.com/trufitstudentloan/#Repayment_Examples

why OFE offers counseling services and education campaigns, and will continue to do so with available resources.

Credit Card Debt

Among other reforms, the Credit Card Accountability, Responsibility, and Disclosure Act ("CARD Act") of 2009 is expected to help reduce the use of credit cards by college students by restricting marketing of credit cards to college students and prohibiting approvals to anyone under 21 years old who does not have an adult co-signer or the ability to prove they have the means to pay bills. Indeed, in one sign of progress, the percentage of students who owned a credit card decreased from 42% in 2010 to 35% in 2012,[8] particularly among college freshmen, and the average total amount of credit card debt for those aged 18 to 24 decreased from $3,498 in 2008 to $2,982 in 2012.[9]

However, students and young adults can still acquire credit cards, and individuals in their twenties and thirties are now reckoning with the easy availability of credit cards from prior years. In 2012, the overall average debt among young adults aged 19 to 29 was $34,765.[10] Credit card debt can also contribute to the challenges of paying for a college education. 13% of college students from middle- or low-income families in 2012 whose current credit card balance included some college expenses reported leaving school because of credit card debt.[11]

It is clear that we must provide guidance now to prepare young New Yorkers to manage their credit cards and debt. In addition to the one-on-one financial counseling services DCA provides through OFE, we have created and distributed consumer tips and guides in print and on our website. These materials include collateral such as "Top 10 Ways to Protect Your Money," "Tips to Take Control of Your Debt," "Debt Collection Information," "Debt Settlement Services – Information and Tips, and Smart Money Lessons for Your Kids," among other useful resources.[12]

Leasing or Buying a Motor Vehicle

Buying a car can often be one of the biggest purchases a person makes and individuals frequently do not have sufficient information or do not understand the consequences of the terms of purchase. In 2012, the cost of auto loans for young adults aged 18 to 29 was 137% over the

[8] How America Pays for College 2012:
http://news.salliemae.com/sites/salliemae.newshq.businesswire.com/files/publication/file/HowAmericaPays2012.pdf
2.pdf

[9] The Plastic Safety Net, Findings from the 2012 National Survey on Credit Card Debt of Low- and Middle-Income Households. Available at http://www.demos.org/sites/default/files/publications/PlasticSafetyNet-Demo

[10] Experian's Generational Credit Trends. Available at http://www.experian.com/live-credit-smart/live-credit-smart-2012.html

[11] The Plastic Safety Net, Findings from the 2012 National Survey on Credit Card Debt of Low- and Middle-Income Households: http://www.demos.org/sites/default/files/publications/PlasticSafetyNet-Demo

[12] OFE Research and Publications. Available at http://www.nyc.gov/html/ofe/html/publications/consumer.shtml

national average.[13] Auto loan debt is projected to rise through the end of 2015, which would continue a trend of auto loan debt increases since the first quarter of 2011.[14] Across the country, there has been a dramatic rise in the default rate on auto loans in recent years, particularly on subprime auto loans. A July 2014 New York Times article also noted that subprime auto loans often come with interest rates that can exceed 23 percent.[15]

One of the industries that DCA issues licenses is the secondhand auto industry. Specifically, DCA currently licenses over 850 dealers across the five boroughs. In 2013 and 2014, DCA received nearly 500 complaints about secondhand auto dealerships, but because many consumers do not file complaints with the agency even when they have been deceived, the number of complaints and deceptive practices could be much greater.

The emergence of subprime auto lending is a serious issue that DCA is actively addressing. In November 2014, DCA launched a legal investigation into used car dealer lending practices based on concerns that dealerships may be engaged in illegal predatory practices, such as selling expensive and unwanted add-ons and arranging high-interest subprime loans without informing consumers of information they are required to provide. This investigation is part of DCA's long-term, vigilant oversight of New York City's used car dealerships.

Among those of OFE's clients who have had auto loan debt, we have found that average amounts are more than $12,000 and that 70% of these same clients have annual incomes of $36,000 or less. For such clients, auto-related debts can amount to over 35% of their annual incomes - amounts that can be difficult to manage, pay down, and ultimately, could leave them in paralyzing debt.

As I have mentioned, DCA mediated over 500 complaints related to secondhand auto dealers in 2013 and 2014 and we secured more than $1.3 million in restitution. Our Consumer Services division is a crucial mechanism for receiving and resolving these complaints, and has been beneficial in enabling us to identify trends that can ultimately inform outreach and education efforts.

Consumer Services

DCA's Consumer Services Division is the face of DCA for many consumers. It may be their first and sometimes only point of contact with the agency. Most often, these consumers are seeking assistance with an individual complaint against a business or information about a particular business.

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[13] Experian's Generational Credit Trends. Available at http://www.experian.com/live-credit-smart/live-credit-smart-2012.html

[14] TransUnion: Auto Loan Delinquency Rate to Marginally Increase in 2015; Debt Levels to Continue Rising Trend. Available at http://newsroom.transunion.com/transunion-auto-loan-delinquency-rate-to-marginally-increase-in-2015-debt-levels-to-continue-rising-trend/
s.pdf

[15] Jessica Silver-Greenberg and Mike Corkery, "In a Subprime Bubble for Used Cars, Borrowers Pay Sky-High Rates," New York Times, July 19, 2014. Available at http://dealbook.nytimes.com/2014/07/19/in-a-subprime-bubble-for-used-cars-unfit-borrowers-pay-sky-high-rates/?_php=true&_type=blogs&_r

The tens of thousands of consumer requests we receive each year include the mediation of consumer complaints, educating consumers and businesses, processing inspection requests, and referring consumers to the correct agency for assistance when the matter at hand is not handled by DCA. We spot patterns of abuse and deception, identify and pursue problematic vendors, as well as business trends, and report the information internally so that DCA may engage in legal investigations or outreach efforts as appropriate.

In addition to licensing secondhand auto dealers, DCA also licenses and regulates debt collection agencies. Our Consumer Services division receives and attempts to mediate complaints about both industries, and can then seek restitution and issue charges when mediation is not successful. In 2014, DCA received 895 complaints about debt collection agencies, successfully mediated 401 of those complaints, secured $1,342,470 in restitution, and issued 115 charges. For secondhand auto dealers, DCA received 1,501 complaints, mediated 291 of those complaints, secured $489,885 in restitution, and issued 393 charges.

Just recently, DCA reached a record-breaking settlement with National Credit Adjusters (NCA), a debt collection agency formerly licensed by DCA that collected on illegal payday loans from New Yorkers. NCA agreed to pay $962,800 in consumer restitution to at least 4,663 New Yorkers, the highest amount of restitution ever secured by DCA through settlement. NCA must notify eligible New Yorkers that they are owed money and submit requests to the credit reporting agencies to delete the negative information they provided for those New Yorkers. The agreement requires the company to stop collecting all debts in New York City. NCA is also banned from applying for a debt collection agency license in New York City for at least six years, and is ordered to pay $350,000 in fines. With this settlement, DCA has secured more than $3.3 million in restitution for consumers in the first six months of the fiscal year, which is 85 percent more than the same period last year.

Beyond oversight and consumer protection of industries that we license, Consumer Services had been tracking complaints received against predatory higher education providers and forwarding those complaints to another City agency. Between 2011 and 2014, DCA forwarded 538 complaints to the Office of Human Capital Development.

DCA will continue its work providing one-on-one assistance to those who may have fallen victim to deceptive or predatory practices from any industry, including those we are discussing today.

Outreach and Education: Potential Initiatives

It is DCA's mission – as I stated at the beginning of today's testimony – to not only serve New York City's consumers and businesses but to educate and empower them. Educating and empowering today's youth who will be tomorrow's consumers is crucial to ensure that they can protect themselves from predatory lending, unscrupulous business practices, and unsafe financial products and services. I would now like to share with you some of our current efforts and also new ideas to accomplish this goal.

DCA currently issues regular tips on our website and on social media to consumers and we have now posted the 41 most commonly-used business inspection checklists on our website in plain English and in several other languages. It is because of an unwavering commitment to our mission that we have engaged in broad and deep outreach around initiatives such as Paid Sick Leave – about which I have testified before this committee – and the Earned Income Tax Credit. With respect to both initiatives, we have conducted outreach in a multitude of languages and through many different channels, including on public transit, print, radio, and television advertising, as well as one-on-one employee and employer engagement. We would welcome the opportunity to engage in this scale of outreach around additional foundational consumer protection issues, such as those being addressed at today's hearing, specifically targeting young adults. This outreach campaign would leverage mediums that are relevant to youth and young adults, such as social media, radio, and YouTube.

In addition to a targeted outreach and education campaign, DCA could also expand our partnerships with and help to find funding for organizations that provide financial education workshops that target high-school aged youth. Several members of OFE's Financial Education Network specialize in financial education for youth. Leveraging our existing partnerships, DCA could partner with these organizations on potential new initiatives, such as curriculum development that could be delivered in schools, targeted after-school programs or other settings. Even without legislated changes to curriculum, DCA could work closely with the Department of Education and the New York State Board of Regents to develop a training module that could be easily adapted and implemented by teachers, counselors, and youth athletic leagues. Such modules could involve short- or long-term lesson plans and could include multimedia components, such as an app for mobile phones.

Approaches such as these could also be utilized for increasing literacy around other types of credit products, such as credit cards and automobile loans. Educational modules could also include components focused on understanding key elements of lending, such as interest rates, fees, understanding how to access and monitor credit reports, and gain access to safe and affordable financial products, such as OFE's SafeStart Bank Account. These initiatives would be appropriate complements to DCA's advocacy work around issues of consumer financial protection, such as devising administrative and potential legislative approaches to addressing the issues of consumer protection and predatory lending.

In an effort to increase accountability and protect young New Yorkers, DCA could continue to engage industries that are particularly relevant to young adult consumer protection issues, such as with debt collection agencies that I mentioned. DCA could educate businesses and train staff on better practices, or take enforcement actions if necessary.

To ensure the success of these initiatives and strategies, DCA would continue to work closely with other City agencies focused on or serving young adults, including the Department of Education, the Department of Youth and Community Development, Human Resources Administration, and the New York City Housing Authority, while also expanding our partnerships with community based organizations serving young adults.

Conclusion

As Commissioner of the Department of Consumer Affairs, I firmly believe that helping young adults understand how to manage their money and be aware of predatory or unfair practices is crucial and the ideas we've presented today are just a few potential initiatives our agency could undertake. DCA's ability to cultivate necessary in-house expertise, endow a team dedicated to working with government agencies as well as the the nonprofit and private sectors to provide targeted services and counseling and to conduct outreach on a scale that is impactful is contingent on the provision of additional funding and resources to the agency.

Reaching the estimated 1.1 million young adult New Yorkers[16] will require planning, collaboration, and execution at an incredibly large scale. Between Mayor de Blasio's commitment to fighting income inequality, which is so often exacerbated by the tragic reality that those with lower incomes are often more frequent targets of predatory lending, and the City Council's clear prioritization of such issues, it is crucial that the requisite resources can be allocated to protect the financial well-being and futures of all New Yorkers.

Thank you again for the opportunity to testify about this important issue; my colleagues and I look forward to answering any questions you might have.

[16] http://www.nyc.gov/html/dcp/pdf/census/boro_demo_2013_acs.pdf?r=1

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Testimony of

Tyler Phillips, Senior Associate Director of Programs
and
Eric Espinoza, Neighborhood Trust Financial Advisor

Before the New York City Council Committee on Consumer Affairs' oversight hearing titled on Education and Outreach on Financial Literacy for Young Adults

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Good morning and thank you for the opportunity to provide testimony this morning. My name is Tyler Phillips and I am Senior Associate Director of Programs at Neighborhood Trust Financial Partners. Neighborhood Trust supports the proposed legislation to provide financial literacy education and outreach to young adults in New York City. I would like to provide a brief overview on our work and then introduce my colleague Eric Espinoza who will share a story that illustrates the need for improved financial supports for young adults in New York City.

Neighborhood Trust was founded in 1995 by Mark Levine to bring a credit union to Washington Heights. Over the last almost 20 years Neighborhood Trust has become New York City's leading provider of free financial empowerment services. Our mission is to empower low-income individuals to become productive participants in the U.S. financial system and achieve their financial goals. Our work is guided by asset development research proving that empowering low-income people to save and build assets is a critical ingredient in fighting poverty. This goal is best reached by services that combine financial counseling and appropriate, transparent financial products.

I would like to take this opportunity to express a special thank you to the Office of Financial Empowerment for the continued partnership in service of New Yorkers struggling with personal financial issues. Specifically, I would like to thank Commissioner Julie Menin for her important work on this issue.

Every day, in partnership with the New York City Office of Financial Empowerment and its Financial Empowerment Center initiative along with more than 30 community partners, Neighborhood Trust deploys its specially-trained corps of Financial Counselors to serve clients across the five boroughs. We help our clients build a Financial Action Plans and access socially responsible credit union products so they can reduce debt, manage cash flow, avoid predatory financial services, and save for the future.

Our experience working with tens of thousands of New Yorkers, including young adults, underscores the extreme financial distress of so many households today. In 2014 Neighborhood Trust served 5,500 clients, an estimated 10% of whom were between 18 - 24 years of age. Many of these young adults are struggling with

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large amounts of high-interest credit card debt, crushing student debt, and lack a basic understanding of the financial system. As a result, we often observe young adults who make decisions without full knowledge of the implications, and potential dangers, of the financial choices they make.

For example, I would like to draw the committee's attention to a January 9, 2015, news piece featuring a Neighborhood Trust Financial Advisor titled "Who Really Profits from For-Profit Colleges" published in Latino USA. The article highlights the impact of for-profit colleges on students, many of whom are low-income, enroll and pay tuition with borrowed money and then struggle later on to repay this debt. Many of our clients, especially those who are young adults, struggle with large amounts of student debt and we support the work of the committee to help New Yorkers by providing information that can aid them in making an informed decision about the full consequence of taking out student loans.

On behalf of Neighborhood Trust I want to commend the committee for their attention to this important issue and encourage you all to put in place programs and policies that protect and promote the financial health of young adults in the City. We will all benefit, especially young adults, from policies that strengthen consumer protections. To give you an example of just one person we've served, someone we believe to be representative of dozens of thousands of New Yorkers, I would like to turn things over to my colleague Eric Espinoza.

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Good morning. My name is Eric Espinoza and for the past several years I have had the privilege of providing Financial Counseling services to hundreds of New York City residents at sites in Staten Island, Brooklyn, and in Washington Heights.

With respect to my young adult clients, they benefit enormously from the personal finance orientation that they receive from Neighborhood Trust. Here is an example of one client I am working with, our collaboration is a work in progress but I believe that this story supports the need for an enhanced focus on this demographic, as proposed by the committee.

I started working with Rafael in September of 2012. I wanted to share his story with you today because his situation presents an example of a student who managed to avoid for-profit schools, but who is still facing the enormous financial consequences of not having managed his student loans in an optimal and informed way. In 2004 Rafael went to college and worked part-time. He used the money from his part-time work to cover his living expenses and to try to pay for tuition. His earnings were predictably not enough to cover the cost of his education and so, like many thousands of NYC residents in their 20s, he took out student loans.

To fast forward a bit, Rafael, who was a few semesters away from graduating with an MBA in Marketing, had a family emergency which forced him to temporarily stop attending school. At the time, Rafael was not familiar with federal student loan forbearance and deferment options - so when his student loan servicers began

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calling and writing to him to demand payment, Rafael tried his best to avoid them. He knew that the extreme nature of his family emergency meant he could not spare any money to put towards his student loans. And since he did not have any money to pay, he reasoned that he would just be wasting everyone's time by describing the nature of his hardship to his student loan servicer.

By the time Rafael was ready to go back to school, he had 7 different loans totaling about $30,000 in debt, all of which were defaulted. As long as Rafael had loans that were in default status, he could not go back to school because he was not eligible to receive any more loans. Since Rafael's main priority was to finish school, I helped him consolidate his loans out of default. Rafael did go back to school, he did graduate, but the cost of his last few semesters IN ADDITION to the capitalized interest and penalties from the time of his default meant that his student loan balance quickly ballooned from $30,000 to $75,000 in debt as of September 2014. Rafael is currently underemployed and doing his best to navigate a difficult job market. We are making the most of his limited income and repairing the damage that the defaulted student loans had on his credit profile.

In the coming months I will work with Rafael and I am confident that we will improve his financial situation. However, we would all agree that it is best to concentrate on efforts that will prevent situations like this one from repeating. I believe the proposed idea from the committee will move us in that direction.

On behalf of Tyler and the entire Neighborhood Trust team, thank you again for the opportunity to testify today.

TESTIMONY PRESENTED TO NEW YORK CITY COUNCIL
by Samira Rajan, CEO of Brooklyn Cooperative Federal Credit Union

Regarding Outreach and Education to Young Adults on the Topics of Credit Card Debt, Student Loans, and Leasing or Buying a Motor Vehicle

February 8 2015

I'd like to thank the Council for the opportunity to share my views on this important issue. Brooklyn Coop is a community credit union – a federally insured financial institution serving 6,000 customers with low-cost savings accounts, checking accounts, ATM/debit cards and a wide range of affordable loan products. Our branches are located in two economically challenged neighborhoods – Bushwick and Bedford-Stuyvesant – and our membership reflects this demographic: low-income, 90% minority, and strongly immigrant.

The topics you have highlighted in this proposal – student debt, sub-prime auto debt, misuse of credit cards – are indeed among the topics that most affect our members. We review hundreds of credit reports from loan applicants each year and increasingly they contain negative information on a student loan, or indicate persistent credit card debt. Coping with these situations can be overwhelming, and if we can help young people to avoid them in the first place, they would certainly be better off.

At the same time, in my time at the credit union I have become wary of generally focused education campaigns for two reasons: first, because these products are not unambiguously bad, and second because even the most well-designed outreach gets mixed in with the raging proliferation of bad information out there with the result that people being impacted by these situations cannot tell the good information from the bad.

Rather, I would recommend that the Council reinforce an existing system that works extremely well to address people's questions about their financial situations. That is the referral system implemented through 311 that directs people to the Financial Empowerment Centers. Dozens of FEC sites across each borough are staffed by well-trained, multi-lingual personnel who assist individuals through one-on-one, hands-on financial counseling sessions.

There are many circumstances in which having a credit card is a good thing and we will sometimes recommend that a member obtain a credit card and use it in a way that deliberately establishes positive credit history. Same with student loans or auto loans– sometimes these are necessary and excellent tools that enhance a person's ability to earn income and achieve better financial stability. So, whether any particular person should take an auto or student loan depends entirely on where that person is in their life and what is their goal. The best advice for that person will come from a trained counselor sitting who can offer tailored advice, is available for follow-ups, and is knowledgeable about these financial products.

Another advantage of directing people to an FEC counselor is the ability of the counselor to intervene and to negotiate on behalf of their client. The credit union is currently a Brooklyn partner with the FEC and a counselor comes to Brooklyn Coop twice a week. I have often heard them negotiate with creditors on the phone for the benefit of their clients. This type of directed assistance is exactly what is needed by many people who are too intimidated or too confused by these companies to resolve their situations alone.

In my experience, the FEC staff are excellent. The Office of Financial Empowerment at the DCA has contracted with strong, reputable organizations with long track records, histories of attracting private sector funding, and committed managements such as Neighborhood Trust Financial Partners and the Financial Clinic, both of which Brooklyn Coop have worked with in the past and in whom we have full confidence.

Another observation I have made while working in these low-income neighborhoods is that there are all kinds of material posted out there to attract people's attention, many of which come from actors that do not have good intentions. Right now during tax season we are seeing the tax preparer signs, the statue of liberty costumes, the promises of instant refunds intended to mis-inform, or mis-educate and take advantage of people. This is so pervasive that Brooklyn Coop committed 14 years ago to prepare taxes for free in our branches through a VITA partnership with the IRS. We are currently the largest non-commercial tax preparer in Brooklyn with thousands of people using our services rather than falling victim to the fly-by-night guys. Other scams we see all too often are targeted to homeowners with mortgage troubles who are mis-guided and end up handing over scarce funds to scam operators.

My point is that an outreach campaign may not be able to effectively distinguish itself from the media materials already in our neighborhoods that promise honest information but that don't deliver. Accurate information offered by a neutral, objective source is scarce, yet the City of New York offers its residents a tremendous advantage in this regard, and that is 311.

Brooklyn Coop receives referrals from 311 for (1) individual financial counseling; (2) free foreclosure prevention counseling and legal services; (3) free tax preparation. It works well. People are guided to credible, local, non-profit agencies in their zip codes and they have positive experiences.

In sum, the terms 'education' and 'financial literacy' are too abstract. Sometimes they are even perceived as condescending to the people we most need to reach. Most people don't believe they need education as much as they need information and assistance from a credible source. I hope the Council will agree that the 311 referrals to the Office of Financial Empowerment's FECs fulfill exactly this need.

Thank you again for the invitation, and I am happy to be of service in any regard as the Council continues to research ways to support low-income New Yorkers.

FOR THE RECORD

THE FINANCIAL CLINIC

Written Testimony of
The Financial Clinic
on
Financial Literacy and Youth
in New York City

Presented before
The New York City Council

Haidee Cabusora,
On behalf of
The Financial Clinic

Submitting February 9, 2015

The written testimony is submitted before The New York City Council by Haidee Cabusora, Director of Policy, Services & Research, of The Financial Clinic (the "Clinic") regarding Int. No. 458, a proposal for New York City's Department of Consumer Affairs (DCA) to provide dedicated financial development materials targeted at addressing financial issues commonly faced by youth between 16 to 24 years old.

I. The Financial Clinic: Background

Founded in 2005, The Financial Clinic is a nonprofit financial development organization whose mission is to build the financial security of working poor Americans. It fulfills its mission through a financial security ecosystem of services and products. These include: tax preparation and financial education workshops; "on-ramp" services including budgeting and assisting the un- and under-banked access mainstream banking services; legal assistance with bankruptcy, foreclosure, and consumer law; and long-term one-on-one financial coaching aimed at identifying goals and creating the financial habits necessary to achieve those goals. The Clinic also transforms lessons learned on the ground into large-scale, system-level solutions and social innovations that have an impact on working poor people nationwide.

The Clinic has a staff of 22 members, including seven financial coaches and a staff attorneys. In 2014, the Clinic provided free services at 32 sites across New York City including the Office of Financial Empowerment's Financial Empowerment Centers in central and eastern Queens serving some of the most financially distressed neighborhoods. To date, the Clinic has returned more than $28 million in assets and resources back to its 15,000 customers. Fourteen percent of the Clinic's total 15,000 customers, were between the ages of 16 to 24. While serving at these sites, we are keenly aware of the financial issues that face these youth and their families, especially those around student loans and consumer debt. Since our customers do not own or rent cars in significant numbers, the testimony offered will not cover that particular issue.

II. Effective Financial Education

A. Making Information Relevant and Accessible

The main challenge in providing financial education to young adults is presenting information in a way that is relevant to them and addresses the issues that are important to them. A common misconception about younger individuals is that they are focused on solely on how to save for consumer products and short-term financial goals. In our experience, many young customers who are from low-income households are able to articulate goals that are forward-thinking and asset-oriented such as savings for college and trying to understand how strategies in savings, credit, debt management, and leveraging government benefits to achieve these goals.

In addition, the materials must be linguistically accessible. All materials should be written in plain, simple English with minimal use of idiomatic expressions. This will help ensure that consumers of all literacy and education levels will be able to understand the materials they receive. It will also help when the materials are translated into other commonly used languages (Spanish and Chinese, for example).

Finally, in this age of rapidly-advancing technology, the DCA should not only issue materials in hard copy and post hard copy materials on its web site, but it must use social media, web-based technology (including webcasts and podcasts) and cellular phone services as a means of communicating important information to consumers. For example, broadcasting services and resources via social media (Facebook, Twitter, and LinkedIn), provides another low-cost avenue for reaching consumers "where they're at." Creating a YouTube channel that posts educational videos and tips is integral to disseminating the DCA's messages too. Increasingly, consumers also express the need for information that is accessible through their mobile devices. So, the DCA should also consider sending information or reaching consumers via text messages and MMS technologies.

B. Increasing Distribution Points

An important aspect of any proposed financial education, literacy, or skills-building materials is meeting consumers "where they're at." The most effective strategy for meeting consumers "where they're at" is embedding financial education/literacy programming within services at existing community-based organizations nationwide. In so doing, DCA will be able to reach otherwise youth already being served in, for example, domestic violence, college readiness, legal services, transitional housing, and disability rights-based organizations. Although financial security issues affect many of the people served by these types of social service and community-based organizations, young consumers may not know how to access financial literacy materials or they may not know that they could benefit from such resources.

In 2009, the Clinic used these lessons in the Ready, Set, GreenLight Initiative, a joint effort of the United Way of New York City, the Clinic, and the New York City Human Resources Administration (HRA) to provide a meaningful opportunity for professional development of service providers in the domestic violence shelter system, the majority of whom are women, to help victims of domestic violence build confidence, regain control and establish financial security. By training domestic violence advocates to provide financial development services to domestic violence survivors, the Clinic placed the information survivors needed within the context of the service delivery they were already receiving. As a result of these pioneering efforts, the Clinic simultaneously transformed the manner in which domestic violence advocacy programs delivered services, while also arming survivors with the skills and tools they need to establish financial security and build financial mobility.

DCA is in a similar position to reinvent the way in which all consumers access financial development resources. Rather than going it alone, the DCA should expand its reach by partnering with existing community-based programming. This will undoubtedly help ensure that materials reach not only those consumers who seek out the DCA's resources, but also those traditionally underserved consumers who may not otherwise access these important materials.

III. Financial Education for Young Adults

We applaud a law that requires DCA to create financial development materials for today's youth. Few would argue that today's young adults are systematically taught meaningful financial management skills before they enter the workforce. Although high schools may have curriculums that incorporate personal finance education, New York is one of 17 states that does not have state-wide requirements. Without dedicated classroom time, students may have learned basic financial management skills from other sources that are less common these days: bank products dedicated for young savers like passbook savings accounts or summer youth employment. Although some financial institutions like Capital One have programs where banks have actual branches in high schools to help introduce these skills, these programs are few and access is limited to only that high school's students and families.

The Department of Consumer Affairs is in a unique position to take advantage of its position as New York City's consumer watchdog, coupled with its national leadership on using municipal agencies to advance financial empowerment initiatives under its Office of Financial Empowerment (OFE). Under OFE, important projects such as matched savings at tax time (SaveNYC, Save USA), Bank On, and introducing financial counseling for all New York City residents have brought financial development knowledge, skills, and strategies available for all New York City residents.

A. Consumer Debt is Often Accessed and Frequently Misunderstood

With the internet's rise, the financial landscape today is a far different than the one that existed even twenty years ago. The consequence to young adults are: (a) the growing disappearance of actual cash in people's pockets, and (2) growing use of smartphones to transfer and use money.

While we are not yet a truly cashless society, it is not unusual for young people to conduct almost of their buying and purchases virtually. A significant number of the Clinic's young customers, receive their paychecks, federal student grants, and pay their expenses, daily and larger items like tuitions, through bank accounts, pay swipe machines, and other electronic vehicles. In David Wolman's The End of Money, he points out that while a cashless society has many virtues (personal safety, counterfeit incidents), one of its less desirable ones is that the nature of money and its limitations changes. When an individual has $100 in hand, they cannot spend more than that amount.

While that same amount in a bank account is technically the same, it may not be perceived that way. Behavioral economics suggests that we spend less when we have $100 in hand, because parting with it is a physical action. In addition, bank accounts may have overdraft allowances that allow an account holder to draw down credit in the event the account balance cannot cover the costs. This again removes a "pain point" more easily felt when cash in hand.

The increasing use of smartphones only makes the consequences of paying less real, because one can do it easily and virtually from anywhere. The internet, with is ability to get anything you want from anywhere, is loaded with temptations to purchase consumer goods and apply easily for credit cards. Smartphones bring that world to someone everywhere they go. Impulse purchases and decisions are always present. However, smartphones offer opportunities as well—they have become the foundation of thoughtful financial decision-making by giving young adults access to important information. Unfortunately, smartphones are underutilized since far too often, customers have wallets full of ATM or credit cards, but their smartphones do not have the corresponding apps. These apps provide real-time information that allows someone to know if the paycheck has hit the bank account, or when the next credit card is due.

One of the primary reasons that the Clinic's younger customers cite as not using smartphones apps more frequently are concerns about identity theft especially if the smartphone is lost or stolen. At the Clinic, we stress that managing your financial online or on a device takes a set of skills that require unique, consistent practices. DCA has issued guidance on these issues in the past, mostly centered on Protecting Your Identity materials, with less emphasis on financial technology coaching.

> *Proposal*: Financial development materials should include specific best practices about how to manage money online and through smartphones. Existing financial coaching programs should have dedicated action steps that focus on these areas. A volunteer corps of financial technology coaches could be deployed to schools across NYC to assist students in setting up mobile applications and financial management websites.

B. Student Loans: Making More Informed Decisions

Americans have now incurred more student loan debt than credit card debt. Research shows that 19 percent of American households owe student loan debt. More than one-quarter of the Clinic's working poor customers (27%) report having student loan debt, with the average debt load being $18,293. Customers who cannot afford their current monthly payments for federal student loans suffer as their Social Security checks are garnished, their tax refunds seized, and their bank accounts restrained by lenders looking to recover student loan obligations. Federal student loan providers enjoy broad collection powers making it easier for lenders to wreak havoc on the lives of financially insecure borrowers.

Private loans present their own hurdles. Students cannot defer old private loans even when they are enrolled in new educational programs. The Clinic's customers may work multiple jobs while attending community college just to make timely private student loan payments, their school work suffering as a result. Whether federal or private, delinquent student loans will ruin a borrower's credit too. Lower-income students are more likely to attend a for-profit school, many of which provide no educational benefit and operate as money-making schemes for opportunists looking to make money off of student loan disbursements. Students who attended these scam schools may be eligible to have their loans cancelled but are wholly unaware of this option. Other students may be able to discharge their student loan debt in a bankruptcy proceeding, but cannot access the legal services they would need to file and proceed through the bankruptcy.

Many of our customers with children reflect this confusion about the reality of loans of even their likelihood of needing them. Financial coaches often must combat persistent rumors that grants, scholarships, and awards are widely available to fund their children's college expenses. Even when this is true, they may lack understanding about the wide scope of expenses that college entails including travel and food costs that are often not covered under these subsidies. Many families are then left with little choice but to take out student loans or in amounts larger than they planned for.

Despite the national focus on the student loan crisis, the repayment and cancellation options for student loan debt remain confusing—even for the most educated advocates. From our work with providing free FAFSA completion assistance at underserved high schools, we know that from beginning to end, working poor families receive little or no help in figuring out how to finance post-secondary education and in determining the best path for repayment. The lack of available support means that few families truly understand how student loans work, recognize the differences between government and private loans, or fully grasp how dropping out affects repayment, leading many to take out loans they will be unable to repay in the future.

> *Proposal*: Young adults desperately need dedicated one-on-one financial coaching and legal services to help them navigate this process. For those headed towards defaults, financial coaches can help outline repayment options and budget strategies to stay on track or request a deferment or forbearance. For those that are already in default, legal options for a discharge may exist especially for loans related to for-profit institutions. The Clinic strongly urges DCA to consider developing a network of direct supports, akin to the Volunteer Income Taxpayer Assistance sites at tax time and year-round Low-Income Taxpayer Clinics available for tax issues, including help with tax arrears.

IV. Conclusion.

As an adult, it is easy to forget that sound financial management practices and habits, such as taking money out of an ATM, paying bills online, and having a safe place to keep money are skills that we learned. But for thousands of young New Yorkers, these skills are rarely taught in a systematic way. Many youth are faced with smaller issues, like how to manage my finances on a smartphone to those with potentially significant consequences, like how much to take in student loans. By assisting them through developing a series of financial development materials and referrals to existing supports, they will be in better positions to address the challenges of managing their money in today's increasingly complex financial landscape. These young New Yorkers need your help, we recommend that City Council pass Int. No. 458.

Submitted by,

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COUNCIL FOR
Economic
Education

Teaching Opportunity

Nan J. Morrison
President and CEO
Council for Economic Education
City Council Hearing on Financial Literacy for Young Adults Remarks
February 9, 2015

Thank you for inviting me to speak to all of you. It's a pleasure to see so many other great partners here.

The Council for Economic Education has been at this for a very long time, more than 65 years. We <u>welcome</u> every piece of legislation that furthers the cause of bringing greater financial and economic literacy to our young people. I would just like to share a few points pertinent to this effort that, in our experience, leads to real competence for kids.

First, while it is beyond the purview of this legislation, we have found that it is best to start this education – as with any education -- early, as early as kindergarten. Financial and economic principles should be as familiar to kids as reading, writing, and math, and they are easily integrated into other subjects. Kids can get a flavor for an economic way of thinking, for instance, though fairy tales. The teachers we have trained are great at this.

Second, these subjects tend to be taught when they are required. Requirements matter. New York State has no requirements to teach personal finance.

Again, beyond the purview of this legislation, but not beyond the purview of the people gathered in this room to champion.

Third, teacher preparedness is essential. Providing materials is a first step, certainly. And I would highly recommend CEE's own Gen i Revolution, which is a popular and free online game used to teach young adults personal finance and which could be embedded on your website.

Nonetheless, in our experience, someone has to get young people to the website and help them through it. Teachers are the key, and they need help themselves in becoming comfortable with these subjects

And finally, my **fourth** point. Yes, we can coach young people on specifics, as outlined in this legislation – credit card debt, student loans, buying a car – and that is great. But it is also possible to give young people the fundamental thinking tools and approaches to solve those and other financial quandaries that will arise in their lives. Ultimately, what we want is to

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enable young people to navigate a complex economy and to do so with knowledge, prudence and success. We want them to feel capable and confident about their future.

Economics and finance – which affect every aspect of our lives – should not be a "mystery wrapped in an enigma." These subjects are the foundational tools with which young people build good lives, and we are so grateful to the City Council for bringing light to this subject and moving it one step further.

As all of you know, legislation needs to have teeth and – ideally – it needs to have funding. Reputable non-profits, such as those gathered here, can help in connecting the materials, teachers, and students in ways that are effective, standards-based, and – dare I say it – fun.

Thank you.

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Address: 1474 Myrtle Ave Brooklyn

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