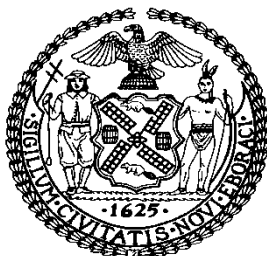


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**THE COUNCIL**

**COMMITTEE REPORT OF THE GOVERNMENTAL AFFAIRS DIVISION**

Matthew Gewolb, *Legislative Director*  
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**COMMITTEE ON CONSUMER AFFAIRS**

Hon. Rafael Espinal, *Chair*  
February 9, 2015

**Oversight:**                               **Education and Outreach on Financial Literacy for Young Adults**

**Int. No. 458:**                               By Council Members Treyger, Barron, Constantinides, Espinal, Gentile, King, Rodriguez and the Public Advocate (Ms. James).

**Title:**                                       A Local Law to require the department of consumer affairs to provide young adults with outreach and education regarding consumer protection issues.

## **I. Introduction**

On January 28, 2015, the Committee on Consumer Affairs will hold an oversight hearing titled “Education and Outreach on Financial Literacy for Young Adults.” The hearing will include one piece of legislation, Introductory Bill Number 458 (“Int. No. 458”), a local law to require the department of consumer affairs to provide young adults with outreach and education regarding consumer protection issues. The oversight portion of the hearing will discuss the challenges faced by young adults as they seek to establish financial stability and success, with a particular focus on the consumer financial products that are relied upon by young adults between the ages of 16 and 24. The Committee will also discuss whether Int. No. 458 would offer a meaningful contribution to the effort of preparing this population to make smart decisions and avoid common pitfalls.

Those invited to testify include the Department of Consumer Affairs (“DCA”), the Office of Financial Empowerment (“OFE”), and various non-profits that work on related issues.

## **II. Background**

A majority of Americans take on debt to help build their lives. Between 69%<sup>1</sup> and 75%<sup>2</sup> of households carry some form of consumer debt. They borrow money to invest in a college education, to finance a home, or buy a car. Credit cards are often relied upon to fund a special purchase or help cover unexpected expenses. According to the Federal Reserve Board of New

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<sup>1</sup> Marina Vornovytsky, Alfred Gottschalck, and Adam Smith, *Household Debt in the U.S.: 2000 to 2011*, U.S. Census Bureau, available at <http://www.census.gov/people/wealth/files/Debt%20Highlights%202011.pdf>.

<sup>2</sup> Jesse Brocker, et al., *Changes in U.S. Family Finances from 2010 to 2013: Evidence from the Survey of Consumer Finances*, Federal Reserve Bulletin, September 2014, available at <http://www.federalreserve.gov/pubs/bulletin/2014/pdf/scf14.pdf>

York (“FRBNY”), the total debt of American households before the financial crash of 2008 stood at a staggering \$12.68 trillion.<sup>3</sup> Overall household debt has fallen in subsequent years, driven primarily by the collapse of the housing market and a 22% reduction of mortgage debt.<sup>4</sup> All other consumer debt products, however, have continued to grow as households have turned to debt to make up for loss of income. By September of 2014, consumer debts (excluding home loans) reached an all-time high of \$3.2 trillion.<sup>5</sup> Young adults, those between the ages of 16 and 24, often referred to Generation Y or millennials, are faced with the challenge of establishing their careers and their futures against this tough economic landscape.

Of all consumer debt, student loans are growing the fastest. Over 50 million Americans carry student loans, including over 1.3 million residents of New York City.<sup>6</sup> Student debt grew past credit card debt for the first time in 2010.<sup>7</sup> In 2011, it surpassed auto loans.<sup>8</sup> By November of 2014, student loans had reached \$1.3 trillion<sup>9</sup> and that figure continues to grow at nearly \$3,000 per second.<sup>10</sup> The graduating class of 2014 currently holds the title as the most indebted class ever, a record they took over from the class before them and is likely to be surpassed come June of 2015.<sup>11</sup>

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<sup>3</sup> The Center for Microeconomic Data, Household Debt and Credit Report, Federal Reserve Bank of New York, <http://www.newyorkfed.org/microeconomics/hhdc.html#/2014/q3>.

<sup>4</sup> Allison Schrager, *Consumer Debt Hits An All-Time High*, Bloomberg Business Week, Sept. 30, 2009, available at <http://www.businessweek.com/articles/2014-09-30/consumer-debt-hits-an-all-time-high>.

<sup>5</sup> Id.

<sup>6</sup> Federal Reserve Board of New York, *Household Debt and Credit Report for the Second District*, Q2 2014, available at <http://www.newyorkfed.org/regional/regional-hhdc/HHDC-NYC-2014Q2.pdf>.

<sup>7</sup> Peter Coy, *Student Loans: Debt for Life*, Bloomberg Business Week, Sept. 18, 2012, available at <http://www.businessweek.com/articles/2012-09-06/student-loans-debt-for-life>.

<sup>8</sup> Id.

<sup>9</sup> Board of Governors of the Federal Reserve System, *Consumer Credit Statistics November 2014*, released Jan. 8, 2015, available at <http://www.federalreserve.gov/releases/g19/current/default.htm>.

<sup>10</sup> Supra, note 6.

<sup>11</sup> Phil Izzo, *Congratulations to Class of 2014: Most Indebted Ever*, Wall Street Journal, May 16, 2014, available at <http://blogs.wsj.com/numbers/congratulations-to-class-of-2014-the-most-indebted-ever-1368/>.

Yet, as the cost of higher education continues to rise, research continues to show that a four-year degree remains the best bet to a secure financial future.<sup>12</sup> A recent study by the Economic Policy Institute, studying 2013 data from the Department of Labor, found that Americans with a four-year college degree earned 98% more per hour on average than those without.<sup>13</sup> The wage difference is at a record high, up from 89% five years ago, 85% a decade earlier, and 64% in the early 1980s.<sup>14</sup>

Student loan debt held New York City's student borrowers average at \$34,100, which is almost 25% higher than the national average. Upon graduation, more than a quarter of these indebted students are likely to fall behind on that debt.<sup>15</sup> In New York City, 9.7% of consumers with student loans are seriously delinquent, meaning they are at least 90 days behind on their payments.<sup>16</sup>

Efforts have been made at various levels of government to respond to the burden of student loan debt. In May of 2014, Senator Elizabeth Warren (D-MA) introduced a bill to Congress that would refinance student debt into a lower interest rate.<sup>17</sup> Two months later, Senator Marco Rubio (R-FL) introduced a bill that would strengthen the already existing income-based repayment programs. On January 18, 2015, Governor Cuomo announced a statewide student loan forgiveness program for graduates of New York schools who continue to

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<sup>12</sup> David Leonhardt, *Is College Worth It? Clearly, New Data Say*, The New York Times, May 27, 2014, available at <http://www.nytimes.com/2014/05/27/upshot/is-college-worth-it-clearly-new-data-say.html>.

<sup>13</sup> *Id.*

<sup>14</sup> *Id.*

<sup>15</sup> *Supra*, note 5.

<sup>16</sup> *Supra*, note 5.

<sup>17</sup> Press Release, Elizabeth Warren's Senate website, Senator Warren Joins with Colleagues to Introduce Legislation Giving Students a Fair Shot at an Affordable Education (May 16, 2014) available at [http://www.warren.senate.gov/?p=press\\_release&id=491](http://www.warren.senate.gov/?p=press_release&id=491).

live in the state, participate in the federal Pay As You Earn program, and earn less than \$50,000 annually.<sup>18</sup>

Student loans are among a variety of consumer products that promise to help but carry hidden risks. Auto loans have also rebounded strongly since the 2008 crash, nearing \$1 trillion by the end of 2014.<sup>19</sup> Dealerships are known for aggressively pushing consumers to finance their purchase directly with the dealer rather than explore better options with a bank. This dealer financing can be troublesome, as the interests of the salesman are not fully aligned with the interests of the consumer.<sup>20</sup>

Credit cards market aggressively to young adults and particularly to college students. The percentage of college students who have credit cards increased from 67% in 1998 to 84% in 2008.<sup>21</sup> In the same time period the number of students who held more than four cards increased from 27% to 50%.<sup>22</sup> In response to deceptive practices once rampant on college campuses, Congress included provisions in the Credit CARD Act of 2009 to require disclosure of marketing and fee-sharing arrangements between colleges and credit card companies.<sup>23</sup> The federal Consumer Financial Protection Bureau continues to monitor the transparency of credit cards and debit cards on college campuses.

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<sup>18</sup> Press Release, New York State Governor's website, 2015 Opportunity Agenda: Restoring Economic Opportunity (January 18, 2015) available at <https://www.governor.ny.gov/news/2015-opportunity-agenda-restoring-economic-opportunity-2>.

<sup>19</sup> Press Release, Federal Reserve Board of New York, New York Fed Report Shows Rises in Auto Loan Originations and Balances, (Aug. 14, 2014) available at <http://www.newyorkfed.org/newsevents/news/research/2014/an140814.html>.

<sup>20</sup> Top 11 dealer tricks, available at <http://www.bankrate.com/finance/auto/top-11-dealer-tricks-1.aspx>

<sup>21</sup> *How Students Use Credit Cards*, SallieMae, April 2009, available at [http://static.mgnetwork.com/rtd/pdfs/20090830\\_iris.pdf?1409506732137](http://static.mgnetwork.com/rtd/pdfs/20090830_iris.pdf?1409506732137).

<sup>22</sup> Id.

<sup>23</sup> Wei Zhang and Bill Sealy, *Sunshine for college credit card agreements*, Consumer Financial Protection Bureau, Dec. 15, 2014, available at <http://www.consumerfinance.gov/blog/sunshine-for-college-credit-card-agreements/>.

Young adults are building their future in an increasingly complex world of personal finance. Studies have found that financial education can positively impact consumer behavior<sup>24</sup> but also raise questions as to the best mechanisms for delivering the information.<sup>25</sup> The statistics suggest there is a need for financial education targeted to young adults. As much as 12% of them are unbanked, 43% have used non-bank methods of borrowing, and 34% have engaged in “three or more costly credit card behaviors.”<sup>26</sup> A survey by the Financial Industry Regulatory Authority (“FINRA”), found that only 24% of young adults were able to answer four or five questions correctly on a five question financial literacy quiz.<sup>27</sup> Young adults seem to be aware of the problem. A Sallie Mae survey of undergraduate students from 2009 finds strong demand for financial education: 84% of respondents wanted more financial education, 60% wished they had more in high school, and 40% expressed a desire for more financial education in college.<sup>28</sup> The demand for financial education has likely grown in recent years as the country continues to rebuild from the recession.

### **III. Financial Literacy Outreach and Education at the Local Level**

The Office of Financial Empowerment (“OFE”) is a multi-faceted anti-poverty initiative established in 2006 and administered by the Department of Consumer Affairs (“DCA”). In order to increase financial literacy in New York City, OFE established Financial Empowerment

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<sup>24</sup> *Life After College: Drivers for Young Adult Financial Success*, The University of Arizona, June 2014, available at <http://aplus.arizona.edu/wave-3-report.pdf>.

<sup>25</sup> *Examining Financial Education: How Literacy and Interventions Affect Financial Behaviors*, The National Endowment for Financial Education, available at <http://www.nefe.org/Portals/0/WhatWeProvide/PrimaryResearch/PDF/Meta%20Analysis%20Singles%20March%2011.pdf>.

<sup>26</sup> Gary Mottola, *The Financial Capability of Young Adults—A Generational View*, FINRA Investor Education Foundation, March 2014, available at <http://www.usfinancialcapability.org/downloads/FinancialCapabilityofYoungAdults.pdf>

<sup>27</sup> Supra, note 23.

<sup>28</sup> Supra, note 20.

Centers (“FEC”) across the five boroughs to offer direct professional counseling either in-person or over the phone on a variety of topics including, but not limited to, debt reduction, improving credit, and opening a bank account.<sup>29</sup> OFE’s financial counseling and education initiatives have expanded greatly since 2008, when the first FEC opened in the Bronx. There are now nearly 58 City-wide sites that provide financial education and services to low-income consumers.<sup>30</sup>

OFE also administers the Financial Education Network (“FEN”), a searchable online database of 240 organizations, agencies and non-profit organizations, all of which provide free and low-cost financial education services.<sup>31</sup> Additionally, OFE offers trainings to the providers listed on the FEN database. Providers may participate in OFE forums and networking opportunities. As of December 2013, OFE had hosted a total of eighteen FEN forums and trainings to support the “ongoing professional development of FEN partners.”<sup>32</sup>

The committee is interested to learn whether OFE’s work has been targeted at young adults and whether its resources could be expanded to reach this population.

#### **IV. Conclusion**

The Committee is interested in better understanding how young adults are navigating today’s marketplace. Further, the Committee will discuss whether DCA’s existing infrastructure and expertise can be leveraged to assist young adults in reaching their goals. Specifically, the

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<sup>29</sup> N.Y.C. Office of Financial Empowerment, Find Counselor/Class, *available at* <http://www.nyc.gov/html/ofe/html/find/find.shtml>, (last accessed on January 23, 2015).

<sup>30</sup> N.Y.C. Dep’t of Consumer Affairs Office of Financial Empowerment: Progress Report, 2010-2013, December 2013, *available at* <http://www.nyc.gov/html/dca/downloads/pdf/OFEProgressReport20102013.pdf>.

<sup>31</sup> *Id.*

<sup>32</sup> *Id.*

Committee seeks to discuss OFE's outreach and education efforts related to issues such as debt reduction, credit preparedness, and financial literacy. This hearing will allow DCA and OFE an opportunity to discuss their accomplishments, as well as their plans to continue, expand, reduce or refine their programming.

**V. Analysis of Int. No. 458**

Int. No. 458 would require DCA to create outreach and educational materials on consumer issues affecting young adults between the ages of 16 and 24. These issues include consumer products that are commonly relied upon by young adults, including student loans, car loans, and credit cards. Int. No. 458 would require DCA to create these materials and make them available to the Chancellor of the City's public schools and of the City University of New York. The bill further requires DCA to engage in outreach to young adults to inform them of the available resources.

The current draft of the bill would require outreach and education to commence on February 1, 2015. This deadline will be amended.



Int. No. 458

By Council Member Treyger

A LOCAL LAW

To require the department of consumer affairs to provide young adults with outreach and education regarding consumer protection issues.

Be it enacted by the Council as follows:

Section 1. Outreach and education for young adults regarding consumer protection issues. The department shall establish and engage in outreach and education efforts that are tailored for individuals ages sixteen to twenty-four. Such outreach and education shall commence on February 1, 2015 and shall include educational materials that shall be made available on the department's website, and submitted to the chancellor of the school district of the city of New York and the chancellor of the city university of New York no later than February 1, 2015. Such outreach and education shall cover consumer issues that are likely to affect individuals ages sixteen to twenty-four including, but not limited to, information related to: (i) credit card debt; (ii) student loans; and (ii) leasing or buying a motor vehicle. The department shall update the educational materials made available on the department's website, and submitted to the chancellor of the school district of the city of New York and the chancellor of the city university of New York pursuant to this local law on an annual basis.

§ 2. This local law shall take effect immediately upon enactment.