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.

<u>The Office of Financial Empowerment</u>

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 as 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

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[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

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[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.

<u>Consumer Services</u>

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