

## TACDC Policy Priorities

### Issue: Promoting Financial Literacy to Prevent Predatory Lending

#### Recommendations

1. *Participate in study of mortgage foreclosures and how they relate to financial literacy in Texas.*
2. *Advocate that financial literacy become part of standardized workforce development training.*
3. *Advocate for the incorporation of financial literacy training into the criminal justice system.*

#### Background

Across the nation, Americans are incurring high amounts of debt and facing the threat of bankruptcy due to a lack of financial knowledge. Low household earnings and high costs of goods and services have caused many Americans to pay for purchases using credit. As a result, more families are incurring higher debt and failing to save for the future. According to study conducted by the Heller School for Social Policy and Management, credit card debt in the US nearly tripled from \$238 to \$692 billion between 1989 to 2001. In addition, the number of people filing for bankruptcy jumped at least 125%.

Other studies have found that in 2001, consumers had \$700.3 billion in outstanding revolving credit and at least 60% of US households revolve some amount of credit. Between 2001 and 2002, 1.5 million households filed for bankruptcy. Increasing consumers' literacy about the basics of credit and savings can help prevent revolving debt and bankruptcy situations.

Consumers that lack financial knowledge, or literacy, are more vulnerable to payday lending and mortgage financing scams. According to HUD, 12% of subprime borrowers stated that they were unfamiliar with basic financial terms, such as interest rate and principal. This lack of financial literacy keeps consumers from not only understanding the mortgage and other lending products they are utilizing, but from understanding what other products are available. Consequently, these consumers are highly susceptible to predatory lending, which targets vulnerable borrower with unfair loans at high prices that can lead to bankruptcy and foreclosure of their property. Educating consumers about financial terms, regulations, the basics of mortgage credit, how to shop among lenders, and how to manage household debt can help to combat predatory lending and the financial ruin of vulnerable consumers.

## Recommendations

1. *Participate in study of mortgage foreclosures and how they relate to financial literacy in Texas.*

Although HB 1582 calls for the study of foreclosure rates in several Texas counties, it did not specifically call for the study of how financial literacy programs impact mortgage foreclosure rates. TACDC will work with the study's authors and advisory committee to include information in the report on the importance of financial literacy and what, if any, connections exist between foreclosure and levels of financial literacy exist

2. *Advocate that financial literacy become part of standardized workforce development training.*

HB 900 mandates that workforce development training centers provide financially literacy classes for interested individuals. TACDC calls on the state to require that workforce development trainees complete basic level financial literacy courses to prepare them with tools to save and spend wisely. By training individuals participating in workforce development centers in financial literacy, the trainees will have the knowledge to create a retirement savings plan, an emergency savings account, and plan for expenses. The financial literacy training will also help equip trainees with knowledge to prepare them for entering the homeowner and mortgage credit market. Moreover, by mandating financial literacy education through the workforce development program will reach thousands of Texans in an efficient and effective way.

3. *Advocate for the incorporation of financial literacy training into the criminal justice system.*

Several counties in Texas have recently or are considering implementing new policies regarding financial literacy and the criminal justice system. Rather than requiring jail time for individuals convicted of writing checks on insufficient funds, some counties are requiring that the individuals attend financial literacy courses. This new, innovative policy will relieve Texas jails and prisons of non-violent offenders, many of whom committed a crime due to lack of financial knowledge and oppressive debt obligations. By assigning these offenders to financial literacy courses, the state can reform the individuals' financial behavior and provide them with tools to prevent future pecuniary crimes.