Closing the Wealth Gap: Eliminating Structural Barriers to Building Assets in the Latino Community

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Introduction

The factors barring Latinos from adequate participation in U.S. financial markets are complex. Language barriers, low financial literacy, distrust of financial institutions and broader cultural norms related to saving and investing are commonly mentioned reasons. These issues do play some role in influencing the relationship that Latinos have with the U.S. financial market. But individual experiences, language skills and cultural attitudes mask the more deep-rooted structural barriers that persist. These impediments prevent many Latinos from full participation in mainstream financial markets where the best and most affordable financial and asset-building products are bought and sold.

Increasing wealth and ownership among Latinos in the United States is not a narrow special interest. There are now more than 41 million Hispanics in the United States, compared to 35 million in 2000. Clearly, Latinos constitute a growing portion of the nation's future workers and investors. National economic prosperity will increasingly depend on the extent to which wealth is shared more widely among the U.S. population.

Currently, a staggering wealth gap exists between Latino and White households. The median net worth of Hispanic households in 2002 was just $7,932, which was only 9 percent of the median net worth of White households (Kochhar 2004). Narrowing the wealth gap between Latinos and Whites demands a comprehensive strategy. An effective Hispanic-focused, wealth-building approach must move beyond tackling the easily observable cultural challenges to addressing the more significant but less visible structural problems that exist in the marketplace. These challenges limit the financial potential of the burgeoning Latino community, but can be remedied by development and implementation of effective industry and government policies.

This article describes broadly how structural and economic barriers limit the ability of Latinos to navigate successfully through the U.S. financial marketplace. The article also illustrates how these challenges work within four distinct areas of the financial marketplace and suggests several possible remedies.

Cultural Versus Structural Barriers

The difficulty that Latinos experience in establishing and maintaining a strong relationship with a mainstream financial institution are complex and span throughout the financial marketplace. Mainstream institutions such as banks and credit unions often offer the lowest-cost financial services and products. A strong relationship with these institutions is essential to successful long-term family wealth building.

Nevertheless, Latinos face significant and widespread barriers to participation ranging from accessing basic retail banking services to securing affordable credit. While the hurdles within financial markets vary in terms of size and scope, the experience of Latinos suggests several prevalent categories including cultural or experiential, economic and structural barriers (Seidman 2005).

On balance, efforts by industry and government to address access- and participation-related issues for Latinos within financial markets has centered on addressing experiential or cultural barriers. Unfortunately, the emphasis on these factors to the exclusion of all others has rendered many of these efforts fruitless.

Cultural or experiential barriers for Latinos include limited English-language proficiency and—particularly in the case of some Latino immigrants with past negative experiences in their native countries—lack of confidence in financial institutions (Osili and Paulson 2005). For recently arrived immigrants, some simply do not understand fully how banks or credit unions operate or how financial products work, or they are concerned about privacy issues (Caskey 2002). These factors can explain, to some degree, why many Latino immigrants lack a relationship with a financial institution or are "unbanked." But while experiential factors play a role, the evidence suggests that bank fees and identity requirements are more prevalent barriers to the financial marketplace.

With respect to personal savings, Latinos demonstrate a strong willingness and ability to save, but the use of savings accounts in particular is limited. Economic incentives for financial institutions to develop and offer specialized savings products for low-income individuals are often weak and go unrealized. The market fails to adequately supply the type of accounts that would increase participation on the part of Latinos and immigrants. Moreover, the ways in which government policies encourage and enable individuals to save money fail to work effectively for low-income families. Tax and other savings and investment incentives—ranging from the purchase of mortgage products to pension participation—become stronger as an individual's asset holdings rise. Low-income workers and families must contend with eligibility rules for antipoverty programs that effectively discourage savings among the poor (Orszag and Rodriguez 2005).

Within credit markets such as mortgage and auto lending, other structural impediments bar many Latinos from full integration. For example, studies show that Latinos are more likely than Whites and African Americans to have no credit history or a thin credit file. According to a study by the Center for Community Capitalism, 22 percent of Hispanic borrowers had no credit score compared to 4 percent of Whites and 3 percent of African Americans (Stegman et al. 2001).

Economic efficiency has driven creditors to rely more on automated, less flexible systems to measure a borrower's creditworthiness and set prices for financial products. In theory, automation should produce cost savings for borrowers. However, automated systems and credit-scoring models are generating striking cost differentials for financial institutions between serving traditional and nontraditional borrowers. Consequently, many nontraditional borrowers are channeled into areas of the marketplace that charge more to collect and analyze information to determine creditworthiness. This is a form of credit rationing because the lowest-cost financial products are often reserved only for those with a good and easily verifiable credit history. Latino borrowers who may pose a low risk of default are denied access to the best-priced loans or denied credit altogether. Even Latinos acting financially responsible and avoiding debt are forced to pay more than necessary for credit or resort to "fringe" financial agents to gain access to money. These issues have more to do with the structure of the financial marketplace than with whether or not Latinos speak English or understand how compound interest works.

Finally, Hispanics, even those with good credit and a permanent relationship with a financial institution, face discrimination in credit markets. This can occur by direct and intentional discrimination against Latinos or as a result of lender policies that produce statistically uneven service levels depending on an individual's race or ethnicity. In both cases, the market is working imperfectly and often in violation of the law. Latinos may be denied credit altogether or pay higher fees and interest than is justified. In either case, a Hispanic borrower faces a greater likelihood and potential for default. Defaulting on a loan negatively affects an individual's credit standing and limits his or her ability to participate in financial markets over time. Moreover, if these practices are concentrated in particular neighborhoods, the entire community may be impacted by lowering property values or fostering geographic credit rationing otherwise known as "redlining."

Structural and economic barriers for Latinos to retail banking and credit markets are persistent and widespread. Several major impediments are noted above, but many more exist. Unfortunately, industry and government policies have reacted slowly and inadequately to these challenges. Financial institutions and government collectively spend millions of dollars to translate their materials into Spanish, create Spanish-language Web sites or develop financial education workshops and classes (Muñiz 2004). And while information should be provided in Spanish if financial institutions hope to reach the Latino market, the primary barrier for them is not language. As a result, fringe and predatory financial service providers have proliferated and captured a substantial share of the Latino market. Notwithstanding this, ensuring that all Americans can evenly build wealth is a social and public good that begins with addressing the structural challenges that Latinos face and devising appropriate solutions for relevant markets.

Access

Uneven and imperfect information for consumers and creditors has shaped the U.S. financial marketplace in important and detrimental ways for Latinos. These challenges, coupled with persistent discrimination and disparate impact, hamper the ability of Latinos to maximize their economic and wealth-building potential. At a glance, the workings of four distinct areas of the financial marketplace illustrate these points.

<u>Bank Accounts</u>

Owning a bank account is the first step for building and managing financial assets, which is why greater integration of Latinos into the mainstream financial system is critical. According to a Pew Hispanic Center survey, more than 35 percent of Latinos surveyed reported that they did not have a bank account, and that number rises to 42 percent for foreign-born Latinos (Pew Hispanic Center/Kaiser Family Foundation 2002). Limited access to mainstream financial institutions forces Latinos to rely on high-cost, less-regulated financial service providers, such as check cashers, wire transfer companies and payday loan providers.

On a product-by-product basis, banks and credit unions maintain the lowest-priced products on the market, but barriers exist that preclude low-income individuals from accessing them. Minimum balance and initial deposit requirements, bounced-check charges and monthly service fees are economic burdens for a family below or near the poverty threshold. Largely due to fees, the overall expense of maintaining a checking or savings account and utilizing related services may be prohibitive for a low-income worker (Caskey 2002). According to one survey on the financial behavior and attitudes of unbanked individuals, 47.8 percent of those surveyed stated that they once had a bank account. The reason cited most often to describe why these individuals had closed their accounts was that they could not afford the minimum balance and fees associated with the account (Seidman, Hababou and Kramer 2005).

In addition, the requirement to present a U.S. identity document when applying for an account is a considerable obstacle for many Latino immigrants. Financial institutions are required under the Bank Secrecy Act and the USA PATRIOT Act to verify the identity of individuals who open accounts at their institutions. Few mainstream financial institutions accept alternative forms of identification, such as the *matricula consular* or the Individual Taxpayer Identification Number (ITIN).

The *matricula consular* is an identification card issued by Mexican consulates for Mexican nationals living abroad. The ITIN was created in 1996 to enable workers who do not qualify for a Social Security number to report earnings to the Internal Revenue Service and to open interest-bearing accounts. Both the *matricula consular* and the ITIN are important forms of identification because they satisfy the documentation requirements for opening interest-bearing accounts. While some major financial institutions are accepting the ITIN and the *matricula consular*, acceptance rules can vary from branch to branch or from city to city. In 2003, only sixty-six banks in the United States were accepting the *matricula consular* to open accounts (Suro et al. 2002)

Although cost and identity requirements are leading factors that deter Latinos and other low-income immigrants from conducting basic financial transactions through banks, the barriers to savings differ in important ways.

A savings account is the most frequently used product by low-income individuals. One study found that Blacks and Hispanics were more likely than Whites to have savings accounts (Vermilyea and Wilcox 2002). That said, studies and research suggest that Latinos are underutilizing savings accounts. According to one study, more than three in five (62 percent) Latino non-savers said they could set aside $20 per week, compared to 54 percent for all similar U.S. workers (Employee Benefit Research Institute 2003).

Moreover, the myth that low-income Hispanics cannot save can be easily disproved by the amount and frequency of remittances sent from the United States each year. According to estimates by the Inter-American Development Bank's Multilateral Investment Fund, remittances to Latin America and the Caribbean were projected to reach $55 billion in 2005. Approximately 42 percent of Latinos living in the United States remit money to their family and friends abroad, usually between $100 and $300 on a monthly basis (Suro 2003). Remittances are a form of deferred consumption, an essential ingredient to individual savings.

However, on balance, mainstream financial institutions have been unable to meet the demand among low-income families and Latinos for suitable savings accounts (Caskey 2002). Developing and supplying low-cost and attractive savings vehicles can be expensive for a financial institution in terms of both time and money. To illustrate, one of the most effective savings tools for low-income workers is an Individual Development Account (IDA). IDAs are matched savings accounts for low-income families with financial institutions that allow them to save money to purchase their first home, pay for postsecondary education or start a small business. IDAs are sparse, and access to them is limited, even though evaluation results have shown substantial and positive participation for Latinos (Sherraden and Barr 2005).

Federal and state governments invest little in encouraging the development of IDA programs or an infrastructure to enhance savings among the poor. In general, the economic incentives for any one bank or credit union to take the lead in developing an effective and meaningful savings account strategy for asset-poor individuals are limited. As a result, many mainstream financial institutions do not offer attractive savings products to Latinos, and, even when they do, it is not in conjunction with other essential elements that reinforce personal savings.

Overall, these structural and economic barriers undermine the ability of Latinos to establish and strengthen their relationship to financial institutions. The lack of suitable retail banking products and services within the mainstream market has given rise to an alternative financial services sector. Throughout the 1990s, payday lending establishments swelled from several hundred to more than 10,000 (Seidman and Tescher 2005). High-cost lenders are filling gaps in the marketplace. Without addressing these issues surrounding access to mainstream financial institutions, many Latinos will continue to lack a critical building block to savings, credit status and wealth.

Mortgage Lending

A number of barriers within the mortgage-lending market push Latinos to accept less favorable loans with higher fees and interest rates even when they could qualify for a better loan. The challenges that Latinos experience in the mortgage market have exposed them to financial predators (Bowdler 2005).

The two basic kinds of home mortgage loans are "prime" and "subprime" loans. Prime loans are reserved for individuals with low credit risk and, in general, have a standard pricing system based on credit scores, income and savings. Subprime loans are for individuals who seemingly pose a greater risk of nonpayment to the lender. In general, subprime loans are approved using "risk-based pricing," which determines eligibility based on a number of factors to ascertain the likelihood of default. Because subprime loans are riskier in nature, the lender may charge higher fees and interest rates to compensate.

For Latino families, owning a home is especially important in strengthening financial security. A home is likely to be the only appreciating asset that a Latino family owns. Home equity represents 61 percent of the net worth of Hispanic homeowners, compared to 38.5 percent for White and 63 percent for Black homeowners (Kochhar 2004). The Latino home-ownership rate, however, lags behind that of Whites' by twenty-eight percentage points. While the overall home-ownership figures for Latinos may be modest relative to Whites, the number of Latinos entering the mortgage market each year continues to swell. Less than half of Latino households nationwide own a home, but, of the more than five million Hispanic households that owned their home in 2003, 71.6 percent had an outstanding mortgage (Bowdler 2005). Furthermore, the number of Hispanic families closing purchase mortgages was 185 percent higher in 2002 than in 1993 (U.S. Census Bureau 2003). Latinos are increasingly influencing the shape and size of the U.S. mortgage lending market.

Subprime loans accounted for more than 40 percent of Hispanic purchase mortgages and nearly a quarter of refinance mortgages in 2002, compared to 18 percent of White purchase mortgages and less than one in ten refinance mortgages (Bowdler 2005). Studies show that people living in predominately Hispanic neighborhoods were more likely to receive a subprime loan. The disparity was true when controlling for income, and it was even found that these disparities increased as incomes increased. It is estimated that as many as one-third to one-half of subprime borrowers could have qualified for a prime loan (Carr and Kolluri 2001).

Furthermore, disproportionately high denial rates among Latino prime mortgage applicants underscore that the prime market is not meeting the needs of Latino families. Research shows that income, age, credit and family status do not fully explain the disparities in lending between White and minority borrowers (Turner et al. 2002).

One challenge is that information and credit history on Latino home buyers is often difficult for a prime lender to ascertain cheaply. In many cases a prime lender must invest more to determine the actual risk of default that a Latino borrow would pose. The additional cost of gathering and analyzing relevant information effectively deters many prime lenders from serving nontraditional borrowers. The result is credit rationing by prime institutions, meaning outright denial of prime credit to some Latinos.

In addition, because Latino home buyers tend to have relatively lower income than their peers and live in low-income housing markets, subprime lenders and mortgage brokers have invested heavily in targeted neighborhoods. From targeted marketing and promotion to placement of retail operations and hiring of bilingual loan officers, the infrastructure that has developed in these neighborhoods often outstrips that of prime lenders.

Further, within the mortgage-lending market racial and ethnic discrimination persists, often in subtle ways. One study that focused on mainstream mortgage institutions in Chicago and Los Angeles found that Hispanics were significantly less likely than their White counterparts to be told about different products available or to receive coaching from a loan officer and were told they qualified for lower loan amounts (Turner et al. 2002). In a national study using similar methods, Hispanics were less likely than Whites to receive assistance with financing, information about down payment assistance and program requirements and recommendations from lenders (U.S. Department of Housing and Urban Development 2002). In sum, Latinos—regardless of credit status—may be driven into subprime lender shops (Bowdler 2005).

Within the subprime mortgage-lending market, Latino home buyers face other more troubling challenges. For instance, in the subprime market Latinos must contend with policies and practices within the industry that encourage agents to drive up the cost of loans. Commission-based policies and yield-spread premiums create incentives for loan officers and mortgage brokers to place their own financial interests before those of the borrower. Finally, predatory mortgage lending thrives in the subprime market. Push tactics and product steering can saddle Latinos unnecessarily with high-cost loans that leave them susceptible to default.

Improvements in both the prime and subprime markets are needed to ensure that Latinos have equal access to the best mortgages the market can provide.

Financial Literacy and Counseling

According to the results of a quiz administered by the University of Michigan Surveys of Consumers, only 60 percent of Latinos said the following statement was true compared to 72 percent of other respondents: “With compound interest, you earn interest on your interest as well as your principal” (Muñiz 2004). In one study, 43 percent of Latino workers described their personal knowledge of investing or saving for retirement as "knowing nothing" compared to 12 percent of all workers (Employee Benefit Research Institute 2003). Financial literacy among the overall U.S. population and especially Latinos could stand to be improved. However, because Latinos tend to be both asset poor and have lower income than their peers, many Latinos are barred from accessing the best financial advice that the market can provide.

For most families, financial knowledge on subjects such as budgeting, banking, savings, retirement security, car buying and filing income tax returns is in high demand. Financial advice in the U.S. financial market is a service that is bought and sold via agents such as accountants and financial planners. Visiting with a financial counselor or planner, however, is not an option for most low-income individuals. Many financial planners operate in a commission-based market. Because low-income individuals often maintain few asset holdings, there is little incentive for planners and advisors to serve them. For this reason, many financial counselors limit their services to individuals with large asset portfolios. Since many financial planners earn money by managing their clients' assets, serving low-income clients with little or no assets means earning significantly less income. Fee-only financial planners are more affordable, but their fees are often too high (Carr 2005). For a family earning below $15,000 a year, meeting with a professional that charges a fee of $200 is often unfeasible.

Studies reveal that for many unbanked immigrants the issue is less about generic financial education and knowledge and more about the ability to visit with a financial counselor or planner for a one-on-one consultation to learn about the financial options available to them. The likelihood of low-income consumers making disproportionately uninformed choices about credit and financial products has led to significant market inefficiencies that encourage financial predators to enter the field. Advice on how to avoid predatory lenders and shop for low-cost products would put Latinos on the path to enhanced wealth accumulation. The current structure of the market for financial advice ensures that only those who can afford it may access good-quality advice and counseling.

Auto Lending

In the case of auto finance, the barriers for Latinos are not only economic and structural with respect to price and credit, but also include outright discrimination and disparate impact (market failures). The family car is one of the largest purchases many families will ever make, second only to buying a home. Nearly 90 percent of White households, more than three-fourths of Hispanic households and more than two-thirds of Black households report owning at least one car in 2002 (Kochhar 2004).

Reports show that Latinos and African Americans are often the victims of discrimination in auto financing. In recent litigation against the financing arms of auto manufacturing companies, the allegation was made that Latinos and African Americans, on average, pay additional interest for financing their car at dealerships than Whites with similar credit histories. The data in support of these charges are robust and compelling. Mark Cohen of Vanderbilt University conducted a series of studies chronicling the impact of a pricing component known as a "markup" on

Latino and African American consumers. A markup is an undisclosed subjective charge added to a consumer's approved interest rate and split between the dealer and the lender. By studying financing records from major auto financing companies, Cohen found that minority car buyers were more likely than White car buyers, regardless of creditworthiness, to have a "marked-up" auto loan.

One report analyzed data related to Hispanics who finance their cars through one major auto financing company in the state of Florida. The data showed strong evidence of a disparate impact on Hispanic consumers. More specifically, the data revealed that 62.6 percent of Hispanic borrowers are charged a finance markup, compared to 46.6 percent of White borrowers (Cohen 2002). Further, a statistical analysis of more than 1.5 million race-coded sales files indicates a staggering disparity between the amount of the markup paid by minorities and that paid by White customers. Hispanic borrowers who receive a markup are charged, on average, $1,234 compared to $1,003 for Whites (Cohen 2002). In other words, even when both Hispanics and Whites receive a markup, the markup for the Hispanic borrower is likely to be higher. This racial disparity exists in every state analyzed and in all credit tiers.

These disparities, at minimum, raise serious questions about practices in the auto-lending market and the impact of auto finance industry policies and practices on Latino and African American consumers. While some companies have imposed a cap on the markup charge, recent data show that the lower markup cap only reduces the disparity between African American and White consumers but does not eliminate it. Though discrimination in credit markets is hard to show, the pattern of discrimination in auto financing cases is clear. Even when Latinos exhibit good credit, they still pay higher fees and interest.

The above challenges are neither an exhaustive listing nor a complete examination of the barriers for Latinos within each segment of the U.S. financial market. However, the information illustrates the key structural and economic challenges for Hispanic consumers and underscores the limitation of strategies that only address cultural or language barriers.

Regulation

There are a number of important federal laws, regulations and oversight agencies that aim to protect consumers, prohibit discriminatory practices and effectively address structural and other challenges within financial markets.

The Community Reinvestment Act (CRA) requires financial institutions to offer credit throughout their entire market area, including low-income areas. Under CRA, four federal agencies assess and grade financial institutions on compliance with CRA requirements. CRA creates incentives for banks to serve low-income customers. When activity in low-income communities is increased, more information is available for creditors to examine and use in determinations of creditworthiness (Barr 2005a).

The Home Mortgage Disclosure Act (HMDA) requires mortgage finance institutions to disclose certain attributes of their mortgage business, including number of applications taken, approved and denied and their racial, ethnic and geographic representation. These data are an important tool for regulators and advocates to view and assess performance and hold companies accountable for under serving communities.

The Equal Credit Opportunity Act (ECOA) became the basis for the plaintiff's claim in recent litigation against major U.S. auto dealers. ECOA is a federal law that prohibits discrimination on the basis of race, color, religion, national origin, sex, marital status or age in any aspect of a credit transaction. Similar to fair housing laws, ECOA addresses both intentional and statistical discrimination (disparate impact) (Barr 2005b).

The Fair and Accurate Credit Transactions Act (FACTA) and the Truth in Lending Act address disclosure and information issues that relate to consumers directly. The laws ensure that consumers are provided with critical information to enable them to make more informed financial choices.

The Federal Reserve Board, Federal Trade Commission, Office of Thrift Supervision, U.S. Department of Housing and Urban Development, Federal Deposit Insurance Corporation and others are charged with ensuring adherence and compliance with these laws.

Although these federal laws and regulations serve an important purpose, weaknesses and gaps remain. In some cases the laws are enforced sporadically and ineffectively, while in other instances the law fails to cover enough ground. For instance, the alternative financial services market, which includes check cashers, payday loan providers and wire transfer companies, is currently highly unregulated.

Recommendations

Mainstream financial institutions do not effectively serve many Latinos living and working in the United States. Hispanics pay more than they should for check cashing, remittances and other basic financial services. Within credit markets Latinos are channeled to subprime lenders and are exposed to predators, often paying exorbitant interest rates and fees for asset-building products. The barriers that prohibit full integration of Latinos into the mainstream banking and financial service systems are deep. Yet there are hopeful signs. Latinos are buying homes in record numbers and exercising growing economic prowess. But both government and the private sector can institute more effective policies that enhance wealth-building opportunities for Latinos. While not an exhaustive list, the following recommendations are important initial steps:

- **Encourage innovation in the market; create and make widely available low-cost and appropriate savings and checking accounts as well as ensure that more financial institutions accept ITINs and alternative forms of identification.** Mainstream financial institutions and the federal government must do more to assist the 56 percent of Latinos living in the United States who are unbanked. Financial institutions must learn how to effectively meet the needs of the Latino community by developing appropriate savings products and services. These products might feature direct deposit capability or no minimum balance requirement and enable an account holder to send remittances, cash checks and pay bills from the account (Caskey 2002). Many steps can be taken to reduce the cost of product development and promotion and ensure more extensive industry adoption (Seidman and Tescher 2005).

Moreover, federal and state governments should also invest in the development of IDA programs to increase savings potential among low-income individuals and encourage financial institutions to become proactive in their outreach to low-income consumers. Matched savings accounts are proven to encourage substantial savings among low-income Latinos. In addition, if financial institutions want to reach out to unbanked individuals, part of their strategy must be to make acceptance of the *matricula consular* and the ITIN a well-known, company-wide policy. Information regarding the acceptance of these important forms of identification must trickle down to the branch managers at the local level to ensure full implementation of the policy.

- **Develop alternative and low-cost ways to determine the creditworthiness of nontraditional borrowers.** Creating new ways for mainstream financial institutions to serve nontraditional Latino borrowers would help ensure that more Latino families get the "best deal" on their home mortgage or auto loan. Financial institutions and lenders should work with government agencies and credit bureaus to develop alternative methods for determining risk of repayment. This may include examining available individual repayment factors such as rent and utility payment history and leveraging the resources that community-based organizations (CBOs) provide. The federal government can also do more to invest and encourage marketplace innovations that open up prime credit markets to borrowers with limited credit history.
- **Support and encourage further development of the prepurchase home-ownership counseling field.** Many Hispanic-serving CBOs administer a prepurchase home-ownership counseling program. The government-funded program enables CBOs to use technology and other tools to reduce the information and administrative costs for prime mortgage lenders to serve low-income Latino home buyers. Housing counselors prepare low- and moderate-income families for home ownership, as well as give them the educational tools they need to make educated decisions throughout the home-buying process. More federal funding and greater participation by mainstream financial institutions are needed to support these community-based efforts (Hizel, Kamasaki and Schafer 2002).
- **Support the development and enactment of meaningful federal legislation that shapes policy and practice in the subprime mortgage lending market.** There is an important role for the subprime industry in delivering home-ownership opportunities to those, including Latinos, considered too risky for conventional mortgage loans. However, it is within the subprime mortgage lending market that predatory lending and bad actors thrive. The subprime industry has evolved in a way that has made existing federal consumer protection laws inadequate. Congress must increase protections that accurately target abusive practices in both the purchase and refinance markets. This includes limiting fees and prohibiting expensive add-ons that provide no added home value in high-cost loans, creating incentives for referring families "up" to the prime loans for which they qualify and holding brokers and financial institutions accountable

for their role in structuring a deceptive or abusive loan. Further, federal legislation should only improve consumer protections. Currently, states' laws are the only meaningful protections available to families. Moreover, vigorous and routine investigations of all mortgage lenders are necessary to regulate their lending, as well as better understand the predatory lending market. Congress must empower and require agencies to incorporate mortgage finance companies into the regulatory oversight systems and enforce existing legislation, including conducting random and independent investigations. Further, it should be clear to consumers which agency is responsible for receiving and investigating their complaints. Finally, governments need to better regulate and monitor mortgage brokers. As the main party interfacing with customers, explaining loan terms, providing disclosures and securing the loan closing, more oversight is warranted to ensure sound and equitable activities and performance. Congress can decrease the incentive to brokers to push families into higher-cost loans. Lenders and brokers also have an interest in driving out bad actors from the industry and should take a leadership role in self-policing.

- **Create an infrastructure of community-based financial counselors and economic incentives for low-income individuals to visit with a financial planner once a year.** In an environment where discrimination and predatory lending practices are not uncommon, access to quality financial advice and information is in high demand. Congress should authorize a grant program that would create an infrastructure of community-based financial counselors. CBOs would use the resources to hire and train financial counselors, develop or obtain the necessary software to track client information and build the capacity to expand the services they currently provide to include financial counseling services. NCLR's experience of providing one-on-one home-ownership counseling to low-income families suggests that counseling is a meaningful and effective strategy for building financial knowledge and using that knowledge to accumulate assets. In 1994, Congress allocated funding to the U.S. Department of Housing and Urban Development (HUD) to establish a network of organizations to provide prepurchase home-ownership counseling to low-income families. Since 1997, the NCLR Homeownership Network has helped more than 17,140 families from predominantly low-income Latino neighborhoods to purchase homes of their own. For the individuals and families who are not mortgage-ready, professional advice on issues such as budgeting, banking, saving, retirement security, buying a car, completing loan applications and filing income tax returns would help to eliminate the roadblocks to purchasing and preserving assets.

  In addition to providing financial counseling through CBOs, the federal government must create incentives for low-income individuals to visit with a financial planner once a year. One way to accomplish this is for the federal government to create a refundable federal income tax credit for low-income families to cover the cost of obtaining one-on-one financial counseling services.

Federal and state governments should also improve oversight of the auto-lending market. As a first step, governments should seek a prohibition of auto finance charges in excess of the rate based on a consumer's creditworthiness. Policies should prohibit markups as an unfair and discriminatory practice. Furthermore, auto dealers must be required to disclose fully all the fees that are applied to all consumers. Lenders should also adopt policies that eliminate the financing disparities. Several major auto lenders and car dealers have taken steps to impose caps on markup charges, but more needs to be done to correct abuses that still persist. One way to accomplish this is to require car dealers to move to charging a simple, flat fee for the services they provide. This would remove the subjective analysis that occurs.

Congress should also improve data collection in both the auto- and mortgage-lending fields. One way to accomplish this is for Congress to require more mortgage and auto-lending establishments to report on their activities. Such transparency will allow the public to better understand the impact of mortgage brokers on the home-buying market and reveal discriminatory practices in auto financing.

In conclusion, a comprehensive approach is needed and will require the contributions of advocates, experts, industry leaders, policy makers and consumers. The above recommendations are simply a starting point. The wealth gap between Latino and White households is wide but not insurmountable. Effectively addressing the barriers to wealth that Latinos experience must begin with attacking the structural and economic problems that exist within the financial marketplace.

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