

ISSUES BRIEFING

Hispanics and the Economy



Shaping America's Economic Future

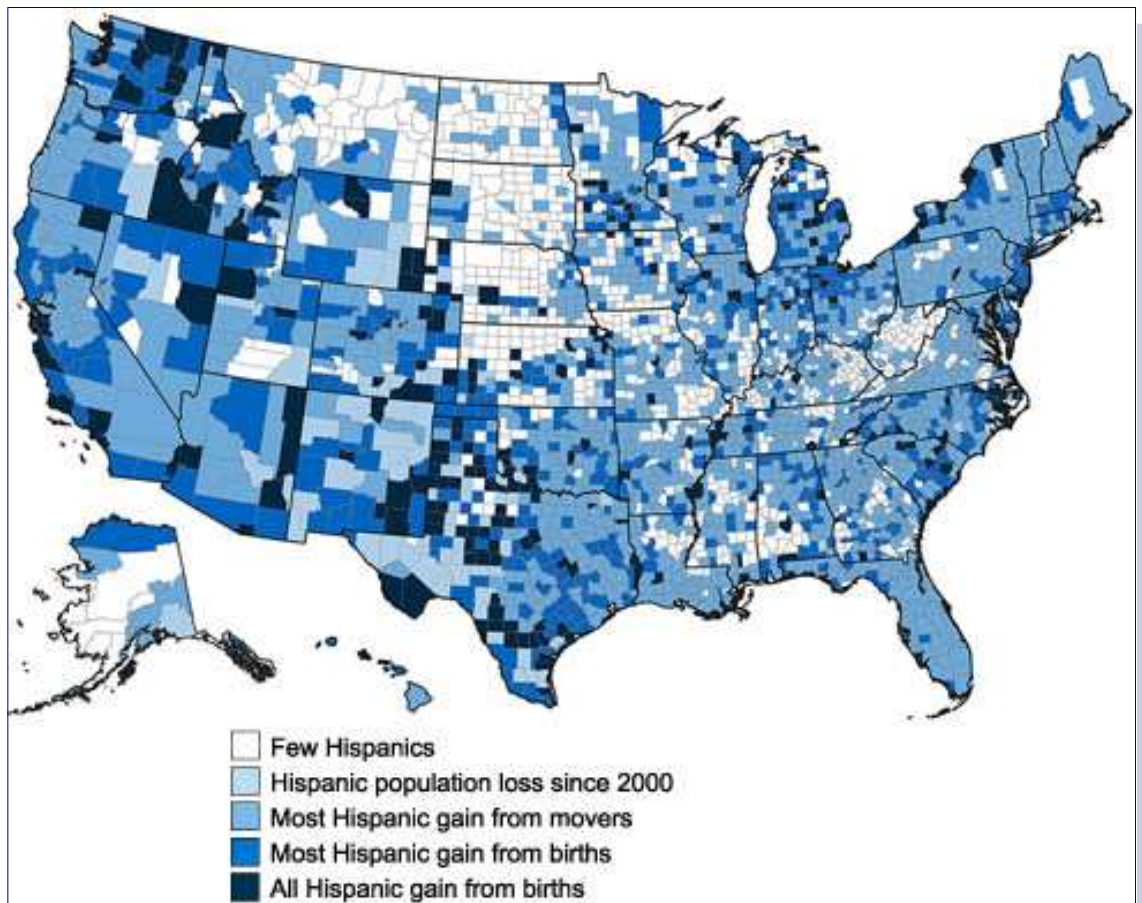
CAUSA—Serving Connecticut's Latinos

CAUSA is a statewide organization dedicated to enhancing the general well-being of the Hispanic/Latino population in Connecticut through research, advocacy and technical assistance through and with its member agencies. Since 1990, Connecticut's Hispanic population has grown 84.3%. According to the most recent U.S. Census estimates, Connecticut is now home to almost 400,000 people of Hispanic or Latino origin. Latinos are the largest minority population in the state, with 11.2%. African Americans constitute 10.2%. One of CAUSA's aims over its 30+ year history of service is to always pay attention to the trends and issues facing Hispanics. This issue of CAUSA News provides an overview of the role of Hispanics/Latinos in shaping America's and Connecticut's future. CAUSA continues to provide support and technical assistance to our member organizations' as they respond to the emerging needs—and crises facing their respective communities.

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GET THE FACTS!

Message from the Executive Director

Knowledge is power. At a time when we are faced with so many issues around us, it is critical that each and every one of us learn about how to build our individual and collective economic power. This briefing issue of CAUSA News focuses on one of the most pressing issues facing the Latino population in Connecticut—the economy. It is our aim to make our Hispanic communities stronger and healthier by advocating for programs and resources that address help strengthen financial literacy,



CAUSA's member agencies throughout the state offer many services geared to Latinos. Staff are bilingual and are experienced with the challenges featured in this issue of the News. The facts are startling. We hope that by becoming more informed that you will seek out your local Hispanic-serving organization to learn about the ways that you can help contribute to a stronger, healthier Latino community in Connecticut.

Sincerely,
Carmen Sierra, Executive Director CAUSA, INC.

LATINOS AND THE CONSUMER ECONOMY

The question of how Latinos will influence America's overall economy could not be timelier. It's no secret that our community is growing. As our demographics expand, so does our role in our national economy:

- Between 2005 and 2050, 80% of household growth will come from immigrants and their kids.
- By 2010, our purchasing power will exceed one trillion dollars.
- By 2050, one in three working age adults will be Hispanic.

Yet, despite our growth and contributions to the tax base and consumer economy, Latino families lag by most socioeconomic indicators. We are particularly hard hit by the weak economy.

- The labor statistics were released last Friday and show that Latino unemployment is at a new high of 8%.
- Household debt and foreclosures are on the rise.
- And fewer families have health care and pensions.

This isn't just bad news for Hispanic families; it's bad news for the national economy. The success of our community is critical to our country's economic success.

Unfortunately, 20 million Hispanics do not have a basic bank account, and have little or no understanding of how money works in our society. Without that knowledge, they do not have the tools to build wealth or purchase a home. Many live in a cash society and fall prey to check cashers, payday lenders and predatory lenders. They are ill-prepared to manage money, credit and debt. Without the ability to acquire assets, the American dream is difficult to attain. Two of the greatest challenges in the Hispanic community are financial literacy and access to capital. Financial literacy, quite simply, is familiarity with the money, banking and credit system. Access to capital is the ability to tap into financial markets for business expansion.



LATINOS AND FINANCIAL EDUCATION

Not all credit is created equal. The mortgage, credit card, and auto loan markets contain structural barriers that make it unlikely that creditworthy Latinos will be matched to safe and affordable financial products. While innovations have opened the market to more families, it has also created complexity. Moreover, our consumer protections have not kept pace with the changes.

Twenty-two percent of Latinos do not have a credit score.

Even though these families can demonstrate that they've paid their rent, phone, cable, and other bills on time, it is not taken into consideration. Families without a credit score are often steered into the riskiest and therefore most expensive products. This is true for credit cards, home loans, auto loans, and auto insurance. Other characteristics such as multiple sources of income and co-borrowers create similar obstacles.

So what can we do?

Today, there exists a wide range of financial education providers representing various sectors, including industry, government, and community-based providers. Programs focus on a spectrum of topics from consumer protection to helping Latinos purchase homes. Many financial education programs consist of financial education classes, videos, brochures, and computer software and/or Internet-based seminars. Although these tools can be part of the financial education curriculum, there is little evidence to suggest that low-income Latino families are benefiting from such efforts. Research conducted by national Latino organizations' research shows that to improve the economic well-being of Latinos living in the U.S. they need custom-tailored, one-on-one financial counseling at the community level. There are virtually no such programs that fulfill this need today. Financial counseling is critical to the Latino community because many families remain disconnected from mainstream financial institutions, and experience with financial tools is essential for long-term economic growth.

Hispanics hold up to 40 percent of mortgages in the subprime loan market where higher interest rates are charged with a damaged credit history or little borrowing experience.

LATINOS AND HOMEOWNERSHIP

Although Hispanic homeownership has steadily increased over the last fifteen years, Hispanics still face barriers to homeownership. Barriers include:

Lack of information about homebuying and mortgage qualification processes

- Particularly an issue for immigrants with limited English proficiency

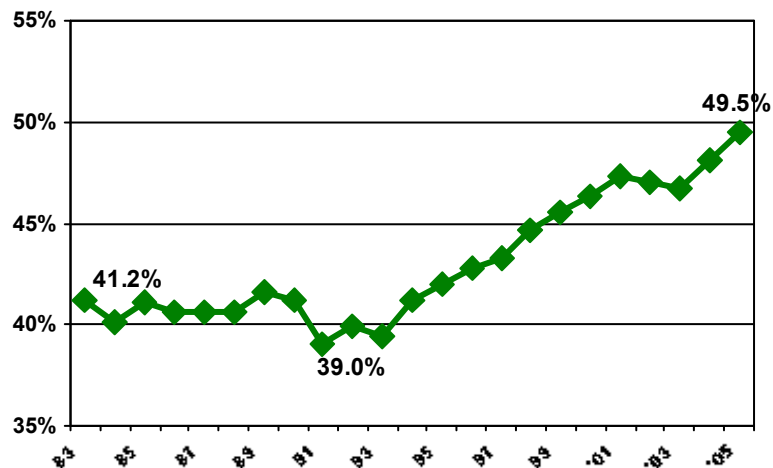
Difficulty in qualifying for mortgage financing due to:

- Poor credit or no credit history
- Undocumented immigrant status
- Difficulty in documenting employment, income and savings

Housing affordability

- Result of Hispanics' concentration in high cost markets and the high share of households with low income and wealth

Hispanic immigrants across the United States are being hit hard by the subprime mortgage crisis, with many risking their life savings in a failed bet on the American dream of owning their own homes. Hispanics hold up to 40 percent of mortgages in the troubled subprime loan market, where higher interest rates are charged to buyers with a damaged credit history or little borrowing experience.



Hispanic homeownership has steadily increased since 1993

MOST COMMON LATINO FINANCIAL MISTAKES

According to Louis Barajas, one of the top 100 financial planners in the U.S. and author of *The Latino Journey to Financial Greatness*, the most common financial mistakes made by Latinos are:

- Approaching the wrong people for advice
- Being embarrassed to ask questions because they don't want to look like fools or just don't want to be a bother
- Working with cash: Latinos don't trust banks and don't use checking accounts
- Considering price more important than competency; they look for a person who will give them the best deal
- Believing that making double payment on a credit card bill next month because they missed that last month's payment will not ruin their credit
- Financing major items (autos, homes, furniture) without understanding the terms and documents they are signing
- Cosigning loans for family members who have bad credit
- Believing that the lottery is an investment
- Believing that if they invest in their company's 401(k), their company may someday take their money
- Believing that the "best" tax preparer is the one who gets them the biggest refund
- Believing that a tax refund is a form of savings plan
- Getting their family involved in multilevel marketing schemes without properly investigating the companies
- Not preparing a will or trust, or not buying life insurance because they are afraid to discuss death

EMPOWER YOURSELF WITH FINANCIAL KNOW-HOW

One of the ways you can take action is to simply go online and complete the Money Smart Computer-Based Instruction (CBI), a friendly and easy to use learning tool that teaches the 10 modules of the Money Smart curriculum through a computer. The CBI can complement formal classes or enable people to study independently at their own pace. The program was developed by the Federal Deposit Insurance Corporation (FDIC) and is available in both English and Spanish.

Each module generally takes between 20-30 minutes to complete. Students receive ongoing feedback and, upon successful completion of each module, can print out a personalized certificate of completion.

For the link to the program, go to:

<http://www.fdic.gov/consumers/consumer/moneysmart/mscbi/mscbi.html>

Another great web resource is the site developed by the Community Action Partnership and the National Endowment for Financial Education. Go to this web page for lots of links to resources on managing your money.

<http://www.managingmymoney.com/>



TEST YOUR FINANCIAL LITERACY—

Test your financial literacy with the quiz below. Answers are below (upside down):

QUESTIONS:

1. A credit report is:

- a. A list of your financial assets and liabilities
- b. Your monthly credit card statement
- c. A loan and bill payment history
- d. Your credit line with your financial institution

2. In terms of credit, what does APR stand for?

- a. Annual Percentage Rate
- b. Annual Penalty Rate
- c. Annual Payment Rate
- d. Annual Payoff Rate

3. Who insures stocks in the stock market?

- a. The Federal Deposit Insurance Corporation
- b. The Securities and Exchange Commission
- c. The U.S. Department of the Treasury
- d. No one

4. True or False: Federal law gives you three days to cancel the purchase of a new or used car from a dealer.

5. True or False: The type of car you own affects the price you pay for auto insurance.

6. How many days does a creditor have to acknowledge your written complaint about a billing error?

- a. 30 days
- b. 60 days
- c. 90 days
- d. 120 days

7. If your credit card was lost or stolen and used to charge items you didn't authorize, you are responsible for what amount?

- a. Up to \$50
- b. Up to \$100
- c. Up to \$500
- d. All unauthorized charges

8. Negative financial information can stay on your credit report for:?

- a. 2 years
- b. 5 years
- c. 7 years
- d. 10 years

9. In financial transactions, a CD is a:

- a. Certificate of Debt
- b. Certificate of Deposit
- c. Citizen's Deposit
- d. Certificate of Collateral

ANSWERS:

Answer 1: c. A credit report is a loan and bill payment history.

It is kept by a credit bureau and used by financial institutions and other potential creditors to determine how likely it is that you will repay a future debt. Information in your credit report can affect your ability to get a job, a loan, a credit card or insurance. (Source: Federal Trade Commission; www.ftc.gov)

Answer 2: a. It stands for Annual Percentage Rate.

The APR is a measure of the cost of credit, expressed as a yearly interest rate. Usually, the lower the APR is, the better for you. (Source: Federal Trade Commission; www.ftc.gov)

Answer 3: d. No one.

Your investments in the stock market are not insured. Know the risks before investing in the stock market. (Source: Department of Financial Institutions, State of Wisconsin; <http://www.wdfi.org/yymm/kids/default.asp>)

Answer 4: False.

The law does not require dealers to give buyers a three day right to cancel. The right to return the car in a few days for a refund exists only if the dealer grants this privilege to buyers, but it is discretionary. Dealers may describe the right to cancel as a "cooling off" period, a money back guarantee, or a "no questions asked" return policy. Before you purchase a new or used car from a dealer, ask about the dealer's return policy, get it in writing, and read it carefully. (Source: Federal Trade Commission; www.ftc.gov)

Answer 5: True.

Your premium is based in part on the car's sticker price, the cost to repair it, its overall safety record, and the likelihood of theft. Many insurers offer discounts for features that enhance safety or prevent theft. These include air bags, anti lock brakes, daytime running lights, and anti theft devices. Some states require insurers to give discounts for cars equipped with air bags or anti lock brakes. (Source: Insurance Information Institute; www.iii.org)

Answer 6: a. The creditor has 30 days.

The creditor must acknowledge your complaint in writing within 30 days after receiving it, unless the problem has already been resolved. The creditor must resolve the dispute within two billing cycles (but not more than 90 days) after receiving your letter. (Source: Federal Trade Commission; www.ftc.gov)

Answer 7: a. You are responsible for up to \$50.

Your maximum liability under federal law for unauthorized use of your credit card is \$50. If you report the loss or theft before your credit cards are used, the Fair Credit Billing Act says the card issuer cannot hold you responsible for any unauthorized charges. If a thief uses your cards before you report them missing, the most you will owe for unauthorized charges is \$50 per card. If the loss or theft involves your credit card number, but not the card itself, you have no liability for unauthorized use. (Source: Federal Trade Commission; www.ftc.gov)

Answer 8: c. 7 years.

Accurate negative information generally can stay on your report for seven years; bankruptcy information may be reported for 10 years. (Source: Federal Trade Commission; www.ftc.gov)

Answer 16: b. In financial transactions, a CD is a Certificate of Deposit.

A CD in this case is a type of savings account that earns a fixed interest rate over a specified period of time. (Source: Federal Reserve Bank of Dallas; <http://www.dallasfed.org>)

40% of all U.S. Hispanics do not have checking and/or savings accounts or bankcards but they do have money to spend.

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