

# COUNTERING CONSUMER DEBT IN BROOKLYN:

Strengthening Communities by  
Raising Financial Literacy

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## Introduction

Since taking office in early 2014, my administration has been committed to improving financial literacy for all Brooklynites. Improved financial literacy is a crucial tool to achieving improved economic stability and ensuring that everyone benefits from Brooklyn's revitalization and prosperity.

According to the Journal of Consumer Research,<sup>1</sup> financial literacy is defined as the ability to understand how money works in the world: how someone manages to earn or make it, how that person manages it, how he or she invests it and how that person donates it to help others. According to the National Endowment for Financial Education, the level of financial education a person obtains and when it is introduced directly correlates to more positive financial decisions, with education closely preceding a financial decision creating the greatest positive effect.<sup>2</sup> This behavior will determine a person's overall ability to manage bills and debt, take out loans, and govern living expenses.

My Administration's goal is to assist Brooklynites achieve financial security through education, outreach, and support, as well as by connecting them to existing programs and resources that can provide the aforementioned tools. My office has led the way in promoting free initiatives, workshops and seminars to help educate Brooklyn residents about the importance of good credit and financial literacy. These free workshops, however, are a drop in the bucket when faced with the fact that only \$2 is spent on financial education for every \$54 that's spent on financial marketing.<sup>3</sup>

This imbalance is one of the leading reasons that Brooklynites have a low financial literacy rate and high indebtedness.

My office is always looking for ways to help Brooklyn residents make financially sound decisions and learn ways to better manage their money, and to protect our vulnerable Brooklynites from financial scams. This report is focused on reducing consumer debt, an issue which statistics show is an anchor hanging around the neck of our borough's residents, particularly our younger residents.

According to the Federal Reserve of New York, Brooklynites<sup>4</sup> far surpass the rest of New York City, the State and the Country<sup>5</sup> in serious delinquent credit card debt and mortgage delinquency.

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<sup>1</sup> See Markus Giesler and Ela Veresiu, *Creating the Responsible Consumer: Moralistic Governance Regimes and Consumer Subjectivity*, 41 *Journal of Consumer Research* 840-857 (October 2014).

<sup>2</sup> National Endowment for Financial Education, *Examining Financial Education: How Literacy and Interventions Affect Financial Behaviors – Executive Summary* 2 (2014).

<http://www.nefe.org/Portals/0/WhatWeProvide/PrimaryResearch/PDF/Meta%20Analysis%20Singles%20March%2011.pdf>.

<sup>3</sup> Consumer Financial Protection Bureau, *The CFPB Finds Financial Education Programs are Significantly Outspent by Financial Marketing* (Nov. 18, 2013). <http://www.consumerfinance.gov/newsroom/the-cfpb-finds-financial-education-programs-are-significantly-outspent-by-financial-marketing/>.

<sup>4</sup> See Federal Reserve Bank of New York, *Regional Household Debt and Credit Snapshot: Brooklyn*, Quarter 2, 2015. <http://www.newyorkfed.org/regional/regional-hhdc/HHDC-Brooklyn-2015Q2.pdf>

<sup>5</sup> *Id.*

Roughly 17 percent of our borough's consumers are carrying loans which are 90 days or more past due. This delinquency often leads to lower credit scores and a reduced ability to do things like buy a home or start or expand a business.

Brooklyn's delinquency in credit card debt is almost 2 percent higher than the national average while the percentage of Brooklynites who are past due by 90 days on mortgage payments is nearly 4 percent higher than the national average. This is why my office announced a goal of reducing Brooklyn's credit card and mortgage delinquency by four percent in four years. The Four in Four plan will bring Brooklyn below the national average on these critical measures and, in the process, strengthen and empower Brooklynites in all aspects of their financial futures.

## Causes of Brooklyn's Poor Credit

To identify how Brooklynites have fallen into this credit crisis as well as highlight potential solutions to the challenges increased debt burdens place on residents, a financial education survey was distributed by email to leading Brooklyn financial education advocates.

According to their responses, several challenges were identified that hinder the maintenance of good credit including:

- *Lack of Economic Opportunity:* Brooklyn's economy is booming. In just the past four years, Brooklyn has seen an 11 percent increase in the number of businesses, a 9 percent increase in the number of jobs, and a nearly 10 percent growth in total wages.<sup>6</sup> Yet, despite this growth, pockets of poverty exist throughout the borough which is also home to New York City's poorest census tract.<sup>7</sup>
- *Lack of Basic Financial Education:* Many residents fail to understand the concepts of money and credit, and how it affects one's long-term finances. In addition, many residents do not understand the importance of budgeting, insurance, and accounting for potential emergencies. There are also many that do not understand that credit has to be paid back with cash. The lack of knowledge on how to effectively manage personal finances has continuously prevented residents from improving their credit. A dearth of understanding about the importance of good credit, how credit works, and how good credit can help with long term savings continues to be a challenge as well. Not knowing how to save, inefficient use of tax returns and the lack of understanding about compound interest and how it affects consumers are additional contributing factors that impact the credit of Brooklyn residents.
- *Living Beyond Available Means and Poor Money Management Habits:* Some residents do not make enough money to support their personal lifestyles, accruing credit card debt which presents difficult choices that include deciding to pay bills, rent or other monthly living expenses. External factors like rapid gentrification in Brooklyn have exacerbated this challenge. Increasing costs of living in these neighborhoods have not been met with similar increases in income, further hampering the affordability of daily life and straining limited household budgets. According to "Gen Y Planning", only 40 percent of adults create a budget to track their spending, and three-fourths of American families say they live paycheck-to-paycheck.<sup>8</sup>
- *Lack of Communication:* Poor communication among family members about money issues often presents challenges. According to "Gen Y Planning", money issues are a

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<sup>6</sup> NYS Department of Labor, *Quarterly Census of Employment and Wages* (2014).  
<http://www.labor.ny.gov/stats/lscqew.shtm>.

<sup>7</sup> Winnie Hu, *Guardian of a Brooklyn Housing Project*, NY Times (Sept. 25, 2014).  
<http://www.nytimes.com/2014/09/28/nyregion/guardian-of-a-brooklyn-housing-project.html>.

<sup>8</sup> Sophia Bera, *The Scary State of Financial Literacy in America*, DailyFinance.com (Apr. 18, 2014).  
<http://www.dailyfinance.com/2014/04/18/the-scary-state-of-financial-literacy-in-america/>.

leading cause of family strife.<sup>9</sup> Too often, discussions about family budgets devolve into stressful conversations and infighting. According to our survey responses, there is a need for families to be able to discuss money and financial solutions in a constructive manner.

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<sup>9</sup> Sophia Bera, *Couples & Money: Those Dreaded Words, "We Need to Talk"*, Genyplanning.com (Feb. 19, 2014). <http://genyplanning.com/2014/02/19/couples-money-those-dreaded-words-we-need-to-talk/>.

## Recommendations

There are several ways that Brooklynites can strengthen their credit and reduce debt. Improvements to credit scores and reduced debt depend on three actors:

- Government policymakers
- Financial institutions
- Individuals themselves

Achieving the Four in Four goal my administration has set will, in large part, be the result of increased education. Council Member Mark Treyger has led efforts to ensure that the Department of Consumer Affairs is outreaching to young adults about financial education, and other efforts by consumer advocates and financial institutions to educate consumers on financial literacy are admirable, but more must be done to garner support from government institutions to integrate and formalize financial education into all aspects of society. For example, New York State law only requires one-half of a credit in economics for high school students, part of which can include personal financial education. This requirement should be expanded to include a full semester of high school dedicated solely to personal financial education and literacy.

However, financial institutions must also do more to incentivize savings for individuals and families. For example, banks can more robustly partner with schools to provide financial education courses. In addition, banks can seed savings accounts for low-income students who participate in financial literacy courses. Both actions will go a long way towards financial literacy and strength.

Finally, individuals must also become more financially responsible. Learning how to better balance budgets and prioritize paying-down debt to improve credit worthiness will go a long way towards ensuring that our families are on firm financial footing.

To achieve greater financial security, we need a multi-pronged approach to financial literacy and education. Brooklyn Borough Hall will work to promote these efforts and will:

- Develop tailored community profiles and financial education strategies for each of Brooklyn's distinct neighborhoods
- Continue to work with financial institutions and credit agencies, New York City Housing Preservation and Development (HPD,) housing non-profits, faith based institutions, and other stakeholders to provide financial educational workshops at Borough Hall
- Partner with local, state, and federal regulators to help eliminate predatory lending practices, like payday loans, that are still an issue in Brooklyn
- Develop Public Service Announcements on the issue of consumer debt
- Work to connect constituents to programs like New York's 529 College Savings Program
- Promote workshops on financial literacy to houses of worship, residents of New York City Housing Authority apartments and those in supportive housing
- Connect residents to groups, like the Center for New York City Neighborhoods, that assist constituents in securing mortgage modifications

However, more can – and should – be done, including:

**Other Government Policymakers:**

- Support S2899, which would require that a financial literacy course be taught to high school juniors and seniors in New York State
- Support S2150 and A1101, which would allow social service districts to provide education or a course of instruction in financial literacy and personal finance to those receiving Temporary Assistance for Needy Families (TANF) benefits
- Provide funding to expand the New York State Attorney General’s *Consumer Smarts Program* to all high schools in New York State
- Urge the NYC Department of Youth and Community Development to establish a peer-to-peer financial literacy program akin to the Children’s Aid Society Hope Leadership Academy
- Support additional funding to expand programs in NYC’s Department of Consumer Affairs Financial Empowerment Centers
- NYC Department of Consumer Affairs should work with an “Annual Financial Checkup” Campaign to institutionalize financial planning into community planning and development

**Financial Institutions:**

- Offer cash deposits for maintaining a certain savings balance for over 30 days to encourage additional saving
- Create a “Challenge Grant” program where financial institutions partner with registered non-profits to incentivize college savings for low-income students in Brooklyn
- Create an “Adopt-a-School” program where financial institutions partner with schools to provide financial education courses and open basic savings accounts to students who successfully complete the course

**Individuals:**

- Enroll in a financial education program
- Research individual credit scores, credit reports, and financial obligations
- Create a personal or family budget
- Track 30 days of personal spending
- Pay bills on time and in full whenever possible
- Educate children on financial literacy and responsibility

## Conclusion

Restoring the good credit of Brooklynites and ensuring that we are all financially literate will not take place overnight. However, we can achieve my Administration's Four in Four goal if we act strategically to promote financial education at the various policy levels, encourage financial institutions to act responsibly and be good members of our communities and make certain that individuals are proactive in ensuring that their household budgets are sound. I look forward to working with my partners in government, Brooklyn's financial institutions, non-profits working in this sector, and individuals to make this goal a reality in the years to come.

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