Testimony of Sheri Ekdom
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Senator Johnson, before I begin my testimony, on behalf of Lutheran Social Services of South Dakota, I would like to recognize your upcoming retirement, your work as a South Dakota legislator early on as you began your career, and now nearly 30 years of service as a Congressman and Senator from South Dakota. We thank you for your tireless efforts - especially your dedication to those underserved populations who have limited resources and means. Over the years, you allowed their voices to be heard and their lives improved. Your work has made a difference and we thank you for that.

Chairman Johnson, Ranking Member Crapo, and members of the Committee,

Thank you for inviting me to testify this morning on the topic of assessing and enhancing protections in consumer financial services. For the past 22 years, I have worked in the financial counseling and education industry. I am currently the director of the Center for Financial Resources at Lutheran Social Services of South Dakota.

LSS has provided financial counseling and education services since 1984. Our agency is a member of the National Foundation for Credit Counseling, a HUD-approved housing agency, accredited by the Council on Accreditation (COA), and an approved provider of bankruptcy counseling and education under the Department of Justice Executive Office of US Trustees.

LSS provides financial counseling and education designed to help consumers take control of their financial future. Services include: financial management and budgeting sessions, debt management programs, bankruptcy counseling and education, and credit report and student loan consultations. Housing counseling and education is available to renters, first-time homebuyers, homeowners and those seeking to prevent or resolve housing delinquency or default issues. Since long-term financial success often means making deliberate changes to priorities and lifestyles, LSS offers a full range of education products on topics to promote financial literacy and complement financial counseling and debt management programs.

Products offered are both reactive, as in the case of working through a financial crisis, and proactive, for those seeking to prevent money problems or plan ahead for their future financial goals.

At the Center for Financial Resources, we work with people from all age and income levels – although the majority of clients seen (69%) fall in the low-to-moderate income (LMI) range. Client ages for counseling sessions for last year ranged from 18 to 92, with the majority of our clients falling in the 31- to 45-year-old age bracket.

When people come into our office, the most common "primary causes of financial problems" include poor money management, reduced income, separation or divorce, excessive spending, unemployment and medical issues.

A number of factors put many South Dakotans at risk for a financial crisis:

- 54% of South Dakota households have difficulty covering their expenses and paying bills.

- 17% of South Dakota households spent more than they made during the last year, even excluding major purchases like a car.
- 57% of individuals don't have an emergency fund in case of unexpected expenses or a job loss.
- 32% have borrowed from a non-bank source such as a payday loan, title loan, or pawn shop.[1]

- 22% of South Dakota households are under banked - they have a bank account but routinely use non-bank services such check-cashing services, payday lenders, and title loans.
- 46% of South Dakotans have sub-prime credit ratings – without good credit, consumers pay higher interest rates than other consumers on everything from credit cards to car loans to mortgages
- The average South Dakotan owes $6,666 in credit card debt.[2]

- South Dakota ranks 48th in the nation for the average weekly wages earned by workers.[3]
- 6.9% of South Dakotans are unemployed or underemployed. In addition to those people who are counted in the official unemployment rate, this also includes people who have given up looking for work, or who want to work full time but have only been able to find part-time work.[4]
- South Dakota ranks first in the nation for the percentage of workers who hold more than one job (8.9%).[5]

South Dakota is home to nine Indian reservations and has one of the highest concentrations of Native Americans at the state level. The latest Census figures report that Native Americans or Alaska Natives compose just over 10% of the state's population, the majority of whom reside on reservations.

The challenges faced by residents of South Dakota reservations have been well documented. Limited employment opportunities, generational poverty, and geographic isolation make it difficult for families to become financially stable. Despite the tribes' and state's economic development efforts, the people living on these reservations still have significantly lower income and home ownership rates, and higher poverty rates than the rest of South Dakota. Although numerous reservation communities across the country suffer from high rates of poverty and unemployment, five counties in South Dakota in which reservations are located rank in the top 25 counties with the highest poverty rates for the entire US. The overall poverty rate in the five counties ranges from 39.2% to 47.4%, compared to the state poverty rate of 13.6%.[6] Of the financial counseling clients we have seen on reservation communities, most have been unbanked. This makes them susceptible to predatory products such as payday loans and title loans.

The following issues describe some of the most significant financial challenges we see in our work:

- Low wages and underemployment remain significant issues for South Dakotans.
    - The majority of clients seeking assistance for financial counseling are insolvent (their income does not cover their living expenses). Clients coming into our office have high debt levels with little or no savings. For families living paycheck to paycheck, this combination leaves them lacking the means to deal with financial emergencies and limits access to low-cost loans or financial products.

- The flow of needed credit to credit-worthy homebuyers has tightened as traditional banks, both large and small, navigate new regulator expectations under Dodd-Frank.

- There are many individuals that do not understand the ramifications of using short-term or payday loans as an attempt to resolve long-term issues. The individuals could benefit from education on the consequences if misuse of the loans occurs and discussion of other options to prevent a similar financial crisis in the future.
    - About 13% of households we counsel struggle with payday loans:
        - 55% of these clients had 2 or more payday loans; 20% had four or more payday loans
        - For clients with 7 or more payday loans, the average balance per loan was $758
        - Annual interest rates from 100% to 400% can compound these payday loan debts to unmanageable levels.

- Low-income housing options remain scarce.
    - Since the demand for housing assistance often exceeds the limited resources available to HUD and the local housing agencies, long waiting periods are common and South Dakota is no exception with 6,000 people on waiting lists. On average, those seeking rental assistance can expect to remain on a waiting list for three to five years. The lack of safe, affordable housing is particularly severe on Native American reservations.
    - Landlord – tenant issues are common. We receive calls daily from consumers with questions about pending evictions, confusion on lease issues and fair housing issues. Many times we see low- to moderate- income individuals have fewer resources available to stand up to unfair practices or have a lack of understanding of their rights or responsibilities.

- Medical debt –medical issues and medical debt are one of the top reasons consumers seek our assistance.
    - Consumers may have trouble navigating the medical billing process (i.e. when has insurance or other coverage paid – when are they responsible).
    - One medical "event" may generate multiple bills from multiple providers; invoices may be received for many months before the billing is complete.

- Debt collection – consumers are quite often afraid and intimidated by tactics used to collect payments; many are unsure how to verify/dispute collection items; many don't understand debt/divorce situations, or the risks and responsibilities of co-signing a loan.

- Credit reporting – many LMI consumers seek assistance on how to build a credit report; how to improve their credit score; how to obtain free reports and how to insure accurate information is on the reports; some fall prey to credit repair scams that do little more than dispute accurate, negative information and charge a high fee.

- Many consumers are ill prepared for retirement – 36% of people in the US have no retirement savings; this includes 26% of adults between the ages of 50 and 64 – one of the most crucial age groups for retirement planning and saving.[7]

- We continue to see consumers with high debt levels. The average client coming to see us with debt-related issues owes 10 creditors $28,227 in unsecured debt. Student loan debt, now the second-largest form of consumer debt and growing, is also an area of concern for many consumers and an area that seems to be garnering significant national attention as we seek solutions for over-extended borrowers.

The Consumer Financial Protection Bureau (CFPB) and Federal Trade Commission websites are helpful in our work as we strive to protect consumers by sharing educational tools and keeping us abreast of changes within the consumer protection arena. Asking consumers to "tell their story" and tracking consumer complaints positions the CFPB to quickly identify trends and respond appropriately. We have referred a few clients directly to the CFPB with housing complaints; they were pleased with the responsiveness the Bureau and indicated they felt "heard."

The CFBP could assist us further in our work by making referrals to or partnering with community-based, state and federal resources poised to help consumers deal with their financial issues to ensure a better chance of success. By continuing to provide links and information on their website such as "How to Choose a Credit Counselor" or "How to Locate a Housing Counselor," we can insure that as people look for ways to stabilize or improve their financial situation they are aware of help that is available to them. It also empowers clients to self-select and be armed with the proper questions so they receive the help they need from a trusted source.

Having provided some context on the issues we see consumers dealing with on a daily basis, I would offer the following recommendations to enhance financial protections related to consumer financial services:

1. Limit the number of short-term loans consumers may access at one time

We recognize there are situations when consumers need access to small dollar credit; the trouble typically comes when consumers have multiple short-term loans at one time that exceed their ability for repayment. With the wide availability of online options, it would seem that a limitation on multiple loans would need to come from a federal level.

It may also be worth considering a requirement for short-term lenders to provide customers with information on available financial education services from a neutral third party that is not selling the financial product.

2. Support and promote community-based financial education
(Assist with incentives to encourage attendance and discourage conflicts of interest related to providing the education)

We know that education works! For example, a recent study suggests that pre-purchase financial counseling may reduce, by an average of 29 percent, the likelihood of a first-time homebuyer becoming seriously delinquent.[8]

- Most of the LMI consumers that attend a pre-purchase class initially register as they need to complete the class in order to receive a certificate of completion that may allow them to qualify for various down payment or closing cost assistance programs. This may be the "carrot" that prompted them to register. We need to help consumers understand the "what is in it for me" as we seek to increase financial responsibility and empower consumers to take control of their

finances. Whether we are training youth on managing money or becoming a first-time renter, or assisting consumers in understanding how to build a better credit record, incentives that encourage consumers who may not otherwise attend a class to show up may ultimately not only increase their financial knowledge but their financial situations.

- Although education is often called the gateway to success, many are hesitant to take that first step. If you are unaware of options available, you may not be able to see the value that financial literacy training can provide. Incentives along with education sessions may open the door for individuals to gain awareness, discuss their issues and proactively learn lessons that may otherwise be taught as the hard and unforgiving consequences of money management mistakes (i.e. evictions, repossessions, NSF fees etc.).
- Our issue today is not a lack of good, quality accurate education materials; our issue is getting that information into the hands of consumers in a format they desire and that they can understand and digest. Just because we "build it" – does not mean they will come. We need to determine methods and motivations so people will hear the information that can change their financial futures.
- Insuring that consumers receive education prior to some of the largest purchases in life (i.e. homes, cars, student loans etc.), from a neutral third party that is not selling the financial product, also ensures that consumers are able to make decisions about big-ticket items fully educated and without the pressure of any sales tactics.

Thank you for the opportunity to testify.

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[3] U.S. Department of Labor Bureau of Labor Statistics, Covered Establishments, Employment, and Wages by State, Fourth Quarter 2013. http://www.bls.gov/news.release/cewqtr.t03.htm

[4] U.S. Department of Labor Bureau of Labor Statistics, Alternative Measures of Labor Underutilization for States, Third Quarter of 2013 through Second Quarter of 2014 Averages. http://www.bls.gov/lau/stalt.htm

[5] U.S. Department of Labor Bureau of Labor Statistics, Multiple Job Holding in States in 2013, Monthly Labor Review, August 2014.

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[8] Tsien, Freddie Mac, Executive Perspectives-Insights on Housing Finance, Pre-purchase Counseling is Getting Better all the Time, April 15, 2013. http://www.freddiemac.com/news/blog/robert_tsien/20130415_getting_better.html