Financial Literacy a 'Civil-Rights' Problem?

By S. Mitra Kalita

Today's article on the credit crunch among lower income groups highlights a problem that is forcing cities to quickly respond.

"This is the new civil-rights problem of our century," said William Porro, special projects administrator for the city of Miami, which has been introducing programs to improve financial literacy among residents. "It is a reset point because people have realized they cannot live in a consumer-based mentality."

Anticipating that tight credit conditions at the bottom will persist, even as the economy improves and credit once again loosens up, cities from New York to San Antonio are adding financial counseling centers. In New York City, the newly hired counselors bargain with bill collectors on debtors' behalf — and then work with families to follow a budget, to force choices they have not had to make in years. Half their clients have incomes under $10,000. Average debt load is $18,000.

An analysis of credit scores by Sumit Agarwal, an economist at the Federal Reserve Bank of Chicago, found great vulnerability among those with the lowest scores, from paying more fees for credit cards to greater variation in rates.

"This is the most vulnerable population. If they miss a payment, it will raise their rates, reduce their limits," he says. "Is there a de-democratization of credit? Clearly, yes."

Forced frugality is pinching spending. And the bottom two-fifths began cutting spending earlier than higher income groups, according to the Bureau of Labor Statistics' Consumer Expenditure Survey. Between 2006 and 2007, the bottom quintiles spent 5% less on eating out and 11% less on apparel and services, while spending by upper-income groups was stable or up. Between 2007 and 2008, in the categories where Americans curbed spending, such as new cars and household furnishings, they did so more evenly across income groups.

Unemployment has compounded many Americans' financial difficulties, and rarely is debt the only problem, says Elisabeth Mason, chief executive of Single Stop USA, a nonprofit that works with government agencies to reduce poverty and help the needy access benefits such as food stamps, tax credits and health insurance. At one center in Brooklyn on a recent day, those seeking help recounted a litany of problems: foreclosures, identity theft and disability.

It took, for example, the threat of eviction for Norman and Ann Browman to finally stop smoking.

Together, the couple earns about $35,000 annually, cobbled together from disability payments and Mr. Bowman's odd jobs as a toll collector and driver. Despite the recession, their income levels have remained steady. But their lifestyle has undergone a complete turnaround.

Mrs. Browman used to buy expensive Italian meats and cheeses. Mr. Browman liked brand-name shoes.

Those days are gone as the Browmans try to untangle themselves from a financial mess. At its core is debt: used to pay for everything from groceries to computer classes.

By comparison to some Americans, the Browmans aren't in a lot of debt. Just about $3,000 — under a tenth of their income. But it is getting out of it in the middle of the tightest labor market he's ever seen, Mr. Browman says, that keeps him up at night.