Legislative Testimony

Senate Bill 381: Task Force on Financial Security

April 7, 2015

Testimony before the Senate Committee on Revenue and Economic Development
Prepared Statement of the Kenny Guinn Center for Policy Priorities

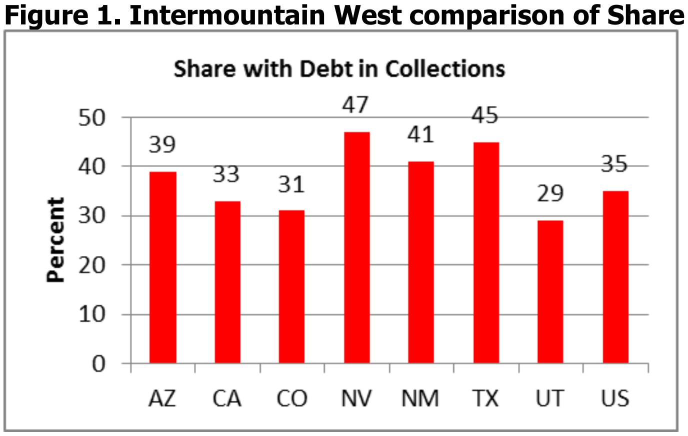
Introduction

The Kenny Guinn Center for Policy Priorities has published several policy-related pieces on the economic and financial security of families in Nevada and the Intermountain West.[1] Among these is a comprehensive report assessing the *State of Latinos in the Intermountain West* in which we explored the issue of access to capital and financial and economic security across the Intermountain West.

Great Recession Adversely Impacted Economic and Financial Security of Households in Nevada

- Following the Great Recession, the net worth of households fell across the nation. In 2009, the median net worth of white households nationally was $113,149, representing a 16 percent decrease from 2005 levels; the net worth for African Americans was $5,677, representing a 53 percent decline from 2005 levels; and the net worth for Latinos was $6,325, representing a 66 percent decline.[2]
- Poverty rates for families with children under age 18 have increased after the recession. Nevada had the lowest poverty rates in the Intermountain West region prior to the recession; after the recession, Nevada had the largest increases in poverty.
- As unemployment rose and income fell, foreclosures rose to alarming levels during the recession. Nevada had the largest spike in foreclosure rates in the region. Nevada's foreclosure filing rate grew from 1.5 percent in 2006 to a high of 13.9 percent in 2009. Nevada ranked first in the nation for foreclosure filings for five years in a row from 2007 to 2011. By 2013, Nevada's foreclosure filing rate had decreased to 3 percent.
- Nevada, which was hard hit by the housing crisis, tops the list of states with high rates of delinquent debt: 47 percent of people with a credit file have reported debt in collections (see Figure 1). In addition, "Nevada not only has the largest share of people with reported debt in collections (47 percent), it also has the highest average amount of debt in collections, among people with debt in collections ($7,198)."[3]
- Additionally, Nevada's bankruptcy rate (4.8) of is higher than the national average (3.3).

Figure 1. Intermountain West comparison of Share of Population with Debt in Collections



[1] The State of Latinos in the Intermountain West (June 2014); Nevada Tops States in Delinquent Debt (August 16, 2014)
[2] Rakesh Kochhar, Richard Fry, and Paul Taylor. July 26, 2011. Wealth Gaps Rise to Record Highs Between Whites, Blacks, Hispanics Twenty-to-One. http://www.pewsocialtrends.org/2011/07/26/wealth-gaps-rise-to-record-highs-between-whites-blacks-hispanics/
[3] Caroline Ratcliffe, Signe-Mary McKernan, Brett Theodos, Emma Kalish, Delinquent Debt in America. July 2014. Urban Institute.

Nevadans Lack Financial Literacy Skills

A number of studies suggest that Nevadans have low levels of financial literacy. Nevada's residents may not take advantage of existing financial instruments or may use instruments that undermine long term strategies to build wealth.

- The percentage of Nevada consumers that hold subprime credit (66.6 percent) is higher than the national average (55.6 percent).
- Nevada has the third lowest Earned Income Tax Credit (EITC) participation rate in the country, followed only by Oregon and California.[4] Eligible families who do not participate in EITC are foregoing resources they could use to improve their financial security.
- Nevada was recently ranked 50th in financially literate states.[5] Nevada received a low score because of the high numbers of residents with poor financial literacy (knowledge and education) skills and poor financial planning and spending habits.
    - Nevada (along with South Carolina and Oklahoma) have the highest percentage of citizens (40 percent) who borrow money from non-bank lenders (e.g., payday loan lenders).

Providers of Financial Services in Nevada are Limited

Contributing to the overall lack of financial and economic security of Nevada's families is the reality that there are fewer providers of financial services in Nevada than in other states in the Intermountain West region.

- Community development financial institutions (CDFIs), for example, can provide additional financial resources to communities, individuals, and entrepreneurs. CDFIs "provide a unique range of financial products and services in economically distressed target markets, such as: mortgage financing for low-income and first-time homebuyers and not-for-profit developers; flexible underwriting and risk capital for needed community facilities; and technical assistance, commercial loans and investments to small start-up or expanding businesses in low-income areas."
    - CDFIs include regulated institutions such as community development banks and credit unions, and non-regulated institutions such as loan and venture capital funds.
- There is tremendous variation in the number of CDFIs operating in states in the Intermountain West. California has the greatest number of CDFIs. Nevada, however, is the state with the fewest number of CDFIs (see Figure 2). The lack of CDFIs in Nevada reveals a missed opportunity to provide residents with financial instruments and tools to build their asset base.
- In addition, there is tremendous variation in the number of microenterprise institutions that operate in the Intermountain West. In 2010, California boasted 40 microenterprise institutions that served over 25,000 individuals and more than 10,000 businesses. Utah only has one microenterprise institution. In 2010, Nevada had only microenterprise. But the arrival of Accion International in 2014 has increased the number of microenterprise institutions operating in Nevada to two. The 2011 Kauffman Index of Entrepreneurial Activity ranked Nevada 7th in the nation on entrepreneurial activity. The lack of microenterprise institutions in Nevada suggests a missed opportunity to provide entrepreneurs, as well as others, with opportunities to start and grow their businesses.

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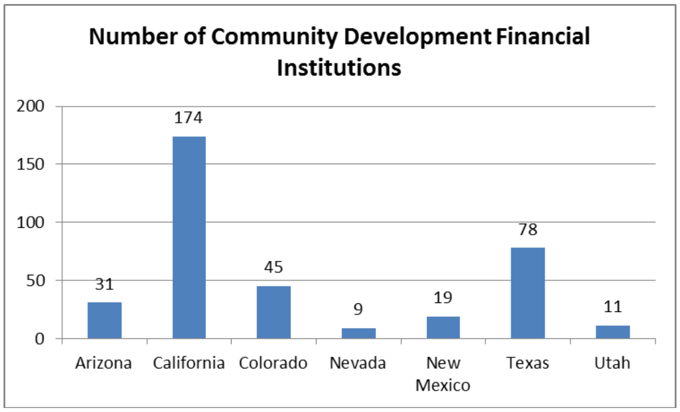
[4] http://www.eitc.irs.gov/EITC-Central/Participation-Rate

[5] John S Kiernan. April 2015. 2015's The Most & Least Financially Literate States in America. http://wallethub.com/edu/most-and-least-financially-literate-states/3337/; Jonnell Marte. April 3, 2015. Are the people in your state good with money? *Washington Post*. http://www.washingtonpost.com/news/get-there/wp/2015/04/03/are-the-people-in-your-state-good-with-money/

Figure 2. Number of Community Development Financial Institutions in the Intermountain West



Recommendations

1. Establish a state-wide Task Force on Financial Security to evaluate the financial and economic security of all families in Nevada.
2. The Task Force on Financial Security should:
   a. Examine the state of financial and economic security of Nevadans over time and in relation to other states;
   b. Assess the institutional and structural barriers that exist and which limit financial institutions (such as community development financial institutions) from locating in Nevada;
   c. Identify best practices around the country that can help Nevadans improve their financial and economic security; and
   d. Identify specific policies and programs that can help Nevadans improve their financial security and build wealth.

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