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IMPROVING FINANCIAL LITERACY: WORKING TOGETHER TO DEVELOP PRIVATE SECTOR COORDINATION AND SOLUTIONS

HEARING

BEFORE THE

SUBCOMMITTEE ON
FINANCIAL INSTITUTIONS AND CONSUMER CREDIT

OF THE

COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

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IMPROVING FINANCIAL LITERACY: WORKING TOGETHER TO DEVELOP PRIVATE SECTOR COORDINATION AND SOLUTIONS

Thursday, September 28, 2006

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS
AND CONSUMER CREDIT,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:01 a.m., in the Rayburn House Office Building, Hon. Spencer Bachus [chairman of the subcommittee] presiding.

Present: Representatives Bachus, Biggert, Sanders, Maloney, Moore, Carson, Hinojosa, and Baca.

Mrs. BIGGERT. [presiding] This hearing of the Subcommittee on Financial Institutions and Consumer Credit will come to order. Without objection, all members' opening statements will be made a part of the record.

The chairman, Mr. Bachus, is here, but we traded places for the moment. I will recognize myself for 5 minutes.

I would like to thank Chairman Oxley and Chairman Bachus for agreeing to hold this hearing, and for their leadership on an issue that is near and dear to all of our hearts, financial literacy and economic education. I would also like to thank our witnesses, who represent some of the most active groups and effective programs in the country.

I know many of you and your programs, and I know your insight will be invaluable to the committee. One particular witness today also happens to be a constituent from my district in Napersville, Illinois: Carl Sorgatz, who is here representing CUNA. Thanks to all of you for joining us.

One of the first things that I did when I was elected to Congress back in 1998 was to go down to the Federal building in Chicago to observe the proceedings of the bankruptcy court. And I was struck by how many people who had gotten themselves into trouble, and they might never have, had they had had just one parent, a counselor, a teacher, or a friend, who taught them the basics of money and credit.

In part, that is why we are here today, to make sure that we are effective in reaching those Americans who need us, whether they are school children, young adults, working families, or senior citizens. The witnesses here today demonstrate that there is no lack of interest in doing just that.

When my friend and colleague, Ruben Hinojosa, and I founded the Congressional Caucus on Financial Literacy, we quickly learned how interested our colleagues are. Seventy-nine members of the House have now joined the caucus. And we literally began to hear from hundreds of private and public sector groups, not to mention government agencies with programs designed to serve the needs of these specific groups of Americans.

But with so many organizations mobilized, so many unmet needs, and so many people asking what they can do to help, we urgently need to develop ways to coordinate our efforts, eliminate duplication programs, and keep pace with new demands.

On the Federal level, we created, under the FACT Act in 2003, the Financial Literacy and Education Commission, FLEC, housed at the Department of Treasury. Its mission was threefold: coordinate Federal efforts; create a hotline and Web site; and develop a national strategy to promote financial literacy among all Americans.

In April, the commission released its report, aptly titled, "Taking Ownership of the Future." That's a good first step, but we need your help and your advice, as we move forward. I think my colleagues here would agree that this committee is 100 percent committed, in a non-partisan way, to doing whatever we can to meet the challenge. In virtually every bill that crosses our desks, we are conscious of the need to educate and inform and elevate the level of financial literacy in this country.

So, I look forward to hearing your views on a number of questions. First is, what works and what doesn't work? Where are the gaps? How could we tap into the private and nonprofit and local government efforts, and bring them into the Federal fold? Would a universal clearinghouse be helpful? What roadblocks are you facing? How can we answer those who want to join the effort when they ask us how they can help?

All of you have great stories and insights. We have a lot to cover in a short time. So, unfortunately, it is not possible to include every contributing organization in this hearing today, and I cannot mention all of them. But I did want to thank the American Institute of Certified Professional Accountants for their report, "360 Degrees of Financial Literacy," and for their national effort to improve the financial understanding of Americans. The AICPA is yet another national organization doing an outstanding job in improving financial literacy.

So, thank you all again, and I will recognize the ranking member, Mr. Sanders, for an opening statement.

Mr. SANDERS. Thank you, Madam Chairwoman, and thank you, Mr. Bachus, for holding this important hearing. Clearly, the lack of financial literacy in this country is negatively impacting the economic wellbeing of millions of Americans.

The truth is that 25 years ago, all that was needed to become financially literate in this country was a basic understanding of how to balance a checkbook and how to manage a savings account. Unfortunately, that is not the case today.

Each and every year, consumers are being bombarded with over six billion—and I have one of them here—credit card proposals—six billion solicitations in mail. Many of these solicitations are

highly deceptive and misleading. In addition, a significant number of consumers who receive financing from payday lenders are unaware that the interest rates on their loans can total as high as 700 percent.

And anyone who has ever borrowed money to purchase a home realizes how complicated the mortgage lending process can be, for even the most astute consumer. Unfortunately, it seems that one has to have a law degree these days in order to understand all of the hidden transfer costs, the excessive late fees, and exploding interest rates that are being charged by not only predatory lenders, but also some of the most "reputable banks" in America.

It shouldn't come as a surprise, therefore, that consumers aged 45 and older often lack the knowledge of basic financial and investment terms, according to a national survey conducted by AARP. Our young adults are in a similar situation; in a survey by the Jump$tart Coalition, high school seniors correctly answered an average of only 52 percent of questions on basic personal finances.

Meanwhile, a number of trends in recent years have underscored the importance of financial literacy in everyday life. Since the second quarter of 2005, the personal savings rate has reached a level of roughly –1 percent—something that hasn't happened since the Great Depression. A record breaking two million Americans filed for bankruptcy last year. In fact, bankruptcy rates have more than quadrupled over the last 20 years, etc., etc.

Mr. Chairman—or Madam Chairwoman—clearly, we must do more to increase financial education in this country. But I would emphasize that while financial education is important, it is only part of what we have to do. I am growing increasingly concerned that some in the financial services industry are using the lack of financial literacy in this country as a way to receive a get-out-of-jail free card, if you like, for some of their blatantly deceptive and misleading tactics.

In other words, financial literacy, yes. But we must also, through this Congress, stop the deceptive advertising that is permeating American society. For example, in my view, the credit card industry, payday lenders, and others should not be allowed to charge outrageous interest rates and sky-high fees. And that's why I have introduced legislation called the Loan Shark Prevention Act.

Now, let me conclude, and tell you why we need to go beyond financial literacy. Right here, I have a proposal from American Express, which a staff member of mine recently received. And there it is, right in there, it says, "Zero introductory APR. Pay no interest on new purchases for the first 12 months." There is a little footnote there, go to footnote four, "See enclosed terms and conditions for details."

Well, you go, here is one of these long, single-spaced, tiny-worded documents, and there it says, "The terms of your account, including APRs, are subject to change. The APRs for this offer are not guaranteed. APRs may change to higher APRs; fixed APRs may change to variable, or variable APRs may changed to fixed; we may change the terms, including APRs, at any time for any reason."

We may change it for any time and any reason, but they just told us in big print that you get zero interest? Now, you tell me what that is. I regard it as fraud. And we can have—and there are some

six billion of these things that are sent out to American consumers all over America. I used to think I got all of them, but apparently some of you are getting them, as well.

So, Madam Chairwoman, financial literacy is extremely important. But this Congress has to finally stand up to the credit card industry, it has to stand up to the banks, and it has to stand up to the people who are ripping off American consumers in a very deceptive and dishonest way. Thank you, Madam Chairwoman.

Mrs. BIGGERT. The gentleman yields back, and now I am happy to recognize the chairman of the subcommittee, Mr. Bachus.

Chairman BACHUS. [presiding] Thank you. Today's hearing was requested by Mrs. Biggert. And that's appropriate, because Mrs. Biggert has really been the leader on our committee in stressing the need for financial literacy.

As all of our panel knows, it is increasingly important for people to have a working knowledge of credit cards, of mortgage products, and even of investment plans. And this committee has—and Mr. Sanders mentioned—seen a lot of evidence. And when we go out in our community and talk to our constituents, we hear many heartbreaking stories about people who lacked financial literacy and really, not only the problems it creates, but in some cases the devastation that it creates.

We have, as a committee, I think—one of our more substantial steps was recognizing the important role of financial literacy by including a financial literacy component in the legislation we call the FACT Act, the Fair and Accurate Credit Transaction Act. Title five of the FACT Act established the Financial Literacy and Education Commission, with the purpose of improving financial literacy and education.

The FACT Act also mandated the GAO report on recommendations for improving financial literacy among consumers, and the GAO will be releasing their recommendations some time later this year. I look forward to hearing their insight, and also to Mrs. Biggert—or maybe Mr. Sanders, or someone else chairing a hearing concerning that, either this year or next.

Mrs. Biggert and Mr. Hinojosa, who is here with us today, has joined us. There are 80 members—I'm a member—of the Financial Literacy Caucus. We are united in the goal of encouraging the private sector, and also the Federal Government and State governments, to take a role in promoting financial literacy, and in also making suggestions and giving us advice.

And that is really what this hearing is about this morning. It's about both the private sector, private organizations—your organizations—as well as the Federal Government, and what role you are playing back in communities all over America, to ensure that people have the knowledge and the information to take full advantage of our credit markets and the financial products which are offered to all Americans.

Let me close by simply saying again that I want to commend Mrs. Biggert. Each year in April she sponsors a resolution with Mr. Hinojosa—I know for the past 3 years—stressing financial literacy, reminding all of us that it is something that is an ongoing mission. And I believe that Mrs. Biggert and Mr. Hinojosa, and the work that they have done, has had an enormous impact on educating

Members of Congress, their staffs, and even the American public about the importance of understanding financial transactions.

And I commend the organizations today. Many of the organizations that are here at this first panel testifying have created unique ways of educating consumers on financial opportunities. I admire your efforts, I commend you, and I look forward to your testimony. I yield back the balance of my time.

Mrs. BIGGERT. Thank you, Mr. Bachus. That resolution is always a tough battle on the Floor. Last year it passed by 423 to 1, and I am still after that 1 to vote for it.

I would like to recognize the gentlelady from New York.

Mrs. MALONEY. Thank you, Madam Chairwoman, and I thank all of the panelists for being here. I would like very much to be associated with the comments of my colleague, Mr. Sanders, on truth in advertising, and the comments of my colleague, Mr. Bachus, on the FACT Act, and the important GAO report that will be coming out.

As a former teacher and a member of the Financial Literacy Caucus, I strongly support the subject of our hearing today. We know from scientific evidence, that financial literacy prevents abuse and enables individuals to better achieve their financial goals.

For example, one effort that I observed almost 5 years ago, Freddie Mac conducted one of the first studies in this area, looking at some 40,000 mortgages, to see whether pre-purchased financial education reduced the 90-day delinquency rates. Borrowers receiving personalized financial education in preparation for a home purchase had a 34 percent lower delinquency rate: a remarkable statistic.

Since then, other studies, including studies by the National Endowment for Financial Education have confirmed what common sense tells all of us: individuals who improve their financial literacy are better able to achieve their financial objectives, whether it is getting out of debt, purchasing a home, sending a child to college, or saving for retirement.

As these studies show, while the benefits of financial literacy apply to all sectors of our society, those most vulnerable stand to benefit the most. The La Raza study, for example, confirms that minorities and those in lower income brackets are least financially knowledge, and that as a result, they often end up incurring significant unnecessary costs when they cash a check, get a loan, or otherwise use financial services.

Financial literacy gives all Americans necessary tools to achieve their financial objectives. And I thank the gentlelady for her leadership, and my colleague, Mr. Hinojosa, for his. Thank you.

Mrs. BIGGERT. Thank you very much. And I would like to recognize Mr. Hinojosa, from Texas, for his opening statement.

Mr. HINOJOSA. Thank you very much. It is indeed a pleasure for me, as the co-chair of the Financial and Economic Literacy Caucus, to work with my good friend and colleague, Judy Biggert.

I want to express my sincere appreciation for you holding this extremely important hearing today. I also want to take this opportunity to thank you again for holding a hearing at my request on banking the unbanked and financial literacy in general in 2003.

That particular hearing was very informative, enlightening, and comprehensive. I am glad that you have called yet another hearing

on financial literacy, at the request of Congresswoman Biggert. These hearings inherently incorporate an assessment of ways to bank the unbanked.

I believe that all of us here today share a common purpose: improving financial literacy for all Americans. It is a very daunting task, especially in light of the tremendous number of financial literacy programs, and the many comments, advice, and recommendations that we receive from off-the-Hill on the methodology to use, the exposure to give, and the oversight needed to coordinate and collaborate with these programs.

The programs run the gamut from some preschool financial literacy programs such as the Money Mammals, programs geared toward K–12 students, college students, young adults, a few for those in mid-life, and several geared for those planning for their retirement, or already retired.

There are too many programs to discuss and consider in one hearing. Madam Chairwoman, despite daily challenges of balancing work, family, and personal matters, it is important, now more than ever, that all Americans take time to increase their financial knowledge and plan for a secure future.

Like most people, we all have hopes and dreams and life goals for ourselves and our families. These might include buying a home or a business, saving for college education for our children, taking a dream vacation, reducing taxes, or retiring comfortably. Too many Americans lack basic financial literacy to accomplish many of these goals.

Last year, in 2005, one bankruptcy petition was filed for every 60 households, which was a 23 percent increase from the previous year. According to the Federal Reserve, revolving debt for American consumers totaled $805 billion in March of this year. Worse yet, the United States personal savings rate, based on the percentage of personal disposable income devoted to savings, was –.5 percent at one time last year—I repeat, the savings rate reached an all-time low of –.5 percent last year.

And at the end of 2005, the savings rate increased to a dismal –2 percent. I think we all agree that a negative personal savings rate is unacceptable, and actions must be taken to remedy the problem. We must continue to work with our colleagues here on the Hill, work with the relevant Federal agencies, work with various associations, nonprofits and community-based groups, and yes, especially with the private sector. We must work with all of them if we are to obtain our goal of improving financial literacy rates across the United States.

There is one area in particular that I have to address in my remarks this morning, and that is that we still need to find additional ways and means to bank the unbanked, and that is a tough order. Such action will help them, help their families, help the financial institutions with which they bank, and ultimately, help their communities, their counties, their States, and overall, our U.S. economy.

Several of you who will testify today have done an admirable job of trying to find ways to bring Hispanics, African Americans, Native Americans, and Pan Asians into the banking system. I applaud you and your efforts in this area. It is essential that we work to-

wards improving education, consumer protection, empowering individuals and families through economic and financial literacy in order to build stronger families, businesses, and communities.

Having read his testimony, I must say that Mr. Beck, representing the National Endowment for Financial Education, has presented the most comprehensive plan for government involvement in the financial literacy cause. I agree with him, that the government can and should do the following: Lead by example and coordinate and communicate a unified message.

We should sponsor a broad-based public awareness campaign comprised of a very ambitious, mass-market multi-media effort in support of a national financial literacy initiative on the scale of the current truth campaign, developed through the public education fund to discourage smoking among young people.

I also like his idea of creating a literacy corps, because one-on-one financial counseling provides the greatest potential to affect positive change in the management of one's finances.

Madam Chairwoman, 1–800 numbers and Web sites are fine. But one-on-one counseling does a much better job. It does the trick. This type of counseling was needed when Katrina hit the coast and thousands of people needed one-on-one financial counseling to put their lives back together. The government failed miserably in that arena.

I am pleased to learn that the National Endowment for Financial Education has, for years, worked with the American Red Cross on pioneering financial education for consumers related to disaster preparedness and disaster recovery. I must note that the material was created in cooperation with the AICPA Foundation, and it's available to all consumers through the American Red Cross in print, as well as online.

Hopefully, the two groups also provide one-on-one financial counseling to victims of natural disasters such as that provided comprehensively by Operation Hope. It is my personal goal to succeed in ultimately integrating the term financial literacy into the everyday vocabulary.

As I close, I want to say that I could go on and on for the remainder of the day, discussing all that needs to be done to improve financial literacy, which is exactly the problem. The Financial Literacy Education Commission published and released its national strategy for financial literacy. It was a good first step, but it is not the ultimate solution to all the financial literacy problems.

Hence, the need for this and future hearings, and finding ways for the government and private sector to coordinate and collaborate on improving financial literacy.

Madam Chairwoman, I want to thank you, your entire staff, as well as Chairman Bachus's leadership, and his staff: Danielle English, Dina Ellis and Emily Pfeiffer, and Jaime Lizarraga, with Congressman Frank—for all their contributions, not only to this hearing, but especially all of our efforts, as a group, towards this very worthwhile cause. We make a good team.

And with that, I yield back the remainder of my time.

Mrs. BIGGERT. Thank you very much, Mr. Hinojosa, and thank you for all that you have done for the cause, and it has been a real pleasure to work with you on this issue, and we will continue to

make more headway as a team. Thank you so much for being here. I would just recognize Mr. Bachus for a procedural matter.

Chairman BACHUS. Thank you. I would like to, without objection, introduce the written testimony of two organizations. One is the American Community Bankers, which is not on our second panel, but they agreed to submit their testimony in writing because of time restraints. And I thank them, and they have played a very important role.

The other one is the written statement of the North American Securities Administrators Association. This is actually the oldest international organization devoted to investor protection. The incoming president is Mr. Joe Borg, who is the Alabama securities commissioner in Alabama. But the reason that they are not testifying is not—they played a great role, but we limited our testimony at today's hearing to the private sector.

After the GAO report gets in, we will have an additional hearing. And at that time, I fully expect their association and other government or associations made up of government witnesses to testify. So, without objection, I would like to introduce that.

Mrs. BIGGERT. Without objection.

Chairman BACHUS. Thank you. I would also like to join with what Mr. Hinojosa said, and thank your staff Emily, Danielle English, and Dina Ellis, and—but your staff is very prominent in organizing this hearing. Thank you.

Mrs. BIGGERT. Thank you very much, Mr. Chairman. And I now recognize the gentlelady from Indiana, Ms. Carson, for an opening statement. Three minutes.

Ms. CARSON. Thank you very much, Madam Chairwoman, and to all other people on the committee at this point—the ranking member.

All of us on this committee understand how important financial literacy is to the American people. The savings rate for America is in the red. Wages are decreasing. As prices are increasing, personal bankruptcies have increased over the last decade, because of the growth of the credit card industry. Pension plans are being replaced with voluntary contribution retirement funds and financial products are becoming more and more complicated.

Three years ago, I convened a financial literacy workshop for the Congressional Black Caucus. My guest was the Honorable Alan Greenspan, who did a tremendous job in articulating the need for financial literacy. We also had other experts there, following Mr. Greenspan, who enhanced the need for people to understand financial literacy.

We have a pocket of students now who just reach out in their mailbox and get credit cards, and they don't worry about how they are going to pay for them, they just worry about how they are going to use them. And then, the credit card industry is left holding the bag if the parents don't—what it is.

I believe that financial literacy courses should be mandatory for education, whether it be at the elementary level, the high school level, or the college level. People should teach students financial literacy. I am appalled at the way our young people spend their money: $200 tennis shoes, as opposed to going to a discount house

and getting the same pair of tennis shoes. They just see what they want.

I am concerned about these promises on rebates, where this industry promises you a rebate on something you purchased, and the rebate never comes in the mailbox.

But I believe that, with us working together, that we will be able to resolve things.

Finally, let me say that in Indiana, I created a consumer hotline where, before people sign their names the first time on mortgages, they call the consumer hotline to discern whether or not it would be the right thing to do, in terms of signing whatever contract was put before them. The number is 1–888–722–WAIT. That is to wait before you sign your name. And it has been extremely successful, where the consumers around the State call up and ask questions about these promises to pay that have been placed before them.

So, I think with the collaboration of all of us, that we will be able to address and redress some of the problems that occur in the consumer market, unnecessarily. So I appreciate very much all of you being here.

And I am going to have to leave, because I have an Amtrak meeting at the same time, but thank you.

Mrs. BIGGERT. Well, thank you for being here. And I will now introduce the first panel of witnesses. On my left, Ms. Elisse B. Walter, senior executive vice president, regulatory policy and programs, NASD. Welcome.

Next, we have Mr. David Chernow, president and chief officer of Worldwide Junior Achievement. Welcome.

And Mr. Ed Beck, president and CEO of National Endowment for Financial Education—NEFE, I believe it is pronounced. Welcome.

Without objection, your written statements will be made a part of the record, and you will each be recognized for a 5-minute summary of your testimony. We will start with Ms. Walter. You are recognized for 5 minutes.

STATEMENT OF ELISSE B. WALTER, SENIOR EXECUTIVE VICE PRESIDENT, REGULATORY POLICY AND PROGRAMS, NASD

Ms. WALTER. Thank you. Madam Chairwoman, Ranking Member Sanders, and members of the committee, good morning. Thank you for inviting me to testify about NASD's efforts to educate investors.

And thank you, too, for your support of the recently passed Military Personnel Financial Services Protection Act. A provision in this important legislation will enable NASD to make information about brokers available to investors in an easier-to-use format, via the Internet. We appreciate your leadership on this important legislation.

Madam Chairwoman, NASD is the private sector securities regulator for the U.S. securities industry. By law, broker dealers must belong to NASD if they do business with the public. We write and enforce the rules governing them, and our mission is to ensure the protection of investors, and the integrity of the markets.

NASD firmly believes that educating investors is the first line of defense in protecting them from harm. The more knowledgeable an investor is, the more she is able to make sound decisions and avoid costly mistakes.

To determine how to reach investors better, NASD conducted a survey to assess where most people are when it comes to knowledge about investing. And we found an overwhelming number of investors realized they need to be better informed, and we have responded with a variety of resources.

We have issued educational materials to alert investors to potential problems, and we provide plain English explanations of products and processes. We have developed tools for investors to use in making financial decisions. We conduct public education events to reach out to investors. And a major segment of our Web site, nasd.com, is devoted to information that mainstream investors can use.

For example, NASD Broker Check, which is also available—the information also being available by toll free telephone number, provides disciplinary history and information on brokerage firms and brokers. Another online tool available to all investors is our mutual fund expense analyzer.

Because the fees and expenses charged by mutual funds can make a big difference in the performance of an investment, we provide expense information on virtually every mutual fund, so that investors can analyze the impact of fees and expenses on fund performance by showing how those fees add up over time. Investors can research one fund at a time, or can compare the cost of as many as three funds at a time, to learn how expenses can cut into fund performance, particularly over the long term.

Developing free investor tools such as these, and furthering investor education in all its forms are critical aspects of what we do, and we are quite proud to be doing them. But at the same time, we know that our education programs reach only a small percentage of the population that could benefit from them. That is why it is essential, as many of you have already said, that we and others in the investor education community, leverage resources and use all means of communication to reach the most people, and partner with others who share this mission.

Madam Chairwoman, NASD is also building on Congress's work in the recently enacted pension bill. The unfortunate fact is that almost a third of recently hired employees who are eligible to participate in their company's defined contribution plan do not participate. And participation for employees earning less than $20,000 a year is even lower.

Yet, a number of academic studies have found that changing the default options to require investors to opt out of, instead of opt into participation in 401(k) plans raises participation rates to more than 90 percent.

To help solve this problem, NASD is working with AARP and the retirement security project to encourage employers to adopt automatic 401(k) enrollment as the default option for their plans.

Taking partnership in a different direction, NASD recently created the NASD Investor Education Foundation to support innovative research and educational products that give investors the tools they need to better understand the markets and the basic principles of not only investing, but also saving.

In its first 2 years of operation, the foundation awarded nearly $5 million in grants for educational programs and research projects

targeting the underserved segments of the population. For example, through an NASD Foundation grant, Ohio State is developing guidelines for effective investor education programs targeted at traditionally underserved communities. And a grant to Kids Online, a nonprofit group in LA, is supporting the production of an interactive web-based financial literacy show to be broadcast in high schools around the country.

The foundation has also launched an effort to educate military service persons about saving and investing, and to help them to avoid fraudulent and inappropriate products and sales pitches. I urge you to visit saveandinvest.org, our Web site devoted to helping members of the military make sound financial decisions, to learn more about this program.

Madam Chairwoman, all Americans deserve the opportunity to create a secure financial future for themselves and their loved ones. NASD works every day to help more Americans take control of their financial decisionmaking. We applaud your effort to shed light on this issue, and thank you again for the opportunity to testify. I would be happy to answer any questions.

[The prepared statement of Ms. Walter can be found on page 151 of the appendix.]

Mrs. BIGGERT. Thank you very much. Mr. Chernow, you are recognized for 5 minutes.

STATEMENT OF DAVID S. CHERNOW, PRESIDENT AND CHIEF EXECUTIVE OFFICER, JA WORLDWIDE

Mr. CHERNOW. Madam Chairwoman and members of the subcommittee, it is a true honor and privilege to be with you this morning as we meet together to discuss this very important topic.

In my role as president and chief executive officer of Junior Achievement Worldwide, I represent over 2,600 professional staff, over 240 local and national boards of directors who are comprised of over 8,000 members of the board, mostly from the private sector, and I work in over 100 countries around the world in our shared goal of inspiring and preparing young people to succeed in a global economy.

Here in the United States, nearly four million children go through Junior Achievement, annually participating in hands-on experiential learning programs that are delivered at over 20,000 different schools by over 135,000 volunteers in nearly 170,000 classrooms. Our programs span the wide spectrum of business, economics, and free enterprise education with a focus on what we believe are the three key elements of preparation of our young people's future success. Those are: work force readiness; entrepreneurship; and financial literacy.

To put it as simply as I can, time is of the essence. We are experiencing an epidemic in this country. Financial illiteracy is threatening sustained economic growth and development of the populace. And what we have learned is that this problem cannot be solved alone. And that is why I want to share with you today a few words on the topic of collaboration and partnership in financial literacy education.

One of Junior Achievement's core values is a belief in the power of partnership and collaboration. Junior Achievement is particu-

larly dedicated to working with the private sector. Each and every one of Junior Achievement's programs, which is kindergarten through 12th grade, has been delivered to students in the United States since 1919, and requires the active involvement of trained business volunteers.

This private sector commitment to financial literacy education is a key component of our success, and something we believe is absolutely essential in our efforts to improve financial literacy in this country. Private sector volunteers serve as meaningful, inspiring role models to our youth, as they share their personal and professional insights with students who sincerely wish to prepare for financial stability in their own lives.

I also want to emphasize the value of partnership and collaboration among fellow nonprofit organizations. Rather than continuously reinventing the wheel in the financial literacy arena, it is much more efficient for nonprofit organizations to pool our limited resources to reach as many youth as we possibly can.

This is something which Junior Achievement has been particularly committed to in recent years. Since 2004, for example, we have been pleased to join with the Jump$tart Coalition for personal financial literacy, and the National Council on Economic Education, in establishing the Partnership for Financial Education Policy. This partnership sponsors the annual—and very successful, I am glad to say—Financial Literacy Day on the Hill event, and arranges other activities in consultation with the Financial and Economic Literacy Caucus, led so passionately by Congresswoman Biggert and Congressman Hinojosa.

Similarly, several months ago, we entered into a collaborative arrangement with America's credit unions, and the Credit Union National Association, to develop a new financial literacy and entrepreneurship education television series for children, aptly entitled, "JA's BizKid$." This new program, to be aired on PBS stations nationwide next year, is being produced by the team who brought us, "Disney's Bill Nye, the Science Guy."

By pooling resources and expertise, America's credit unions and JA Worldwide will be able to bring financial literacy education, hopefully, to literally millions of children in large and small communities across the country.

Another collaboration worthy of mentioning is our brand new relationship with my co-leader, to my left, the National Endowment for Financial Education, or NEFE. Beginning next year, Junior Achievement business volunteers will take NEFE's award winning high school financial planning program into high school classrooms throughout the United States to extend the reach of this great curriculum to tens of thousands of new students each year.

Although our focus is on collaboration among the private sector groups, I would like to briefly note our commitment to similar collaborations with government at the Federal and the State and the local levels. Like our involvement with the private sector, this coordination is perhaps most critical at the local level. While Junior Achievement's programs are being developed by worldwide headquarters, each of our local chapters work closely with State and local school officials to determine the most appropriate programs

for the local market, and to integrate State education standards into our curricula.

Of course, we are committed to partnering with policymakers at the Federal level. As noted, we work closely with the financial and economic literacy caucus here, in Congress. We are also involved with the Financial Literacy and Education Commission, and are working on specific initiatives with individual Federal agencies, such as the Small Business Administration. These collaborations are the types of partnerships we remain committed to in our shared quest of providing quality financial education to today's youth.

We applaud the efforts of this committee to keep its eye on such a critical issue for our youth, and we thank you for allowing us to share our thoughts with you today. As I leave today, finally, I just wanted to point out that I hope everyone realizes that collaboration is the key to success in solving this critical problem. And our collective efforts, in words and in action, will provide the solution. Thank you.

[The prepared statement of Mr. Chernow can be found on page 80 of the appendix.]

Mrs. BIGGERT. Thank you very much, Mr. Chernow.

Mr. Beck, you are recognized for 5 minutes.

STATEMENT OF TED BECK, PRESIDENT AND CEO, NATIONAL ENDOWMENT FOR FINANCIAL EDUCATION

Mr. BECK. Thank you. Thank you, Madam Chairwoman, and the other members of the committee. We greatly appreciate the opportunity to be here today.

My testimony will touch on three areas: first of all, NEFE's philosophy regarding financial literacy; I will also talk about the importance of partnership in our community and offer some comments on how the Federal Government can enhance and cooperate with our efforts to make them more effective.

First of all, regarding philosophy, NEFE is an organization that is wholly focused on improving the financial wellbeing of all Americans, and we are specifically concerned by the situation faced by the various underserved communities. We agree that there is a greater need right now than there has ever been to build financial education literacy in the community.

However, we are also convinced that the American public is up to this challenge if they are given the proper education, tools, and continual reinforcement and encouragement to do so.

We believe very much in the power of the teachable moment, and that throughout one's economic life there are numerous opportunities where economic and financial education are needed, and that the nonprofit community, the government, and the private sector can step up and help individuals at these times.

To do that, though, we must partner. NEFE partners in literally everything we do. At any given time, we will have over 50 partnerships in place. These range from research at universities, where we are studying behavior change, and how to get people more interested in looking after their financial wellbeing, to working with specific organizations, ranging from the American Red Cross, the National Multiple Sclerosis Society, and the American Indian Col-

lege Fund, for issues specifically facing their constituents. We feel we need to work through such organizations to be most effective in dealing with the issues that their communities face.

We have talked briefly about the NEFE High School Financial Planning Program, and I think it is a classic example. We have had very successful partnerships with the Cooperative Extensive Service and the Nation's credit unions for several years. The high school program goes back to 1984. During that time, we have had over 4½ million students attend the program.

Last year alone, we had over 630,000 students in all 50 States covering 7,500 classrooms take the course, and we feel it's a very effective program, and we are very excited about the announcement this week of the new alliance with Junior Achievement, that will allow us to extend this program even more broadly through the outstanding field network that Junior Achievement possesses.

I think it's also important to point out that the program is provided free to all students in all schools throughout the country, as everything else we do at NEFE is free to anybody who uses our service.

Some suggestions for the Federal Government as far as involvement in what we are doing include: First of all, the comment made earlier, lead by example. There are some very interesting and promising developments going on in various Federal agencies, and specifically in the military, that we think will be great best practices that the government can adapt to its own work force, and that the private community could then also adapt. And we strongly suggest you encourage and foster those programs.

We also suggest that you sponsor a broad public awareness campaign. We currently sponsor a program called, "Smart About Money." It's been in place since September of 2005. We spent $1.3 million on this effort, and it's a public awareness program to help people deal with key issues in their lives: things like save for a house; save for education; and stop living paycheck-to-paycheck. We think that Federal programs sponsoring a similar effort could have great reach, and really utilize those teachable moments we talked about a few minutes ago.

We would also like to see you help create demand for existing programs. At the moment, our community is very fragmented, and we really haven't focused on key messages that need to be disseminated. Meetings like this meeting today can greatly enhance that effort.

We also would love to see the sponsoring of a financial literacy corps, similar to the service corps of retired executives. There are many people in society who understand the basics, and one-on-one counseling from those individuals to the people who need it would be a very powerful and very cost-effective tool to help the underserved communities we talked about.

And then, finally, we suggest you look for partners who are very skilled at dealing with the issues of different groups ranging from K through 12, college, the workplace, those in special situations, and the military, where the partners understand how to maximize those teachable moments. Make sure those people start working together and cooperating with each other. Thank you for letting us be here today.

[The prepared statement of Mr. Beck can be found on page 52 of the appendix.]

Mrs. BIGGERT. Thank you very much for all of your testimony. We will now turn to questions, and members will have 5 minutes to ask their questions and get their responses. So, with that, would you like to start, Mr. Bachus?

Chairman BACHUS. I would very much appreciate that opportunity.

Let me—and I heard in your testimony you gave some good advice, general advice, about—I know, Mr. Beck, you said, "Don't live from paycheck to paycheck." Earlier, Ms. Walter, you were talking about knowing who you are dealing with, which is so important. And I know college kids—I have five children, and they will come back with a credit card and I will, you know, say, "How did you get this?" "It came in the mail." And they know nothing about the company.

But what are the—I would say what are the most important messages that we can get to our young people, or anyone that lacks financial literacy? You know, the main themes that we should be emphasizing to consumers. Just—

Ms. WALTER. I would be happy to start. I think you have to start with the very basics. You have to tell people that they should never undertake to do something they don't understand, whether it is a credit card or a loan or buying into an investment. You really must ask questions, and you must understand what you are doing. You must look before you leap.

I know all of these sound like platitudes, but they are very basic, sound investment advice. If it sounds too good to be true, it is too good to be true. And they should also learn to draw on the resources that actually are out there to help them, because there are a number of them.

We, obviously, given our role, concentrate on investing. But we have a large number of sound resources, and draw on the resources of others, and partner with folks like the two gentlemen to my left, to provide sound, objective advice for people.

So, they need to learn not to respond to pressure, and to feel very comfortable with what they are doing. And the first thing they need to do is to set aside money for future events. And that, perhaps, is the hardest lesson for young people to learn. They feel immortal, and it is hard for them to look ahead.

Chairman BACHUS. Thank you.

Mr. BECK. Just a couple of quick things. First of all, understand wants versus needs. And—

Chairman BACHUS. What was that? I didn't—

Mr. BECK. Understand wants versus needs in your personal spending patterns. Second, budget. I mean, it sounds very simple, but the idea of sitting down and figuring out what you are bringing in, and what that allows you to spend, and also what sort of incentive that creates for you to improve your financial situation, is a very key thing. Understanding the basics of your own personal budget is a very key thing.

Another point is get involved with whatever savings opportunities are available to you. So, if you are working, start to get involved in whatever plans are available to you, either independently

or through your company. Whatever it takes to get started, start. It doesn't matter how small it is. But once you get started, you start to see the benefits of it.

And the other thing is to start as soon as possible. Don't assume that things are going to happen that are going to create a very safe haven for you. The sooner you start to develop a plan for yourself, the more likely you are to be financially stable in your future.

Chairman BACHUS. Mr. Chernow?

Mr. CHERNOW. You know, just to reinforce two quick concepts, young people are never too young to learn the important aspects of financial literacy. And what I am sure you have learned, and us as youth organizations have learned very quickly, is that habits are very important to develop. At the early age of 11, 12, and 13, psychological experts will tell you that the ability to impact attitudes and behaviors are greatly enhanced at that age. So we need to get to them younger.

And Mr. Beck just pointed out two quick things. Wants and needs is a very important concept to young people. But the other concept that I don't think they fully understand that needs to be reinforced, based on the information Congressman Hinojosa indicated, was that savings is critical to young people's future success. And we need to emphasize that, and tell them the beauty of savings. Educate them and inspire them about that.

Chairman BACHUS. And, you know, the whole media world—I guess you say Madison Avenue—says, "You need this to be happy." And it's usually a product or a thing you have to purchase. And, you know, that is—and it creates the—the advertising world creates wants. And it is very important that there is a counter-message there that, you know, what you need to be happy is a little savings or a little cushion, not something you have to pay for down the road.

But the counter-message is a strong message. So you are up against a lot of competition that is telling them just the opposite. So, thank you.

Mrs. BIGGERT. Thank you, Mr. Bachus. The gentleman from Texas, Mr. Hinojosa, you are recognized for 5 minutes.

Mr. HINOJOSA. Thank you, Madam Chairwoman. I enjoyed listening to each one of your presentations. They are very interesting approaches to this project. I would ask each one of you to answer the first question that I have: What recommendations would you make to improve the National Strategy for Financial Literacy?

And the second question to each one of you is: What would you recommend to streamline the Financial Literacy Education Commission? I will start with you, Ms. Walter.

Ms. WALTER. I believe, Mr. Hinojosa, that the most important thing that the government can do, either through the existing body or otherwise, is exactly what you are here doing today, to shed light on the issues that Americans face in saving and investing, to make sure that is given a prominent place among the public issues of the day, and to highlight the resources that are available.

I believe that, in the private sector, we have made a number of first and second good steps in reaching collaborative efforts, and in learning not to compete, but to rely on each other and not reinvent the wheel, as was mentioned earlier, but to build on things. And

the government can help us do that by directing people to us and allowing us to use those resources.

So that, ultimately, is what I would recommend, because I do think there are a number of private sector resources that have been applied to very good use, mostly in the content area.

And now, we need to concentrate in large part, as you have highlighted before, on the issue of distribution. How do we make sure, with respect to all of the groups who are out there in our population, particularly the underserved groups, how to reach them most effectively, with the messages—very clear, concise, and good messages—that have been developed?

Mr. HINOJOSA. Thank you.

Mr. CHERNOW. Congressman, two quick comments. One is—I will throw out two words, awareness and action. You asked the question what recommendations would we do to improve the national strategy. I think there is, first, the issue of making sure that people understand in this country the important issue that is before us. I am not sure that we have as much awareness.

We are lucky that some organizations go out and do large statements out there, and spend millions of dollars to get the message out. But as Chairman Bachus said earlier, you know, sometimes it's the wrong message. Savings is a great message, it's just not said enough.

The second thing is, in terms of action, I think we need to showcase the great examples of success in this arena. And I would just re-emphasize that where we need probably the greatest help, is for us to go out and reach those children who need us the most in our area. We are not getting out to the rural communities. We are not getting the messages out, and we are not—we need the assistance of government, quite honestly, to help us get exposed to those young people who need us, so that we can have our effective programs be implemented.

Mr. HINOJOSA. I want to respond to one of the earlier comments that you made on wants versus needs, personal budget, and starting savings plans being so critical.

On the last one, I want to say that my colleague, Congresswoman Biggert, and I serve on the Education Committee, on the Higher Education Committee, and we share a similar interest in trying to increase the number of students earning bachelor's, master's, and Ph.D.s in STEM careers. And we are envious of the Chinese in the success that they have had in science and technology and engineering.

So, a group of us got on an airplane and went to China and went to visit seven universities, and asked them, "How is it that you all are so successful?" And among the discussions, one of the responses was that high school—I think education is free until about the eighth grade. Then, from the 9th to the 12th, and higher education, they have to pay for it.

So, they said that they have a one child policy per family, and so the parents, and then the four grandparents, all focus on that one child. And they save money, they said. They save 10 percent of their income to pay for that latter part of the high school, and for the college education. And it was difficult for me to understand

how they could make such small annual incomes and yet put away 10 percent.

So, you are definitely hitting the points that those folks stressed, which was a combination of parental involvement, and then the savings. And so, I think that, somehow, we are going to have to find examples of those who have been able to do that so that others can say, "If he could do it, I can do it." And they definitely are an example of success for the STEM careers, international decathlon of mathematics and science.

And so, we need to take a look at that. My time has run out, but I want to stay and hope that there is a second round of questions. With that, I yield back.

Mrs. BIGGERT. Thank you very much. I will recognize myself for 5 minutes. This is not the second round, Mr. Bachus.

We have heard from various sources that it is difficult to track how much progress is being made in the financial literacy area. How are you able to evaluate the impact of your efforts—your efforts, or other programs? We will start with Mr. Beck this time, and go the other way.

Mr. BECK. Well, there are a couple of things we are doing. We are just finishing a grant project at the University of Georgia for a measurement tool that can be used in any financial literacy program.

It tracks not only whether you learned something, but also behavior change. And that is a program that will be rolling out at the end of October. And as with everything else we do, that will be made available to anybody who wants to use it, and actually we have had several meetings with different government agencies who are very interested in it.

With our high school program, when people finish the course, we ask them a question regarding how much they were aware of certain financial issues before they took the course, and how they have changed in their opinions. For example, in asking, do you understand the cost of buying on credit, 12 percent said that prior to taking the course, they felt strongly about that, that they knew that. That went to 31 percent afterwards.

Now, the important thing is that as we go back 3 months later and ask them the same question—and at that point, 49 percent felt strongly that they understand the cost of buying on credit. Comparing prices when I shop: 25 percent before, 33 percent right after, jumping to 52 percent 3 months later.

So what we are most interested in with anything we do is in trying to figure out not only did people acquire some knowledge during that event, but is it affecting them several months later, and is it creating behavior change? Because the real Holy Grail is behavior change, not just being able to pass a quiz.

As we evaluate programs, that is the key thing for us.

Mrs. BIGGERT. Thank you. Mr. Chernow?

Mr. CHERNOW. Similarly to Mr. Beck, we actually have, over the last 10 years as an organization, have invested literally millions of dollars on evaluation. We do not believe, unless we are able to evaluate the efficacy and the impact of the programs, that we should be delivering those programs. So it's not just about reaching children, it's about having an impact.

Our studies are pre and post. Those pre and post studies do indicate increases in learning. So we do have a pre-test and a post-test, and are able to determine if there are increases. And it is about increased learning. And as Mr. Beck said, what you are able to evaluate on a short-term basis—and, unfortunately, because we are not able to track the students from privacy issues, we are able to do initial studies—we are able to determine whether or not there has been an attitudinal change.

You know, the hope will be that some day down the road we will be able to track their actual actions in regard to financial literacy. Are they getting credit cards? Are they doing a good job of getting loans for homes and businesses and paying them off? We don't have that information too short-term, but the truth is, we are evaluating the increases in learning and the impact on their attitudes. And through our testing, we are able to show marked increases in learning and understanding.

Mrs. BIGGERT. Thank you. Ms. Walter?

Ms. WALTER. I would agree with everything that has been said already. And I also think that it is important for those of us who have grant-making programs to ensure that our grantees are undertaking things that can be evaluated and measured.

So, we always require our grantees to have an evaluation plan. And where we conduct programs ourselves or with partners, as in our military effort, we seek to do that as well. We have brought in an outside consultant in order to assess whether what we are doing is moving the needle or not.

Mrs. BIGGERT. Thank you. And with that, I would yield back, and yield 5 minutes to Mr. Baca from California.

Mr. BACA. Thank you, Madam Chairwoman, and thank you very much for having what I believe is a very important hearing on improving financial literacy, especially among the elementary and secondary level, and also our post-secondary level. And I appreciate the panelists coming here.

I was pleased to hear the gentleman, Mr. Chernow, talk about Junior Achievement. I am quite familiar with Junior Achievement, because I used to coordinate about seven or eight different schools on the Junior Achievement program. At that time, it was for GT; now it's Verizon. And I believe those programs were excellent, because not only did we have a production line and began to orientate the students about starting your own business, running your own business, and getting into the stock market, too, as well, so they actually learned a lot about finance and controlling their own.

The problem was that we couldn't reach all of the kids. And that's the problem. I wish every student would have signed on to a Junior Achievement program. They would have had a better understanding of financial literacy.

And I know that the message is so important, and I know that you talked about collaboration and partnerships. And we need to develop that, both for the private and the public sectors, in terms of our schools. And how do we reach our students, and what kind of an outreach do we do, to make sure that every student is aware?

Because, ultimately, it affects their lives. It affects their lives in the TR rating that many of them don't even know, because most of them are being solicited to fill out an application for a credit

card. They get that. Later on in life they try to buy a home, purchase something else. The TR rating is there because maybe they failed.

Or, the attitude by many of these young kids, apparently they feel, "Well, okay, I will apply for a credit card now, and I will just file bankruptcy. That's okay. You know, they won't do anything to me, I am only a teenager." So those attitudes are still there, but it is hurting them.

And I know that we need to incorporate something with the public sector that needs to be done, whether it is done in developing master plans—because each site administrator develops a site plan, in terms of how they are going to implement their curriculum. What we need to do is to look at how we might coordinate something with site administrators in developing a master plan where financial literacy needs to be a part of the school system.

And my question to you is how do we approach this, and how do we do this? Because when we look at the percentages, you know, 55 percent of college students acquire their first credit card during their first year in college, and 92 percent of college students acquire at least one credit card by the second year in college.

And yet, only 26 percent of the people between the ages of 13 to 29 reported that their parents actively taught them how to manage their money—which, a lot of us don't—so when you come from poor families, disadvantaged families, and others who live paycheck-to-paycheck, and don't know how to even manage their money, what can we do to create a continuum of financial literacy education in the K through 12 and beyond—which is one of my questions, and I sort of like set some ideas of what things that we may be doing, but we need to incorporate that.

I feel it's so important that it needs to be incorporated, especially at the secondary level, as part of a curriculum that needs to be taught for our students. It just can't be by the private sector or the public sector, or volunteer programs like the Junior Achievement program, that are super programs, but we only reach a certain segment of the community, or the students, and we need to reach others.

So, maybe any one of you that want to answer this? And I do appreciate what the others are doing too, as well, in trying to reach out.

Ms. WALTER. I think Mr. Beck will have a lot to say. I would like to lead off by saying that we—it is our opinion that one of the issues with respect to K through 12 financial education—which has really been a focal point of the tension in the financial literacy effort—one of the issues has come about, we think, because educators were not as much involved as perhaps they should have been, and therefore it made it difficult for it to be thoroughly integrated into the curriculum.

So, one of the things that we have done is, last year, we gave a grant to the National Association of State Boards of Education, and they are going to convene a panel of State boards of education members. They are doing this now, and others to work with them, to examine current practices, and develop a set of recommendations that will be used to go forward to help truly integrate financial literacy into K through 12 educations.

And there will be a report on that issued next month, and it will be distributed quite broadly. And we are hoping that, by bringing the educators themselves into the fold, it will help make efforts more available.

I also think that here, as with respect to other areas—as we have done, for example, in our grant to First Nations with the Native American population, it is very important to reach out into the community to get people involved, who the people you are trying to reach trust. So we have trained—helped to train, through that grant, people in the Native American community.

In our military education program, one of the things that we are doing is training military spouses, so they can provide no-charge services to other military families. And those types of efforts need to be strengthened.

Mr. BECK. There are several things that we could talk about there. First of all, I very much agree that we fully need to understand the dynamics of each community. While educational content might be similar—a checking account is a checking account—the rules of the different communities appear to be somewhat different, and we need to take that into consideration.

We did a think tank with the Latino immigrant community last year, and we really learned a great deal. We are also working with First Nations, the Native American group, trying to understand the issues that they face in trying to take financial literacy to their communities, so that we can then be responsive to them.

The second issue is awareness. A lot of school districts are not aware of the programs that are available to them. We have a really high-class problem at NEFE, in that we give everything away. Anybody who wants it can have it for free, and we would love to have more people asking for it. And that's one of the reasons we are trying to expand our partnerships.

Let me just give you a quick story. When I go to our teacher training programs around the country, I am always intrigued by who is in the room. There is not a natural home for a financial curriculum in a high school. Very few schools have it. I am pleased to say last year we had our first English and Physics teachers take our training course, so they could incorporate financial literacy into their specialty, because they think it is important for their students.

So, trying to find a more natural home for financial education in the school system—starting earlier than high school, even—I think would be a great step forward.

Mr. BACA. Mr. Beck, I indicated that it needs to start with the administrator that develops a master plan. And apparently they develop those master plans during the summer that they incorporate during the curriculum year. If it's not incorporated there, then it becomes very difficult for teachers and others to implement financial literacy programs and others. But that needs to be incorporated, and you're absolutely right, in terms of getting the message out.

Mrs. BIGGERT. Thank you very much, Mr. Baca. With that, the Chair notes that some members may have additional questions for this panel, which they may wish to submit in writing.

So, without objection, the hearing record will remain open for 30 days for members to submit written questions to the witnesses, and to place the responses in the record.

And with that, thank you very much, panel, for being here. Your expert testimony is really appreciated. We will now call up the second panel.

Mr. HINOJOSA. Madam Chairwoman, I would like to, while the other panel comes up, ask that H.R. 973, recognizing October 2–8, 2006, as Financial Planning Week, as well as letters of support, be inserted into the record.

Mrs. BIGGERT. Without objection.

Mr. HINOJOSA. Thank you.

Mrs. BIGGERT. Welcome to the second panel. Thank you for being here, and I will introduce the panel first. On my left is Ms. Julie Cripe, president and COO of Omnibank in Houston, Texas. And she is here on behalf of the American Bankers Association.

Second is Mr. David G. Kittle, president/principal, Principle Wholesale Lending, Incorporated, from Louisville, Kentucky, on behalf of the Mortgage Bankers Association. Welcome.

Next is Mr. Carl Sorgatz, CEO, Hawthorne Community Credit Union, again from my district in Napersville, Illinois, on behalf of the Credit Union National Association. Welcome.

And then Mr. Donald D. Kittell—that's a very close name, sir, it's just spelled a little bit differently, I believe—executive vice president, Securities Industry Association. Welcome.

And Mr. Stephen Brobeck, executive director, Consumer Federation of America.

And last, but not least, Mr. Frank Pollack, president/CEO of Pentagon Federal Credit Union, on behalf of the National Association of Federal Credit Unions.

Again, as I stated to the first panel, you will be recognized for 5 minutes' testimony, your summary, and then after that we will have 5 minutes for questions from each member. So, Ms. Cripe, you are recognized for 5 minutes.

STATEMENT OF JULIE CRIPE, PRESIDENT AND COO, OMNIBANK (HOUSTON, TX), ON BEHALF OF AMERICAN BANKERS ASSOCIATION

Ms. CRIPE. Chairman Biggert and members of the committee, my name is Julie Cripe. I am president of Omnibank in Houston, Texas, which is a $325 million community bank which has been in existence for 52 years. I am also chair of the American Bankers Association Education Foundation, and I am pleased to be here today to represent ABA.

I want to thank Chairwoman Biggert for holding this hearing on the importance of financial education. I also want to thank Representatives Biggert, Green, Hinojosa, and Tiberi, and many others, for participating with bankers in the ABA Education Foundation's National Teach Children to Save Day last April. And I want to acknowledge Representative Lucas and others who plan to participate in ABA's national Get Smart About Credit Day this October. Your efforts show your dedication to this issue, and demonstrate how much we can accomplish by working together.

The ABA recognizes that everybody has a vested interest in being as smart about their money as possible. But too many people fail to realize their dreams, and lose their hard-earned money because they lack basic money management skills. As bankers, we are well positioned to help stop the circle and cycle of financial illiteracy. Thousands of bankers nationwide are dedicating time and resources to developing financial education programs that are specifically tailored to meet the needs of their local communities. We are going into classrooms, churches, and community centers to help people learn about budgeting, saving for the future, and managing credit wisely.

The ABA Education Foundation provides resources to help bankers teach financial literacy, including the new Get Smart About Credit e-learning program. The program is an online tool, interactive, that teaches teens and young adults how to obtain and manage credit, and is available both in English and Spanish. It is really designed to grab the attention of teens, and make financial education fun. Banks offer the program through their Web sites. And earlier this year, my bank became the first in the country to do so.

The ABA also produced this tool box on financial education, provided free of charge to all our members. This tool box contains five books that guide banks on how to start or enhance a financial education program. It also contains case studies from banks that have created successful outreach programs—in other words, what works—and has information on how to partner with community-based groups.

Bankers are not alone in their efforts to increase financial education outreach. All of the groups testifying today know each other well, and we all continue to look for ways that we can work together. Linking financial education efforts together will promote efficiency, and should be encouraged. But it is important to realize that financial education has developed in a fashion similar to our Nation's highways.

Like individual roads that were built to meet the geographic needs of particular cities and towns, financial education programs are built to meet the unique needs of individuals and businesses in our communities.

Attempting to organize and distribute the depth and breadth of material that each sector has created may not make the most sense. For example, 91 percent of the loans my bank makes are in low and moderate income areas. The financial education programs we employ are specifically designed to reach this audience. Others may want to tailor their programs to meet the particular needs of the communities they serve.

We are building bridges to connect our separate efforts, and we should continue doing so. We should also continue developing financial education solutions that are designed to address our unique community needs. Just as there are benefits to having a choice of roads when traveling, there are benefits to having financial education options. I think we can all agree that choice in learning is a good thing.

The Federal Government can help us by: number one, encouraging bank regulators to grant CRA credit for financial education programs; two, supporting minimum financial education require-

ments in schools; three, sponsoring public service announcements that teach basic money management; and four, providing financial support for existing programs with proven track records.

I appreciate the opportunity to testify today. The ABA welcomes the opportunity to work with Congress, the banking agencies, and my fellow panelists, to expand the financial education opportunities in all the communities we serve.

[The prepared statement of Ms. Cripe can be found on page 83 of the appendix.]

Mrs. BIGGERT. Thank you so much. Mr. Kittle, you are recognized for 5 minutes.

STATEMENT OF DAVID G. KITTLE, PRESIDENT, PRINCIPLE WHOLESALE LENDING, INC. (LOUISVILLE, KY), ON BEHALF OF THE MORTGAGE BANKERS ASSOCIATION

Mr. KITTLE. Thank you, Madam Chairwoman. We are in the middle of the highest homeownership rate in our country's history. Nearly 70 percent of Americans now own their own homes, and are building great wealth. The Federal Reserve said in 2004 that the median net worth for homeowners was $184,000. For renters, it was only $4,000. Homeowners have been successful in accumulating wealth, mainly by building up equity through their monthly mortgage payments and home price appreciation.

We are committed to educating consumers about the importance of good credit, of working within a budget, and of better understanding the mortgage process and the range of loan products available. By understanding all of these elements, consumers are able to determine if homeownership is the right choice for them. And if it is, what type of financing is right for their personal financial situation.

While we want to ensure that homebuyers have the educational tools they need, we also want to ensure that our industry has the tools necessary to inspire public confidence. That is why the Mortgage Bankers Association is so committed to providing educational opportunities to its members. The capstone to MBA's education program is the certified mortgage banker designation.

I am proud to be a CMB, which was conferred upon me by MBA when I completed the demanding curriculum. I had to be in the industry for at least 3 years, go through a rigorous education program with both oral and written exams, and commit to my continuing education.

One of the challenges we have in advancing financial literacy is to reach the people where they are. When people shop for homes and mortgages to finance them, they talk to mortgage bankers. Ensuring these professionals are well qualified and highly knowledgeable is one of the key ways we can further financial literacy.

At the Mortgage Bankers Association, we are also active in reaching out to potential borrowers. Our home loan learning center Web site is a great step-by-step tool to help home buyers understand the home buying process. It also teaches people the importance of their credit status to their ability to qualify for a mortgage and achieve homeownership.

We are also reaching out to homeowners, industry, and law enforcement, to stop mortgage fraud. Mortgage fraud against lenders

is sometimes confused with, but differs from, predatory lending, which involves unscrupulous lending to an unknowing borrower. Mortgage fraud is a problem, not only because lenders and borrowers are hurt, but because people can lose their homes.

MBA is also a supporter of Dollar Wise, the financial literacy campaign of the U.S. Conference of Mayors, whose goal is to develop local financial literacy strategies to reach people where they live. MBA recently held consumer information summits in Mississippi and Louisiana, in the wake of hurricanes Katrina and Rita. Later this year, we will host another in Philadelphia. These events are designed to provide attendees with the kinds of information that will be most useful to local leaders and their constituents.

On November 1st, the National Home Equity Mortgage Association—or NHEMA—will formally conclude its merger into MBA. In 2001, NHEMA established an independent organization, the Borrow Smart Public Education Foundation, to facilitate community efforts to increase financial literacy. As the merger moves forward, MBA will integrate Borrow Smart into the overall financial literacy efforts.

Financial literacy is described as the solution to many different challenges. It comes up in the context of predatory lending debate, discussions about whether borrowers are making the right decisions about their mortgages they take out, and other legislative and regulatory issues.

The financial literacy of consumers is critical to a smoothly functioning, self-regulating market that, ultimately, will lessen mortgage delinquencies and foreclosures. Government has an important role to play in promoting financial literacy.

Most importantly, government at all levels can help by urging that financial literacy be taught in our Nation's schools. While we understand the Federal Government does not generally determine curricula in this country, Congress should, itself, set the task of identifying ways to encourage States and local school boards to introduce or enhance curricula to teach financial literacy.

Greater coordination of financial literacy efforts is also necessary. We, government and industry, are all making efforts. Too often, we only engage when people find themselves in significant financial trouble, and are avoiding calls from bill collectors.

Mortgage bankers have a responsibility to their customers. The mortgage transaction is complex, and the product innovation over the last decade has left even the most educated customers with a need to learn more about an incredible array of options. But a well informed consumer can better navigate the complexity and shop for the best possible loan product.

On behalf of our members, MBA appreciates the opportunity to participate in this important hearing. I look forward to your questions, and thank you for your time.

[The prepared statement of Mr. Kittle can be found on page 116 of the appendix.]

Mrs. BIGGERT. Thank you very much, Mr. Kittle. Mr. Sorgatz, you are recognized for 5 minutes.

STATEMENT OF CARL SORGATZ, CEO, HAWTHORNE COMMUNITY CREDIT UNION (NAPERSVILLE, IL), ON BEHALF OF CREDIT UNION NATIONAL ASSOCIATION

Mr. SORGATZ. Thank you, Madam Chairwoman, and members of the committee. I appreciate the opportunity to appear before the committee today on behalf of the Credit Union National Association, CUNA, to provide an outline of the programs and initiatives that CUNA and its member credit unions are involved in to promote financial education among youths and adults.

CUNA is the Nation's largest credit union advocacy organization, representing approximately 90 percent of the Nation's 8,800 Federal and State credit unions, and their 87 million members. I am Carl Sorgatz, and I serve as president and treasurer of Hawthorne Credit Union, headquartered in the Chicago suburb of Napersville, Illinois. I also serve as president of the Illinois Credit Union League.

I would like to begin by commending my Congresswoman, Judy Biggert, for her strong commitment to the issue of financial literacy, and for her efforts as co-chair of the House Financial Literacy Caucus, to keep issues of financial literacy and education before the Congress.

I was also delighted by the fact that Mrs. Biggert was able to take the time during this busy final week of Congress to participate in CUNA's first financial literacy summit. The summit was envisioned by CUNA chairman, Yuri Valdov, as an annual forum for credit union leaders from all parts of the country to share ideas and coordinate strategies on how best to address the distinct financial literacy needs of youth, working age families, and recent immigrants in underserved groups. The summit also featured the Treasury Department's national strategy on financial literacy.

Hawthorne Credit Union was established during the Great Depression in 1935, and currently has over 15,000 members. That was a time when many financial institutions were going out of business, and those who were in business weren't interested in serving the working class people.

In fact, there were fewer than six credit unions in Illinois when our founder, Senn Heath, and other Western Electric employees, began their planning. They were intrigued by the concept of people helping people. Since early in the 21st century, Hawthorne Credit Union has centered our community involvement in enrichment strategy on financial literacy.

Financial literacy fits well with our number one goal for our credit union, our members and their families, to become our members' trusted financial advisor. In pursuing our strategy to improve financial literacy, Hawthorne Credit Union began to work with a not-for-profit group in Napersville, Illinois, called Families Helping Families. This group assists individuals who are in great need of financial assistance and guidance in getting their lives back on track. The adopted families are often single mothers and their children, who have been victims of domestic violence and poverty.

They asked us if we were interested in facilitating financial literacy classes for their participants. We were very interested, and began to develop a program that would care for the needs of these families. Our training manager connected with NEFE, a highly re-

spected organization that CUNA has partnered with, to offer resources to credit unions in their communities.

Hawthorne Credit Union created two classes that the participants are required to attend. In class one, it covers money management and the basics of maintaining a savings and checking account, and class two covers lending topics, credit reports, and bankruptcy.

When the participants complete class two, many of them work with our lending manager and/or one of our loan officers regarding credit counseling. We review their credit report and determine a plan of action to help them repair damaged credit. In some cases, we are able to assist the participant through a loan product. We are often able to refinance a high interest automobile loan, issue a share-secured Visa credit card, or process a share-secured loan, in order to pay off some debt.

Most of the participants are single parents. We supply the space, and Families Helping Families supplies the babysitters—usually a few mentors and some high school-aged students. The children usually are in the age ranges of 1 to 13 years old.

During the last class this past August, we provided a financial literacy session for the children, and provided games using play money. We gave each child $10 to start their savings. The parents opened minor savings accounts for the children, and we told them that if they saved $100 within that first year, we would give them another $10.

Through these efforts supported by NEFE, Hawthorne Credit Union is able to assist those who are in need of not just financial aid, but who desperately need financial education. In this way, they can go from being homeless and struggling with day-to-day issues that most of us find as normal occurrences, to being self-sufficient, contributing members to our society who are able to support themselves and their families.

Our commitment to provide financial literacy to our community is important to our charter, our strategic plan, and our center to our success. Becoming our members' trusted financial advisory often starts with helping individuals like these better understand their financial options.

And in conclusion, CUNA and its member credit unions have long been a leading advocate and implementer of financial literacy programs for members of all ages. Among its initiatives, CUNA developed an Hispanic outreach program for credit unions to utilize. Through other programs, such as Jump$tart, NEFE, Thrive By Five, National Youth Involvement Board, and the National Youth Savings Challenge, which I have detailed in my written testimony, credit unions continue to make a difference in many lives through financial education and counseling, and to maintain the high standards of people helping people.

Once again, thank you for having me here today, and I am happy to answer any questions you may have.

[The prepared statement of Mr. Sorgatz can be found on page 138 of the appendix.]

Mrs. BIGGERT. Thank you very much. Mr. Kittell, you are recognized for 5 minutes.

STATEMENT OF DONALD D. KITTELL, EXECUTIVE VICE PRESIDENT, SECURITIES INDUSTRY ASSOCIATION

Mr. KITTELL. Thank you, Madam Chairwoman, and Congressman Hinojosa. I will speak on behalf of the securities industry, and specifically, the Securities Industry Association and the Bond Market Association, with whom we are merging later this year.

Both associations have established foundations for investor education. They are targeted in two broad areas. The first is to students, primarily grades 4 through 12, and the other programs are for adults. The perspective is from an investor education beginning, but a lot of our content covers broad financial literacy issues of the kind that you have talked about this morning.

The cornerstone of our student program is the Stock Market Game, a simulation in which teams of students in grades 4 through 12 learn the fundamentals of investing through a hands-on simulation of investing $100,000 over approximately a 10-week period. We currently have 500,000 students every year participating in this game, along with 14,000 teachers. Since inception, we think we have reached over 10 million students over the last 10 years.

The curriculum is correlated to national standards in mathematics, economics, business, and marketing, so it is not just a stock-picking game. The true value of the game is its ability to capture the interest of students through competitions and keeping score, and our experience is that teachers find that students become extremely motivated during this game.

Our member firms are very active in supporting the game. At the risk of naming a few and leaving out some, I will mention Merrill Lynch, particularly, Wachovia Securities, Morgan Stanley, AG Edwards, PNC Financial Services, Charles Schwab, Cabrera Capital Markets, and American Century Brokerage. We also partner with other organizations in the industry, such as the Investment Company Institute, and the New York Stock Exchange.

One of the aspects of the game is a Capitol Hill challenge. I am pleased to note that the team representing Speaker Hastert's district won the 2004 competition. Chairman Bachus's district was victorious in 2005, and Representative Bart Gordon took the honors this year. There were 10 members of the subcommittee sponsored teams in the competition this year, and an additional 7 members of the full committee have participated.

We, 2 years ago, introduced a national and State essay-writing contest in order to demonstrate—or to allow students to demonstrate—what they have learned from the game. This is the most important new growth area in our program.

Turning to the adult game—or, excuse me, the adult education program—we have sponsored the Path to Investing Web site for a number of years. Based on market research we have done with investors who have told us the kinds of education they want—they want it customized, they want it totally objective, without a sales pitch, they want it entertaining, and they want it to be easy to understand. Path to Investing attempts to do that within the limits of a Web site. We have more than 1,500 pages of content, covering a wide range of the subjects that you have talked about today.

As many of the other panelists have said today, we partner with many other organizations in the financial area. I would mention

specifically the Alliance for Investor Education, which represents close to 20 private sector, as well as government, and organizations that are interested in investor education.

We also partner with regulators, both at the Federal and State level, and I would like to particularly mention that the Treasurer of the United States, Anna Escobedo Cabral, spoke at our California stock market game event just this week, and her story, if you haven't heard it, was inspiring for everyone who heard her remarks.

The Treasury also sponsored a financial literacy and education event at Treasury, and our 2006 essay winner was a participant in that event.

The Bond Market Association also has a Web site entitled, "Tomorrow's Money," which addresses activities targeted at young people aged 18 to 34, Spanish-speaking Americans, people facing financial decisions of a specific kind, and so on. The Bond Market Association also works with the State treasurers in partnering with Web sites that offer education in each State. And they have also participated in a number of programs with the American Red Cross, United Services Group, and so on, helping families who are victims of 9/11, Katrina, and other disaster events.

The securities industry, in sum, has a lot of resources and a lot of commitment to this subject, and we are looking forward to working with all of you to further your objectives. Thank you.

[The prepared statement of Mr. Kittell can be found on page 102 of the appendix.]

Mrs. BIGGERT. Thank you very much. Mr. Brobeck, you are recognized for 5 minutes.

STATEMENT OF STEPHEN BROBECK, EXECUTIVE DIRECTOR, CONSUMER FEDERATION OF AMERICA

Mr. BROBECK. Thank you, Madam Chairwoman. We at the Consumer Federation of America greatly appreciate the opportunity to participate in this important hearing.

For decades, CFA has undertaken numerous financial education initiatives to increase financial literacy. For example, for more than a decade, we led a government, business, nonprofit consumer literacy consortium to inform Americans how to purchase products intelligently. The group's brochure on "66 Ways to Save Money" has, for years, been the most popular consumer publication distributed by the Federal Government for a fee.

Yet, as we have undertaken these and many other initiatives, we have been mindful of the limits of financial education. Knowledge alone cannot ensure true financial literacy, which is reflected in sensible financial behaviors. Consumers must value this knowledge enough to learn and to practice it, and there must be accessible opportunities for utilizing these skills.

For example, knowledge about retirement programs is virtually impossible to apply if one does not have available at work a contributory plan. But even when one is available, a significant minority of employees are not sufficiently motivated to participate.

That is why, by allowing employers to automatically enroll employees in 401(k)s and other contributory programs, the pension legislation passed by Congress earlier this year represents a far

more significant advance for employees and society as a whole, than any conceivable related financial education program.

Furthermore, knowledge complements, but cannot substitute, for consumer protection. In the area of consumer credit, for example, these protections begin with disclosures required by law, such as truth in lending and truth in savings. But even these requirements are not sufficient to protect the millions of Americans who are baffled by the growing complexity of financial services products, and are vulnerable to aggressive deceptive sales practices.

That is why the Department of Defense and many senators are supporting, as part of Defense reauthorization legislation, the inclusion of important consumer protections that include a 36 percent cap on interest rates charged to military personnel

Truly effective financial education that significantly increases financial literacy is linked to motivation and opportunities to produce desired behavioral changes, and has the opportunity of going to scale. That is, reaching tens of millions of Americans.

One such program that has this potential—and my organization is involved in—is America Saves, which, in dozens of local and regional areas, often with the assistance of Cooperative Extension, has recruited about 1,000 public and private organizations, 200 of which are banks and credit unions, to undertake campaigns to enroll tens of thousands of non-saving individuals as Savers.

These participants are required to make written commitments to implement a specific plan that they have developed to meet a savings goal. To date, nearly 60,000 Americans—about half of whom are African American or Hispanic American—have enrolled as Savers, and hundreds of thousands of others say, in our research, that they have benefitted from our programs.

Just as importantly, the local campaigns have persuaded important local institutions, such as banks and credit unions and employers, to more effectively promote saving. For example, in several dozen areas where campaigns exist, most banks and credit unions have lowered opening and monthly savings minimums considerably, so that less affluent families who cannot afford a $300 or $400 opening balance on a savings account can afford to begin saving.

Committee members may also be interested to learn that the Department of Defense has embraced its own Military Saves initiative, which is coordinated by a member of my staff.

In closing, I would suggest one initiative that would not only help link diverse financial education programs, but also motivate, as well as inform consumers. That is a call to all consumers to estimate and then periodically monitor their net personal wealth. Awareness of net assets is an important motivator for better money management and debt management, as well as savings accumulation.

People who know their net wealth are more likely to spend their money carefully, monitor their finances, live within their financial means, and patiently accumulate wealth through retirement savings, homeownership, and other savings strategies.

In other words, if Americans were more aware of their net personal wealth, they would be far more receptive to effective financial education programs that help them monitor, conserve, and accumu-

late financial resources. My written testimony suggests how such an initiative might be developed as well as an appropriate role for the Federal Government.

Again, thank you for the opportunity to testify.

[The prepared statement of Mr. Brobeck can be found on page 74 of the appendix.]

Mrs. BIGGERT. Thank you very much. And Mr. Pollack, you are recognized for 5 minutes.

STATEMENT OF FRANK POLLACK, PRESIDENT/CEO, PENTAGON FEDERAL CREDIT UNION, ON BEHALF OF NATIONAL ASSOCIATION OF FEDERAL CREDIT UNIONS

Mr. POLLACK. Thank you. Good morning, Madam Chairwoman, Congressman Hinojosa, and members of the committee. I am Frank Pollack, president and CEO of the Pentagon Federal Credit Union, headquartered in Alexandria, Virginia.

I am here today, on behalf of the National Association of Federal Credit Unions, to testify on the financial literacy efforts of our Nation's Federal credit unions.

Pentagon Federal Credit Union is a not-for-profit financial cooperative governed by a volunteer board of directors, who are elected by our member owners. Our credit union was chartered in 1935. We have 730,000 members, and just over $9 billion in assets.

As Americans are faced with an ever-widening array of financial services, it is important that consumers are armed with a sound understanding of the basics of personal finance. Financially literate individuals are more likely to spend prudently, and put money in savings, retirement funds, and other wealth-building accounts. Conversely, the same individuals are less likely to rack up large, burdensome, and sometimes unaffordable, debt.

NAFCU and our member Federal credit unions know that financial illiteracy is an issue that touches all Americans at every age and income level. Accordingly, NAFCU makes available to credit unions a financial education curriculum based on the Federal Deposit Insurance Corporation's Money Smart program.

The curriculum, which NAFCU, in working with the FDIC, tailored to credit unions, is aimed at teaching individuals outside the financial mainstream how to manage their finances while also stressing the importance of long-term savings.

Additionally, the credit union industry is a key partner in the fight against predatory lending. Credit unions are dedicated to helping their members avoid unscrupulous lenders by providing them with low cost loan alternatives, and offering financial education to assist members in developing sound debt management skills.

Many credit unions have developed innovative financial literacy programs to educate their members. I would like to take this opportunity to tell you a little bit about our credit union's program.

In 2001, we created the Pentagon Federal Credit Union Foundation, a nonprofit organization fully devoted to improving the financial literacy and wellbeing of the military members served by the credit union. The foundation sprung to life as a result of the numerous abusive predatory lenders that thrive on making high-cost loans to young, inexperienced military personnel.

To combat predatory lending, our foundation created the asset recovery kit program, which provides small cash loans to our military members. In order to be approved for the loan, our members are required to undergo financial counseling by members of the National Federation of Consumer Credit Counseling. The council will help to renegotiate monthly bills, and teach the borrower how to maintain a budget. Members can receive as many as five loans over the course of a year. Neither the foundation nor the credit union earns a profit from the program. The sole purpose is to help our members get out of trouble, and develop solid budgeting skills.

The program has been a runaway success. As of the end of August, PFCU had made 709 loans under this program. Our charge-off rate is only 8 percent. That figure is phenomenal, considering that these are unsecured loans to people that have risky credit, and who have also maxed out on traditional credit facilities.

Further, fewer than 5 percent of the people who have applied for loans have used all five renewals. I think this is strong evidence that the credit counseling services mandated by the program are paying off.

Earlier this year, we entered into an agreement with Fort Bragg Federal Credit Union, which now offers the program, as well. We are also working to roll the program out at other Defense credit unions.

Another major initiative about to be launched by the foundation is a program called Dream Makers. This program is aimed at helping military personnel and Department of Defense employees to achieve the American dream of homeownership. Members who are first time home buyers can receive grants of up to $5,000. These grants do not have to be repaid.

It is our hope that, with these and other programs, we can help to foster financial literacy, personal wealth, and success for all of our members. These brave men and women are joining our armed forces and laying their lives on the line for us every day. We want to give them all that we can, in exchange for their service to our country.

We hope that Congress, the NCUA, and Federal agencies will work with the credit union community to continue to foster an environment where such programs can exist. Many other credit unions are also stepping up to the challenge, and helping Americans of all ages to build a solid foundation of financial management skills. PFCU is just one example of the way in which the credit union industry has reached out to improve financial literacy.

Because the credit union mission has always been to promote savings, credit union staff and volunteers were some of the first financial educators in America. In addition to being among the first to emphasize the importance of financial literacy, today's credit unions are also among the finest at providing sound, financial management advice to their members.

NAFCU and the Federal credit union community stand ready to work with the House Financial Services Committee on this important issue. Thank you, and I would be happy to answer any questions you might have.

[The prepared statement of Mr. Pollack can be found on page 123 of the appendix.]

Mrs. BIGGERT. Thank you very much. We will now proceed to the questioning, and I will yield myself 5 minutes.

Ms. Cripe, I participated in your tenth annual National Teach Children to Save Day, and one of the things that I really like to do is to go into the schools and teach classes, or whatever I'm going to be doing, from—well, actually, from Head Start all the way through college.

But I think in the elementary schools and the middle school is really fun. This happened to be the elementary school, where we were talking about saving and whether it is a want or a need, and the kids would hold up the cards if—they first made a list of all the different items, and you would say, "Well, television, is that a want or a need?" And of course, they did differ, and then we had to discuss it. But it was a great program, and I really liked it.

And then, Mr. Kittell, I did participate in the stock program. I was very upset, because I am very competitive, that Speaker Hastert won in Illinois every year—he didn't win nationally all the time, but the first time. So my teams are going to do better next time. But that's also a very good program.

I would—talking to the kids, I did mention to them—because it is a short period of time, I think 6 weeks—that they should keep those papers and go back, you know, 10 years or 20 years later, and see how those stocks have held up to the picks. You know, they would have about six stocks. And it was kind of interesting what was bought. I remember one year it was Google. They did very well, the kids who bought Google at that time; it was a good pick.

But I appreciate all of the—I feel like a kid when I go back into—so it's really—the programs are so much fun, and I think the kids really enjoy them. And I know Mr. Hinojosa participated in the bank one, too.

So, my question is that we have been working to perhaps develop legislation that would establish a comprehensive director of financial literacy programs in the United States, and I know, Ms. Cripe, that you have one for the American Banking Association. And in your testimony, you said that—I was kind of surprised, because you said "attempting to organize and distribute the depth and breadth of material that each sector has created would be a frustrating exercise that is likely to fall short in expectations."

Do you then think it's not a good idea to have a directory? Or it might be so voluminous because I know there are so many groups that have something and probably changed the focus, but we have so many groups and, you know, that people might be searching for something that they can use in their school, or their organizations, or such.

Ms. CRIPE. I think it's a great idea to have a collaborative effort, to have a directory. We have worked with Jump$tart, as many of my colleagues up here have done.

What I hesitate about is to have a stop in the great programs that are going on to accumulate this information. As long as we keep going with all the great programs, and then add to the list I support it because, for example, what's in our quick reference guide, the national strategy from the Treasury, that list is incomplete. I notice that many of us here are not on it as resources. And

so, just to add to that and continue the collaborative effort, I think, is a great way to go.

Mrs. BIGGERT. Well, our emphasis on the—with the national strategy, and what we had asked, was to organize within the Federal agencies that were duplicative, or that they would work together.

And actually, that happened in Katrina, where we actually asked them to call—the Secretary of the Treasury to call a meeting, and which we attended, and they sat down and really went over what each agency was doing in Katrina then. And so that they realized that some of them were doing the same things, so they did get together and sit together, then, and talk about it.

Is there something—you know, we had originally proposed then having something with the private sector. But it's so immense, I think now, that is this something that needs to be done, or would the Federal Government stay out of it, as far as what you all think? We will start with Mr. Pollack. Do you—

Mr. POLLACK. Well, I don't think the Federal Government should stay out of it. I think the only way we are going to solve this is to put a lot of effort into this, because we need to change the education pattern in the United States. That is the only way we are going to teach people how to manage money properly. And that is a long-term effort.

Unlike some of the issues we have, though, this doesn't require billions of dollars. It requires a lot of effort, and continuous effort.

Mrs. BIGGERT. Mr. Brobeck?

Mr. BROBECK. As are the kids in Lake Woebegon, all financial education programs are above average. But all of us in the area know that some of those programs are much better than others.

So, while a directory that describes the programs is extremely useful, it would also be useful to aspire to including, at some point, an evaluation of the effectiveness of those programs.

Mrs. BIGGERT. Mr. Kittell?

Mr. KITTELL. Yes. One of the things that we have had trouble with is that there are no generic solutions across school systems, across the States. It's very much a local solution, we find, in trying to work with teachers.

So—and the investor education material that is available, it's a pretty chaotic area. I mean, there is an awful lot of stuff. But it's very difficult to sort out, you know, just what is really meaningful for a given purpose, and what isn't.

So, I guess I would encourage certainly awareness of what is out there, and maybe a look at more generic solutions to what happens in our schools.

Mrs. BIGGERT. Okay, thank you. Mr. Sorgatz?

Mr. SORGATZ. I would go back to what the previous panel said about the awareness issue. I think it is very important for the government's participation to—through a public service address, to get the issue out there in front of the public.

I think it's not just the youth issue of financial literacy. I also think it is the adult financial literacy problem that we have in the country today, and I think the awareness of where can people go for resources, and to, first, of all, make sure that everybody under-

stands this is a key problem, and the cause/effect situations, and how it affects the economy, and how it affects people's daily lives.

Also, Mr. Kittell's comment about the schools, in terms of having the variety of materials to choose from, I think one of the difficulties that we have had, in terms of being able to partner up with schools, is to be able to get into the right people, make those connections, and then work through the issues of whether or not it is going to be a curriculum item that is incorporated, or whether it's something that we can present, in conjunction and partnership with the teacher themselves.

And we are trying to work that partnership out without stepping on toes. And yet, it seems to be a struggle as we go along. It is always more difficult for us to work out that partnership than it should be.

Mrs. BIGGERT. Is the usual response to your request that they have just so much time for the academics, and they just can't fit it into the program?

Mr. SORGATZ. Part of it has been that. Part of it is to where does it fit, as was talked about, again, in a previous panel. And it's the timing issue. I think if we could be given some information as to, you know, you want to partner up with us, here is the time frame to come in and set this up.

As was mentioned again previously, the summer time is when some of those curricula are put together. But how to get in touch with some of these people has been very challenging, to say the least.

Mrs. BIGGERT. Mr. Kittle?

Mr. KITTLE. Madam Chairwoman, I agree with two of the things that have been said here. Personally, I have been involved in my own children's schools with Junior Achievement. All of the people on both the panels today are here because they want to give back to their communities, and they are concerned about financial literacy.

We, at the Mortgage Bankers Association, tend to deal with not in the school age, but obviously, when you're out purchasing your first home. So those people need to make sure that they are educated. We want to educate those home borrowers. Mortgage Bankers Association has spent over $2 million in the last 2 years on our home loan learning center, to make sure that they are educated in the process that we deal with every day.

The consumer needs to know that they need to shop for their mortgage loan, and not just take the first offer that comes along. And they also need to be educated to the fact that when they go to the loan closing, and something is not right, they have every right to get up and leave.

Mrs. BIGGERT. Thank you. Ms. Cripe?

Ms. CRIPE. I think we all agree that awareness and getting to the most people is of key importance. The lesson that you participated in, as well as Congressman Hinojosa, Congressman Green, and Congressman Tiberi, are examples. We all agree that this is something that is necessary, and we managed to get into the schools.

Noting those frustrations, I know that many bankers also use these same lessons by going to churches and community centers

after school and on the weekends, in order to reach the most and highest proportion of consumers. So, we have found that to be a successful way.

We have also designed our programs and our lesson plans to fit into a math curriculum, an English curriculum, or a social studies curriculum, so that we can go to the school and say, "This is where you can put it. This is where you can use the lesson." And we think that making it simple is a good way to do that.

Mrs. BIGGERT. Thank you. I yield to Mr. Hinojosa.

Mr. HINOJOSA. Thank you, Madam Chairwoman. I think that the first panel and the second panel are equally good in the material that you all have presented. Very, very interesting, and certainly you have caught my interest.

I don't think that in 5 minutes I could ask questions of each one of you, so let me see if I can focus on the last three, because you touched on something that is very important in my Congressional district, and that is that 80 percent of the 652,000 constituents I represent are Hispanic. I come from Mexican immigrant parents: 11 children; I am number 8.

So, my father, as a first generation American—because he got his citizenship right after World War II—taught me something, and that is that we needed to learn how to save. And he, like me, because I was good at following instructions and math, and things like that, and so he showed me how he would put away 2 percent of every day's deposits. He had a little grocery store, and then started a meat processing company, and that was his practice.

And so, I followed suit. I am second generation, and I was lucky to enough to make a more comfortable life for myself because I not only had the savings, but I invested it in the stock market.

I particularly liked the fact that Donald Kittell and Stephen Brobeck spoke about what they are doing with the Hispanic community. The Hispanic community is a growing population that accounts for about $800 billion of buying power annually. So that certainly is a group to focus on if we are going to make a big difference.

My question to you—each one of you, Mr. Kittell and Mr. Brobeck—are you working with any of the Hispanic organizations like NCLR, National Council of La Raza, or LULAC, or others who focus so much on trying to improve the quality of life in the Hispanic community? I will start with Don Kittell.

Mr. KITTELL. I can't speak of any direct partnership with the organizations you have mentioned, but our firms and our programs are very much targeted to the Hispanic community, as is the entire securities industry's diversity program, both in employing Hispanics and other minorities, as well as marketing to them.

But in the stock market game program, our firms have been very interested in—particularly in underserved communities, particularly inner city. One of the firms I mentioned in my oral testimony, Martin Cabrera, was a gentleman who grew up in Chicago, inner city Hispanic, took the stock market game and, 20 years later, has his own securities firm, and is a great supporter of our game.

So, we are very focused on inner city. We are translating our material into Spanish. And it's a market that we are very interested in serving.

Mr. HINOJOSA. Thank you. Mr. Brobeck?

Mr. BROBECK. One of the most important priorities of this expanding America Saves program is to reach out to Latino communities. And in order to do that, we have partnered with national nonprofits and corporations to develop a unique set of materials, such as this "Build Wealth, Not Debt" pamphlet in Spanish, and a Web site, and other related materials. But we have also gone outside of Washington to try to organize savings groups in primarily Latino communities.

My colleague and associate director, Nancy Register, this very day is working with dozens of Latino groups in El Paso on El Paso Saves, on a whole array of initiatives. And a couple of weeks ago she was working on Miami Saves, which is led by Latino groups. So this is a very high priority at the Consumer Federation of America, and we look forward to working with you.

Mr. HINOJOSA. If you would draw an imaginary line from El Paso to San Antonio to Corpus Christi and down to the southern tip of Texas and Brownsfield, there are approximately 12 million—maybe 14 million—people, of which 80 percent are Hispanic. And I would be happy—our staff would be happy—to assist you with the organizations that I believe would gladly collaborate to get your materials, both English and Spanish, and see how we can get it out into the communities, and get many more involved in the programs that you have.

And the last question, to Mr. Pollack. I was very pleased to see that you are focusing on our soldiers, our veterans, because $5,000 help towards closing costs for a home could go a long way. We are trying to encourage them to look at the—not scholarships, but money that is available similar to our GI Bill, for them to attend and access higher education.

So, if we could combine those for veterans and for our soldiers coming back from Iraq and Afghanistan, I think would do two things. One is educate them, and if part of that package included financial literacy education, I think they will leapfrog forward, in terms of increasing their income for the family, and their equity, so that that would help them a great deal. And I thank you for that kind of work.

Mr. POLLACK. Thank you so much. And we would be honored to work with you on that.

Mr. HINOJOSA. Thank you. I yield back, Madam Chairwoman.

Mrs. BIGGERT. Thank you, Mr. Hinojosa. Just a couple of quick things. We are expecting a vote any minute now.

In the FACT Act, Mr. Kittle, we had in there that everyone would receive a free consumer credit report. Does your organization do anything to help people to—how to use their credit report? Is this something, when you're doing a mortgage, that this helps?

Mr. KITTLE. My company specifically, or the mortgage banking—

Mrs. BIGGERT. Well, I meant the mortgage—the association, not your—

Mr. KITTLE. The Mortgage Bankers Association, again, through our home loan learning center, yes ma'am, it does. And they can log on to that. It takes them through the entire process, from before you buy a house, the actual origination of the loan, the closing cost, and the closing. So, yes ma'am.

Mrs. BIGGERT. So that has been helpful, for them to know how to deal with their credit score?

Mr. KITTLE. Yes, ma'am. We certainly feel that it has.

Mrs. BIGGERT. Then, Mr. Sorgatz, you mentioned that many credit unions are working in the schools to teach the personal financial skills. What should—do you see tests that kids are improving when they leave high school, or they leave college, as far as the skills that they have developed? Is there any way that you can judge that?

Mr. SORGATZ. Well, looking at the statistics that CUNA has put together, it certainly shows an improvement that occurs after there has been a financial literacy program that has been implemented. And most of the statistical information is included in my report, written report. But definitely.

Mrs. BIGGERT. What about—we're always talking about, well, everybody should have a budget and start very young with kids. How important is that to all of you, either with your families or with your organizations, that—do you find that kids that know about budgeting, that they do better later? Anyone have any stories on that? Mr. Brobeck?

Mr. BROBECK. Our belief is that the most important thing we can do in the area of financial education for kids K to six is to inculcate good financial habits. Knowledge is of limited use to them at that point.

The two types of habits that are most helpful are how to live within a budget, as you mentioned, in terms of giving an allowance, perhaps, giving them work to do, paying them, and then requiring that they make certain expenditures, you know, within that budget.

And then, secondly, promoting savings, providing perhaps financial incentives for them to save. And some kids—only a minority, unfortunately today—have opportunities to save at school. There are still a few banks and credit unions that work with schools to promote regular savings. And that is invaluable. If there is one thing that could be done for K to six to improve financial literacy, it would be to reinstitute bank/credit union savings programs nationwide.

Mrs. BIGGERT. Isn't it true right now that our savings is –.02 percent, and that is the lowest it has been since the Great Depression? So there is a generation there that needs some help.

Mr. Hinojosa, do you have any further—

Mr. HINOJOSA. Again, I want to compliment all the panelists, because I liked all the presentations. I am going to take the liberty of taking some of these sets of copies of each of your presentations and get them out to different parts of the country, where I think that they should duplicate them and get them out to organizations that would like to know what you all are doing.

But in closing, I want to say that if we could get parents, particularly mothers, to hear the presentations, I believe that they could probably take their sons and daughters to the bank and open up their first account, their first savings account, and that might be the start of trying to change that –2 percent savings, and getting us at least a straight line, and then on up to saving as my father and mother taught me, and I have taught my children.

They have not only a stock portfolio, but they have a savings account. And every—I think it's every 60 days, the part that they have saved for the bank account, for the savings account, we take them to go deposit it. And I am pleased to tell you that the oldest one, who is 12 years old, has had a portfolio, stock portfolio, for 10 years. And it surprised me with the stock market changes that improved here these last few weeks, she is at 180,000, and the 10-year-old has only had it for 3 years, and she is at 50,000.

So, all of this to say that they have gotten comfortable about hearing reports from time to time at the table, about how their stock is doing, and how we look it up in the stock market in the NASDAQ section, and comfortable going to the bank. And again, one is 10 and the other one is 12. So, mothers, I believe, are the key that we can invest time and training, because they are going to see to it that their daughters and sons learn this art of saving.

But the financial literacy portion that you all teach, oh, that is absolutely gold, as far as I am concerned. It is the best. So when I choose not to be in Congress and I step down, I think I am going to set up a center, a national center, that will coordinate all these things that all of you are doing so that we can get it out to both English speaking and non-English speaking people, so that we can improve this.

I am delighted to work with my friend and the Chair, Judy Biggert, and together we are going to keep on doing great things. Thank you.

Mrs. BIGGERT. Thank you. And don't everybody rush after the hearing for financial investment advice from Mr. Hinojosa.

The Chair notes that some members may have additional questions for this panel, which they may wish to submit in writing. Without objection, the hearing record will remain open for 30 days for members to submit written questions to these witnesses, and to place their responses in the record, without objection.

And let me just say that you all have been a great panel. It has really been very, very great to have the expert testimony. We will continue to work on this issue. This hearing is adjourned.

[Whereupon, at 12:17 p.m., the hearing was adjourned.]

A P P E N D I X

September 28, 2006

OPENING STATEMENT OF CHAIRMAN SPENCER BACHUS
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS AND CONSUMER CREDIT
"IMPROVING FINANCIAL LITERACY: WORKING TOGETHER TO DEVELOP PRIVATE SECTOR COORDINATION AND SOLUTIONS"
SEPTEMBER 28, 2006

Good morning. Today's hearing, which was requested by Mrs. Biggert, will focus on the efforts of the private sector to increase financial literacy in their communities and the role the federal government can play in highlighting and coordinating those efforts. As co-chair of the Financial Literacy Caucus with Mr. Hinojosa, Mrs. Biggert has worked tirelessly on financial literacy issues, and I want to thank her and her staff for their work on this hearing.

While a basic understanding of checking and savings accounts was all that was needed twenty-five years ago, most Americans now need to be knowledgeable about credit cards, mortgage products, retirement and investment plans. Our Committee recognized the important role of financial literacy by including a financial literacy component in legislation from Sarbanes-Oxley to the Fair and Accurate Credit Transactions Act, known as the FACT Act. Title V of the FACT Act established the Financial Literacy and Education Commission with the purpose of improving financial literacy and education. The FACT Act also

mandated that the General Accountability Office (GAO) report on recommendations for improving financial literacy among consumers. GAO will be releasing their recommendations sometime later this year. We look forward to their insight.

As co-chairs of the Financial Literacy Caucus, Mrs. Biggert and Mr. Hinojosa have taken a lead on numerous financial literacy initiatives. The Caucus, which has about 80 Members including me, has hosted roundtables and trade fairs highlighting successful programs nationwide. For the past three years, Mrs. Biggert and Mr. Hinojosa have sponsored a resolution recognizing the importance of April as financial literacy awareness month. This week, the House passed H. Res. 973, authored by Mr. Hinojosa and Mrs. Biggert, recognizing this week as Financial Planning Week. Mrs. Biggert and Mr. Hinojosa are to be commended for their steadfast commitment to financial literacy. Their work has had an enormous impact on educating Members of Congress, their staffs and the American public about the importance of understanding financial transactions.

Many of the organizations testifying today have created unique ways to educate consumers on financial opportunities. Their efforts are admirable and I look forward to their testimony today.

I am now pleased to recognize the Ranking Member, Mr. Sanders, for any opening statement that he would like to make.

**OPENING REMARKS OF THE HONORABLE RUBEN HINOJOSA
COMMITTEE ON FINANCIAL SERVICES
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS
"IMPROVING FINANCIAL LITERACY: WORKING TOGETHER TO DEVELOP PRIVATE SECTOR COORDINATION AND SOLUTIONS,"
SEPTEMBER 28, 2006**

Chairman Bachus and Ranking Member Sanders,

I want to express my sincere appreciation for you holding this extremely important hearing today. I also want to take this opportunity to thank you again, Chairman Bachus, for holding a hearing at my request on banking the unbanked and financial literacy back in 2003. That hearing was very informative, enlightening and comprehensive. I am glad that you have called yet another hearing on financial literacy at the request of Congresswoman Biggert. These hearings inherently incorporate an assessment of ways to bank the unbanked.

I believe that all of us here today share a common purpose -- improving financial literacy for all Americans.

It is a very daunting task, especially in light of the tremendous amount of financial literacy programs and the many comments, advice and recommendations that we receive from off the Hill on the methodology to use, the exposure to give, and the oversight requested of us to oversee and coordinate and collaborate with these programs.

The programs run the gamut from some pre-school financial literacy programs such as The Money Mammals, programs geared towards K-12 students, college students, young adults, a few for those in mid-life, and several geared towards those planning for their retirement or already retired. The NYSE also has a summer financial literacy program that helps teachers learn the machinations of the stock market and ways to transfer that information to their students in economic courses or while playing the Stock Market Game.

There are too many programs to discuss and consider in one hearing.

Mr. Chairman, despite daily challenges of balancing work, family, and personal matters, it's important—now more than ever—that all Americans take time to increase their financial knowledge and plan for a secure future.

Like most people, we all have hopes and dreams and life goals for ourselves and our families. These might include buying a home or business…saving for college education for our children…taking a dream vacation…reducing taxes…or retiring comfortably. Too many Americans lack basic financial literacy to accomplish many of these goals.

In 2005, one bankruptcy petition was filed for every sixty households, which was a twenty-three percent increase from the previous year. According to the Federal Reserve, revolving debt for American consumers totaled $805 billion in March of this year.

Worse yet, the United States' personal savings rate based on the percentage of personal disposable income devoted to savings, was negative 5 percent at one time last year – I repeat – the savings rate reached an all-time low of negative 5 percent last year – and, at the end of 2005, the savings rate had increased to a dismal negative 2 percent.
I think we all agree that a negative personal savings rate is unacceptable, and actions must be taken to remedy the problem.

We must continue to work with our colleagues here on the Hill; work with the relevant federal agencies, work with various associations, non-profits and community-based groups; and the private sector. We must work with all of them if we are to attain our goal of improving financial literacy rates across the United States.

There is one area in particular that I have to address in my remarks and that is that we still need to find additional ways and means to bank the unbanked. Such action will help them, help their families, help the financial institutions with which they bank, and, ultimately help their communities, counties, states and the overall U.S. economy.

Several of you will testify today have done an admirable job of trying to find ways to bring Hispanics, African Americans, Native Americans and Pan-Asians into the banking system. I applaud you for your efforts in this area. It is essential that we work toward improving education, consumer protections, and empowering individuals and families through economic and financial literacy in order to build stronger families, businesses, and communities.

Having read his testimony, I must say that Mr. Beck, representing the National Endowment for Financial Education, has presented the most comprehensive plan for government involvement in the financial literacy cause. I agree with him that the government can and should do the following: lead by example and coordinate and communicate a unified message. We should sponsor a broad-based public awareness campaign comprised of a substantial mass-market, multimedia effort in support of a national financial literacy initiative on the scale of the current "truth" campaign, developed through the Public Education Fund to discourage smoking among young people. I also like his idea of creating a "Literacy Corps" because one-on-one counseling provides the greatest potential to effect positive change in the management of one's finances.

Mr. Chairman, 1-800 numbers and websites are fine, but one-on-one counseling does the trick. This type of counseling was needed when Katrina hit the coast and thousands of people needed one-on-one financial counseling to put their lives back together.
The government failed miserably in that arena.

I am pleased to learn that the National Endowment for Financial Education has for years worked with the American Red Cross on pioneering financial education for consumers related to disaster preparedness and disaster recovery. I must note that the material was created in cooperation with the AICPA Foundation and is available to all consumers through the American Red Cross in print and online. Hopefully the two groups also provide one-on-one financial counseling to victims of natural disasters such as that provided comprehensively by Operation Hope.

It is my personal goal to succeed in ultimately integrating the term "financial literacy" into the everyday vocabulary.

I could go on and on for the remainder of the day discussing all that needs to be done to improve financial literacy, which is exactly the problem. The Financial Literacy Education Commission has published and released its "National Strategy for Financial Literacy." It was a good first step. But, it is not the ultimate solution to all the financial literacy problems. Hence, the need for this and future hearings on finding ways for the government and private sector to coordinate and collaborate on improving financial literacy.

Mr. Chairman, I want to thank you, your entire staff, especially Danielle English and Emily Pfeiffer and Dina Ellis, and Jaime Lizarraga with Congressman Frank, for all their contributions not only to this hearing but especially all of your efforts as a group towards this worthwhile cause.

I also want to convey my deep appreciation for all of the work that my good friend, Congresswoman Judy Biggert, has done with me for many years now to promote and improve financial literacy rates in this country, especially our work as co-founders and co-chairs of the Financial and Economic Literacy Caucus.

We make a good team.

With that, I yield back the remainder of my time.

Opening Remarks

Congresswoman Maxine Waters D-35th CA

Hearing, "Improving Financial Literacy: Working Together to Develop Private Sector Coordination and Solutions"

September 28, 2006

Good Morning. Ladies and gentlemen. I want to congratulate Mr. Bauchus, the Chair of the Subcommittee on Financial Institutions and Consumer Credit for holding today's hearing. This hearing is timely because House Resolution 737 passed the House with nearly 100 co-sponsors. I cosponsored H. Res. 737, which was introduced by Ms. Biggert. The Resolution overwhelmingly passed the House in April of 2006. Many Members of the

Committee on Financial Services co-sponsored the bill as well.

H. Res. 737 established that "financial literacy is essential to ensure that individuals are prepared to manage money, credit and debt. The Resolution also states that it is the only means by which individuals can become responsible workers, heads of households and investors, etc.

Financial literacy is unequivocally necessary in today's global economy. Persons who fail to recognize the importance of acquiring these skills early in life are marginalized. Financial literacy is something that I have advocated must be introduced

to school children in elementary school, or sooner if possible. A recent survey suggests that 60 percent of young people between the ages of 18 and 34 say they do not have the knowledge needed to effectively manage their personal finances and retirement security. Unless this percentage is reduced many of these individuals will remain marginalized in society.

Financial Literacy Month will be celebrated next month. I commend all of the organizations involved in supporting and implementing activities in conjunction with Financial Literacy Month. In addition, the U.S. Treasury Department is launching the National Strategy for Financial Literacy. I applaud these efforts and urge all Americans to

embrace the principles of financial literacy. In addition, I hope that we make sure that these efforts are extended to those communities that are typically have little if any access to information about the importance of financial literacy. Thank you. Mr. Chairman.

NATIONAL ENDOWMENT FOR
FINANCIAL EDUCATION

Partnering for Financial Well-Being

Office of the President

Testimony of

Ted Beck
President and CEO,
National Endowment for Financial Education (NEFE)

Before

The Committee on Financial Services
Subcommittee on Financial Institutions and Consumer Credit
of the
United States House of Representatives

Regarding

"Improving Financial Literacy: Working Together to Develop Private Sector Coordination and Solutions"

September 28, 2006

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I am Ted Beck, President and Chief Executive Officer of the National Endowment for Financial Education® (NEFE®), located in Greenwood Village, Colorado. Mr. Chairman, and members of your Subcommittee, I commend you for scheduling this hearing and providing members of the financial literacy community the opportunity to share our experiences in coordinating private sector efforts to promote financial literacy, and to explore with you ways in which the Federal Government can help enhance the effectiveness of these efforts.

The National Endowment for Financial Education is perhaps the only national, privately operating foundation wholly dedicated to improving the financial well-being of all Americans. While NEFE may be a unique organization, it does not work alone to pursue its mission. In nearly every aspect of its work, NEFE forms partnerships and pursues collaborations with other entities, including nonprofit and for-profit organizations and government, to provide financial education to members of the public. Our partnerships have a common goal: to help Americans achieve long-term financial stability, thereby strengthening the fabric of families, communities, and the nation as a whole. A partnership approach, we believe, represents the most effective means of leveraging resources and talents to reach large numbers of Americans, while addressing the different educational needs of widely diverse segments of the public.

Introduction

My testimony today will be in three parts:

1. I will present NEFE's philosophy on financial literacy and explain how partnering and coordination are central to this philosophy.
2. I will share several examples of partnerships and collaborations in support of NEFE's financial education mission.
3. I will offer some brief comments regarding the role that the Federal Government can play both in fostering increased coordination and

collaboration to enhance the effectiveness of financial literacy programs and in making the public more aware of these programs.

Financial Literacy Philosophy

We at the National Endowment for Financial Education believe, Mr. Chairman, that the need for financial literacy now is greater than ever before. This is because the responsibility for financial security has been transferred, for the most part, from institutions to individual Americans. The burden of carrying such responsibility has been incurred within a relatively short time frame, causing concern, frustration, even fear, among members of the public.

Yet, we also believe that consumers, regardless of their education background or income level, are up to the task of assuming responsibility for their financial well-being—*if* they are given appropriate education, the necessary tools, and ongoing reinforcement.

We believe, as well, in the power of what we call "teachable moments," when people are motivated by life circumstances to educate themselves toward the better management of their personal finances. A financial crisis may not necessarily move someone to change behavior, but intervention added to a crisis situation—a potential "teachable moment"—can help people break out of their current situation and move forward. We also believe that when one family manages its money wisely, it prospers; and when many do, the entire nation thrives.

NEFE puts its philosophy into action by providing, free of charge, resources to members of the public in support of increased financial literacy. In addition, we work to create among consumers a greater awareness of the importance of financial education,

thus increasing public demand for this education. While we strive to reach as many audiences as possible, we place particular emphasis on those who often are outside of mainstream financial services and are most at risk for experiencing significant financial difficulties: youth, low-income individuals and families, minority populations, and people facing special challenges due to illness or other life-changing events.

The Role of Partnering

Collaborating with partners who share our commitment to financial literacy enables us to create much more targeted, relevant materials and programs to reach varied audiences with what we refer to as "just-in-time" education. Collaborating with others also enables us to leverage our resources to reach as many groups and individuals as possible.

Partnering, in fact, is at the core of our identity. Why? Because even though NEFE has substantial resources, our mandate to educate the public about personal finance is so large that we know we cannot accomplish it by ourselves. We rely on partners to help advance our mission and extend our reach to Americans from all walks of life. The phrase "Partnering for Financial Well-Being," is much more than a tagline on our letterhead. It is woven into the very fabric of our organization because we have experienced firsthand the power of partnering to produce significant outcomes.
To date, NEFE has partnered on more than 100 financial literacy initiatives with other nonprofit and governmental entities. Through each of these collaborations, we have gained important insights into partnering, which we use continually to refine and manage the collaboration process. A list of our nonprofit collaborators is provided at the end of

this testimony. Later in this testimony, I will share a few specific examples to illustrate the value of partnering.

Our coordination with potential partners involves an open exchange of ideas and expectations as NEFE proposes a project, listens to the potential partner's feedback, considers alternatives, and arrives at a decision to move ahead with the partnership, sharing both the responsibility and the credit for the project. We document the scope of the project, timelines, costs, and who is responsible for each aspect of the project, from inception through delivery and evaluation. After agreeing to a project description, both parties sign a letter of understanding that addresses scope, duties, timeframes, and other issues significant to the project. The key to such partnering is a clear understanding of what both sides in the equation want and expect from the collaboration, as well as an understanding that the partnership is a commitment which must be taken seriously.

Through such coordination of effort, the ultimate beneficiary—the consumer—is assisted in meeting a financial challenge that, but for the partnership, might never have been identified and addressed.

In our vast and diverse society, no one entity—not NEFE, not the outstanding nonprofit groups we have collaborated with, not the many good corporate citizens we have met, not even the Federal Government—can single-handedly meet the public's universal need for financial education. The needs of individuals and families are far greater than any organization can tackle alone. Nor is it possible for one organization to be proficient in every aspect of the educational process. Collaborative partnerships can, and do, provide the solution to these challenges.

Examples of Partnerships and Collaborations in Financial Education

When organizations partner to reach out to those in need of financial education, a homeless family can see its way to owning a home, an individual recovering from debilitating illness can rebound from the related financial woes, or a young person can discover the benefits of saving to eventually reach a significant financial goal. By way of illustrating the synergy that comes from partnerships like these, I offer the following examples as just a few of the many successful collaborations between NEFE and its partners.

NEFE High School Financial Planning Program

A compelling example of the power of partnering and longstanding coordination is provided by the NEFE High School Financial Planning Program®, which is a collaboration among NEFE; the U. S. Department of Agriculture (USDA) Cooperative State Research, Education, and Extension Service (CSREES); and the Credit Union National Association, Inc. (CUNA), and America's Credit Unions. I'm pleased to say that as of two days ago, we've added Junior Achievement to this multi-organizational effort. Since the inception of the High School Program in 1985, over 4.5 million teens have benefited from financial education in nearly 60,000 schools throughout the U. S.

The goals of the High School Program are to reach young people at an optimum time, when they are developing financial habits that will shape their future, and to break the cycle of poor financial management that has plagued successive generations of Americans. The program is a six-unit curriculum that teaches the basics of money management, including information on the financial planning process, careers, budgeting, saving and investing, credit, and insurance. It is available at no cost to public and private

high schools nationwide. The program has been proven effective through an independent study by the University of Minnesota. NEFE actively coordinates the work of its partners in developing and revising content, training educators, and distributing the program to schools in all 50 states.

Public Awareness Campaign

In September 2005, NEFE launched the country's first large-scale financial literacy public awareness campaign—themed "Smart about Money"—to motivate consumers to improve their financial well-being and provide ways to put this goal into action. The campaign emphasizes the message that for all Americans, despite their age or stage in life, there is no better time than the present to gain control of their finances and "get smart about money." As part of the campaign, NEFE sponsors a Web site, www.smartaboutmoney.org, which provides a variety of practical educational resources to help individuals overcome financial challenges they face every day, including critical life events such as losing a job, experiencing a serious illness, navigating a divorce, or surviving a natural disaster. The coordination and collaboration aspect of the campaign is exemplified in a resource center on the Web site that provides links to more than 200 different financial education materials contributed from approximately 50 other organizations and agencies on virtually every aspect of personal finance.

NEFE Collaborative Programs

Collaborations in financial education often mean tailoring specific "just-in-time" resources on a particular personal finance issue or challenge to the audience in immediate need of that information. By customizing and tailoring a message that reflects the hopes, desires, interests, life circumstances, and anxiety facing a particular group of Americans,

NEFE's collaborations have made financial education not only practical, but easily understood as people face crisis situations involving illness, disability, income insufficiency, housing, and other special situations.

For example, NEFE has for years worked with the American Red Cross on pioneering financial education for consumers related to disaster preparedness and disaster recovery. This material was created in cooperation with the American Institute of Certified Public Accountants (AICPA) Foundation and is available to all consumers through the American Red Cross in print and online.

In the health-care arena, NEFE developed a series of booklets with the American Cancer Society that address the financial challenges associated with what typically is a long-term and costly illness. Each booklet is calibrated to the different stages of cancer diagnosis and meets a high demand for this type of financial information from individuals and families served by American Cancer Society.

NEFE worked with the National Coalition Against Domestic Violence to help domestic violence victims move forward in life from a position of financial impoverishment and terror. This collaboration also included financial support from a national for-profit corporation.

A project with the American Indian College Fund led to a series of booklets for Native Americans facing the dual challenge of going to college and maintaining their cultural heritage. Titled *Develop Your Vision While Attending College,* the booklets feature graphics, vignettes, and themes drawn directly from Native American stories and life experiences to make the booklets' messages culturally relevant.

These are four examples of the types of targeted distribution and messaging to people facing unique financial challenges that make "just-in-time" financial education real and vital.

Strategic and Thought Leadership

NEFE sponsors conferences, think tanks, and symposia for the purpose of soliciting creative ideas and new perspectives on personal finance. These events gather and seek input from experts in the government, nonprofit, and for-profit sectors, including professional and academic disciplines. The collaborations result in research reports, white papers, scholarly articles, monographs, and other published works, which are disseminated to the financial services, academic, and nonprofit communities as our foundation's contribution to the existing body of knowledge in personal finance. In addition, the topics themselves may, at times, form the basis for new collaborative initiatives.

At least one such gathering has been held every year since 1999. These include:

- *The State of Financial Literacy in America: Evolutions and Revolutions (A Symposium)*
- *Financial Literacy in America: Individual Choices, National Consequences (A Symposium)*
- *Exploring Personal Financial Challenges and Opportunities Facing Latino Immigrants*
- *Closing the Gap Between Knowledge and Behavior: Turning Education Into Action*
- *Motivating Americans to Develop Constructive Financial Behaviors*
- *The Debt Cycle: Using Payday Loans to Make Ends Meet*
- *Financial Psychology and Life-Changing Events*

- *Long-Term Care: Our Next National Crisis?*
- *Financial Education in the Workplace*
- *Practical Applications of Life and Retirement Planning to Financial Planning*
- *Improving Family Financial Security: A Family Economics-Social Work Dialogue*
- *Retirement Planning in the 21st Century*
- *Frozen in the Headlights: The Dynamics of Women and Money*

Grant Making and Research

The NEFE Grants Program supports innovative research and research-based projects that infuse the advanced and powerful work being conducted by the financial education community within the disciplines of economics, neuroscience, sociology, psychology, marketing, finance, and others. Grant awards are given to organizations whose work can make a profound contribution, with unique and actionable application, to the field of financial literacy. Grants also are awarded to academic institutions to help build a body of knowledge in financial education, which can be applied by nonprofits, government, and other institutions.

As just one example of its grantmaking activities, NEFE funded a project undertaken by researchers at the University of Georgia that has resulted in the most significant evaluation tool yet to become available to the financial literacy community. The Financial Evaluation Toolkit provides a continuum measurement to demonstrate how far people progress when exposed to financial education. In addition, the toolkit's flexible design allows it to be customized for different organizations, audiences, and topics, and can be used on a national, regional, or local level. The toolkit will be released at the end

of this year and will be made available by NEFE, through its Web site, at no cost to financial educators nationwide.

In addition to administering its own grants program, NEFE has developed strategic partnerships with other organizations that share a similar philanthropic interest in the public's financial well-being. For example, NEFE manages a Financial Education Clearinghouse through a partnership with the philanthropic area of Ameriprise Financial, Inc. NEFE previously administered a grants program for the American Express Economic Independence Fund and currently administers a grants program for the National Association of Securities Dealers (NASD) Investor Education Foundation. In addition, we will soon announce a new agreement to administer the grants program of the Foundation for Financial Planning.

Recommendations for Federal Government Involvement

Despite these efforts and accomplishments, much remains to be done if we are to reach the goal of a financially literate citizenry. Based on NEFE's experiences, I believe that we have made a strong case for the power of partnering. The Federal Government can build on that power in a significant way. Allow me to offer a few ideas for your consideration.

- ***Lead by example.*** Research has demonstrated the effectiveness of financial education offered in the workplace. The Federal Government manages the largest workforce in the country. Financial education already is being provided by many Federal agencies and the U.S. military, often in partnership with the private sector. By evaluating what works best, the Federal Government can better leverage efforts, expand reach, and improve outcomes. In addition, by sharing

these findings with the private sector, those programs, in turn, can take steps to improve their effectiveness.

- ***Coordinate and communicate a unified message.*** Financial education is fragmented. More communication and coordination needs to take place among all participants in the public and private sectors who have a stake in increasing the financial literacy of Americans. The Federal Government can play a pivotal role in helping to combine these separate efforts into a more holistic approach that will have a greater impact and reach more Americans. Holding hearings like the one today is an excellent start. Another idea: The Federal Government could solicit the input of financial literacy groups to agree on a few key personal finance messages, which the groups would commit to using consistently in all of their information dissemination.

Repetition works, and sending the same messages to the public over and over again, from different sources and through different channels, can eventually motivate people to change negative financial behavior into positive behavior. Messages to emphasize might include: how the financial choices individuals make today affect the attainment of their goals tomorrow; the value of saving; the importance of making sound investment decisions; the critical need to prepare financially for retirement; and the importance of financial education for the nation's youth. Whatever the messages, however, they must be clear and fit into the context of people's lives.

- ***Sponsor a broad-based public awareness campaign.*** The $1.3 million NEFE "Smart about Money" campaign referenced on page 6 of this testimony has been

exceptionally well received by the public, generating over seven million hits to its related Web site in less than a year. Yet, Americans would be better served with an even more ambitious mass-market, multimedia effort in support of a national financial literacy initiative on the scale of the current "truth" campaign, developed through the Public Education Fund to discourage smoking among young people. Such a campaign, if appropriately funded, executed, and kept in front of the public for a sufficient period of time, could be highly effective in stimulating behavior change through action-oriented messages—spend wisely, save, plan and invest for the future—to counter-balance the commercial announcements to which Americans constantly are exposed.

- ***Build demand for existing programs.*** It is incumbent on those of us in the financial literacy community to work together to create demand for our programs and materials, as well as to avoid spending time, effort, and funds needlessly in recreating the many excellent programs and materials that already exist. The government also can seek ways to create interest in and demand for these resources through Federal outlets and other avenues. For example, the Federal Citizen Information Center is a popular resource for consumers, but the process of getting materials posted on the Center's Web site is time-consuming and costly. Is there a way to streamline this process? As an alternative, consider creating a national clearinghouse of existing financial education programs that have been properly vetted and are either free or low in cost. (Though appropriate disclosures, this can be accomplished to avoid the implication of government endorsement.) Take advantage of existing consumer channels, such as the

www.mymoney.gov Web site, to help make consumers aware of such resources by linking to their sponsors' Web sites. Use public service messages to promote the clearinghouse.

In addition, when good ideas are generated at the Federal level, use the government's reach to spread the word about them to the public. The U.S. Department of Labor, for instance, recently released a report of its 2006 National Summit on Retirement Savings. The report, "Saving for Your Golden Years: Trends, Challenges and Opportunities," contains a wealth of excellent recommendations for improving the financial literacy and retirement security of low-income workers, small-business employees, new entrants to the workforce, and workers nearing retirement. As just one example, the report suggests using the annual Personal Earnings Benefit Statement, which every American already receives from the Social Security Administration, to raise awareness of the gap between projected Social Security income in retirement and the assets needed to adequately replace pre-retirement income levels. A flier, included with the statement, could help every working American calculate the gap for his or her particular situation and establish a monthly savings goal to close this gap, calibrated to the age of the individual. Other opportunities for educating Americans using this statement include providing information about the risks and rewards of taking Social Security benefits early; special considerations for women in light of their longer life expectancy; and how to realistically evaluate sources of income, other than Social Security, that will be available to the individual at

retirement. Such messages can be changed each year and made age-appropriate on each statement.

- ***Reach out to a diversity of organizations.*** Look for input and ideas by soliciting the creative thinking of a diverse range of financial literacy experts and organizations. Benefit from the cross-fertilization of ideas by seeking the best thinking, resources, and support of as many contacts as possible. Consider creating task forces of experts in financial literacy to assist with—or at least advise on—facilitating more effective partnerships and increasing the public's demand for financial education. To maintain momentum, consult with these experts on a regular basis, in person, by conference call, and through electronic means, such as bulletin boards and online discussion groups.
- ***Look for partners who can provide a continuum of financial literacy education.*** Having a student go through a financial education program in high school and/or providing an employee with a financial education seminar at the workplace is a start, but it is not enough. "Just-in-time" financial information must be available throughout life so that individuals can acquire knowledge and change behaviors during points in their lives when they are motivated to change, or must make an important financial decision. The Federal Government can foster this continuum of education by soliciting partners who are experts in the following stages and areas of life: K-12 education; college; the military; the workplace; special situations (health, natural disasters, single parents, etc.); pre-retirement; and retirement.

- ***Consider establishing a "Financial Literacy Corps."*** Research has shown that one-on-one counseling provides the greatest potential to effect positive change in the management of one's finances. To expand the number of individuals who can provide the "feet on the ground," consider partnering with the private sector to establish a volunteer "Financial Literacy Corps." The Corps could be housed under an appropriate U.S. department or Federal agency, such as the Corporation for National and Community Service. This corps of volunteers would mentor individuals and groups in personal financial literacy using existing materials and resources. Corps volunteers also would provide existing "train the trainer" programs to enable community organizations to teach personal finance basics to their constituencies. A model for such a program is the Service Corps of Retired Executives (SCORE), a Resource Partner with the U.S. Small Business Administration. SCORE provides free, expert, problem-solving assistance to small businesses. SCORE has 10,500 volunteers in nearly 400 chapter offices across the U.S., and has helped 7.5 million small business entrepreneurs since its founding in 1964.

Never has the mission of financial literacy education been more critical. In this era of volatile financial markets, job uncertainty, rising debt, and declining savings rates, the ability to manage personal finances is becoming as important as the ability to read and write. The financial stability of families—and, by extension, of communities and the nation itself—is at issue. By building strong partnerships toward the common goal of improving the financial literacy of all Americans, we can leverage existing resources, brainpower, and efforts to reach every American with the positive message that they have

the ability to successfully assume responsibility for their financial well-being. They *can* do it. Ultimately, when individual Americans achieve greater financial stability, the nation as a whole benefits from a stronger, more stable economy.

The success of a nationwide financial literacy effort requires a combination of determination, resources, and affiliations. If education is the heart of the financial literacy movement, then partnering and cooperation are its helping hand.

Thank you for the opportunity for us to come together today, and thank you for your invitation to provide this input. We are available to respond to additional questions and provide more information about our programs, initiatives, and efforts at your request.

National Endowment for Financial Education

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www.nefe.org

www.smartaboutmoney.org

www.ntrbonline.org

Organizations Involved in NEFE Financial Literacy Initiatives
(Projects undertaken from 01/98 through 08/06)

Credit
- Fannie Mae Foundation
- National Foundation for Consumer Credit/ Financial Planning Association

Disasters
- American Red Cross (English/Spanish)
- FEMA/American Red Cross (English/Spanish)
- American Red Cross/ AICPA Foundation

General Financial Literacy
- American Express Foundation
- American Savings Education Council/EBRI
- Foundation for Financial Planning

Health
- Alzheimer's Association
- American Cancer Society
- American Foundation for Suicide Prevention
- American Liver Foundation
- American Stroke Association
- Arthritis Foundation
- Association of Retarded Citizens (The Arc)
- Easter Seals
- Epilepsy Foundation
- National Down Syndrome Society/MassMutual Financial Group
- National Kidney Foundation
- National Marrow Donor Program/The Marrow Foundation
- National Multiple Sclerosis Society/ Paralyzed Veterans of America

Health (cont'd)
- PACER (Disability)
- Paralyzed Veterans of America/National Spinal Cord Injury Association
- Spina Bifida Association of America
- United Cerebral Palsy

Human Services/Special Situations
- AARP
- American Foundation for Suicide Prevention
- American Humane Association
- Child Welfare League of America (Kinship Care Project)
- Child Welfare League of America/Women's Prison Association/Federal Resource Center for Children of Prisoners
- College Transition Network
- Mothers Against Drunk Driving
- NASD Foundation/ National Military Family Association
- National Alliance to End Homelessness
- National Association of Community Action Agencies
- National Association of Service and Conservation Corps
- National Coalition Against Domestic Violence
- National Coalition Against Domestic Violence/Intuit
- National Council on Problem Gambling
- Personal Finance & Adoption Coalition
- Prison Fellowship
- RESOLVE (Infertility)

Low Income

- Association for Enterprise Opportunity
- Alliance for National Renewal
- CFED/Fannie Mae Foundation
- Consumer Federation of America (America Saves)
- Dress for Success
- Enterprise Foundation
- Goodwill Industries International, Inc./Bank of America
- Habitat for Humanity International
- National Association of Service and Conservation Corps
- National Federation of Community Development Credit Unions
- National Fuel Funds Network
- RESCUE
- Salvation Army
- Share Our Strength (Operation Frontline)
- Volunteers of America
- Welfare to Work Partnership/Citigroup
- Women in Community Service/Bank of America
- Women Work!/Bank of America

Minority

- 100 Black Men of America/ Bank of America
- American Indian College Fund
- First Nations Oweesta Corporation
- Hispanic Scholarship Fund
- International Association of Jewish Vocational Services/ Bank of America
- Jewish Women International
- League of United Latin American Citizens
- NAACP/The Allstate Foundation
- National Black MBA Association, Inc.

Minority (cont'd)

- National Coalition of Asian Pacific American Community Development
- National Council of La Raza (English/Spanish)
- National Urban League
- Native American Community Development Corporation
- Opportunities Industrialized Centers of America
- United Negro College Fund
- United National Indian Tribal Youth, Inc.

Youth

- Annie E. Casey Foundation (Foster Care)
- Big Brothers Big Sisters of America/E*TRADE Bank
- Boys & Girls Clubs of America
- Boy Scouts of America
- Camp Fire USA
- Center for Youth as Resources
- Children's Scholarship Fund
- City Year
- College Access Network
- College Summit
- CUNA and America's Credit Unions
- Daniels Fund
- InCharge Education Foundation
- Idealist.org/Action Without Borders
- Jump$tart Coalition for Personal Financial Literacy
- Junior Achievement, Inc.
- Junior ROTC
- National Academy Foundation
- National Collegiate Athletic Association
- National Council for Community & Education Partnerships/ Gear Up

Youth (cont'd) • National Youth Employment Coalition • Schloarshop • USDA Cooperative State Research, Education, and Extension Service • Ventures Scholars • Washington State Department of Financial Institutions • Young Americans Education Foundation • Youth Service America/ State Farm Companies Foundation • Young Women's Christian Association • YouthBuild U.S.A.	

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NATIONAL ENDOWMENT FOR
FINANCIAL EDUCATION

Partnering for Financial Well-Being

Office of the President

Biography – Ted Beck

Ted Beck joined the National Endowment for Financial Education (NEFE) in Greenwood Village, Colorado as president and chief executive officer effective October 1, 2005. Prior to this appointment, Beck served as Associate Dean of Executive Education and Corporate Relations at the University of Wisconsin-Madison School of Business. UW-Madison's Executive Education division is one of the largest of its type in the United States with over 13,000 participants attending over 300 course offerings annually. Beck also served as president of the Center for Advanced Studies in Business, Inc. (CASB), a non-profit organization designed to support the activities of the Business School, and oversaw the operations of the Fluno Center for Executive Education. Prior to joining UW-Madison in 1999, Beck spent more than 20 years in senior management positions for Citibank/Citigroup. His most recent assignment (1995-99) as managing director and market manager was based in New York, where he was responsible for the banking groups covering three major client groups: the U.S. health care industry; international companies operating in the U.S.; and corporate clients in the northeastern U.S. He had previous assignments in San Francisco, Cleveland, Minneapolis, Chicago and Zurich.

Beck is an alumnus of the UW-Madison School of Business, where he earned his MBA in International Business in 1976. He served on the Wisconsin Business Alumni Board of Directors from 1983 to 1985. He earned his undergraduate degree in Business Administration from Notre Dame in 1975.

Prior to his move to Colorado, Beck served as Chairman of the Advisory Board of Directors of Gammex, Inc., and also sat on the boards of Keylab, Madison Committee on Foreign Relations, Inc. (MCFR), International University Consortium for Executive Education (UNICON), the Graduate School of Banking (GSB), and the Wisconsin Public Utility Institute. In addition, he was a member of the Board of Trustees of Edgewood campus schools. He has previously served on the boards of Citicorp Securities and the Cleveland Playhouse. Beck currently serves on the Wisconsin Alumni Association Board of Directors, and the national Jump$tart Coalition Board.

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Consumer Federation of America

Testimony of

Stephen Brobeck, Executive Director
Consumer Federation of America

Before

The U.S. House of Representatives
Committee on Financial Services
Subcommittee on Financial Institutions and Consumer Credit

On

Improving Financial Education to Increase Financial Literacy

September 28, 2006

I am Stephen Brobeck, executive director of the Consumer Federation of America. For three decades, CFA, and I personally, have sought to promote effective financial education to increase financial literacy. We commend you, Mr. Chairman, and members of you Committee for organizing these hearings and for providing us with the opportunity to explain our views about improving private sector financial education to increase financial literacy.

In this testimony, I will assume that the need for financial literacy is well-known and uncontroversial. Those interested in our views on the subject can reference our testimony before the Senate Banking Committee on financial education delivered on May 23 of this year. Instead, I will focus attention on the limits of financial education, the essential characteristics of effective financial education, one program which CFA helps lead that exhibits these characteristics, the single most important initiative we could take to promote financial literacy, and the role of the federal government in supporting this initiative.

The Limits of Financial Education

Financial education, whose aim is to increase financial literacy, is limited by its current weaknesses and by its inherent character.

Fragmented Character: The most important weaknesses of this education today relate to its fragmented character which, some say, reflects our society's lack of commitment to effectively providing this education. There are many institutions and individuals who are working with dedication and effectiveness to increase financial literacy. Many of their programs, including several in which we participate or lead, are described in the recently released "National Strategy for Financial Literacy" report. But these worthy programs do not begin to meet the financial literacy needs of our nation.

For a start, there is no coherent national strategy, or effective leadership of the implementation of this strategy, to meet these needs. Such a strategy must define as precisely as possible the needs themselves and how they vary for different population groups, effective programs needed to meet these needs, and a rigorous method for assessing the success of these programs.

In the schools, Jump$tart and its partners have made progress persuading state legislatures to pass financial education mandates. And, these mandates are in large measure responsible for the fact that hundreds of thousands of students now receive at least some financial education. Yet, many states still have not approved mandates, and in those which have, the education varies widely in intensity and effectiveness. The magnitude of the remaining challenge is reflected by Jump$tart's annual surveys of the literacy of students who have had financial education instruction that reveal little or no progress in knowledge levels. Moreover, it is not at all clear that even statistically significant increases in this knowledge adequately prepare students for the financial challenges of adulthood.

In communities, financial education efforts are even more fragmented. Just in the past decade, hundreds of public, corporate, and nonprofit organizations, including CFA, have initiated

their own financial education efforts. They have produced information on a wide variety of topics that they attempt to communicate to consumers through publications, audio-visual materials, the Internet, and workshops.

The quality of this information varies considerably. Some of it, for example, ignores the most important messages consumers should receive. There are many materials on the use of credit cards, for example, that fail to emphasize the importance of trying to pay off all balances on time each month and the risks of being unable to do so. These and other materials also often tend to communicate more information than consumers are prepared to read and digest. Unfortunately, the lower-income and least-educated consumers, who have the greatest need for this financial education, also tend to be those who have the most difficulty understanding complex materials.

There is little adequate evaluation of the effectiveness of all this community financial education. Most initiatives contain no assessment of consumer impact. Those that do tend to limit their evaluation to onetime surveys of the experience of participants. Very, very few attempt to study the longterm effect of the initiative on participant behavior and whether any behavioral changes are sufficient to meet financial services needs.

Importance of Motivation and Opportunity as well as Knowledge: As noted above, financially literate persons must have adequate knowledge to effectively manage their financial resources, and the goal of financial education is to provide this literacy. However, since this literacy is only one condition necessary for effective management of resources, financial education alone cannot assure this skillful management. Two other conditions must also obtain: Consumers must value this skillful management enough to learn and practice it. And, there must be accessible opportunities in the marketplace for utilizing these skills.

The following examples illustrate the importance of all three conditions -- knowledge, motivation, and opportunity:

- Only employees with access to retirement plans at work can easily save for retirement. But they must want to participate in these voluntary plans, and they must know how to do so in ways that serve their longterm financial interests. That usually entails keeping most funds in equities not "safer" money market funds.

- The knowledge necessary to maintain an emergency savings fund is not complicated. But one must value this savings highly enough to keep a separate savings account with balances sufficient to meet normal financial emergencies. For lower-income individuals, it is easier to open such accounts if financial institutions set low opening and minimum balance requirements. And it becomes much easier to maintain adequate balances if employers and financial institutions permit, even encourage, split direct payroll deposits into saving as well as checking.

- Aggressive credit marketing and its "deceptive" pricing make it difficult for many consumers, especially the inexperienced, to use and manage debt wisely. They assume

that, if a financial institution offers them credit, they can afford it and that, if they are able to make minimum credit card payments and initial payments on ARMs or interest-only mortgages, this credit is sustainable. So, many think they have little need to manage their debts carefully, for instance, until their credit card balances are so large that 2 percent monthly payments are burdensome or until ARM rates rise or until principal must be repaid on an interest-only mortgage. In our opinion, the only effective way to address these problems is for lenders to be more responsible about extending credit ("limiting credit opportunities") and intervening at the first sign of payment difficulties, perhaps by urging consultation with credit counseling agencies.

This past point deserves emphasis. Financial education cannot, by itself, ensure sensible financial decisions by consumers. In addition to supporting the development and spread of effective financial education programs, governments need to ensure that consumers have access to adequate information about financial products and protect vulnerable consumers against egregious abuses. Federal legislation requiring truth in lending and truth in saving, for example, have given consumers important tools for evaluating and comparing financial products. And, protections requiring that securities are sold "suitably" provide important safeguards against the sale of highly unsuitable stocks and bonds to investors. Given the recent proliferation of some very risky mortgage products, suitability standards should be developed that apply to their sales as well.

Characteristics of Effective Financial Education Programs

Truly effective financial education programs share two general characteristics: They work -- that is, they produce desired behavior change -- and they have the capacity to "go to scale" -- that is, they can reach large numbers of consumers.

Unfortunately, we have no idea whether the vast majority of financial education initiatives really work because their impacts have never been carefully studied. That is not to say these unexamined programs have no value. For the past 12 years, for instance, CFA has led a Consumer Literacy Consortium of national governmental, nonprofit, and corporate groups which carefully developed key consumer money-saving tips then distributed, on request, nearly two million copies of its "66 Ways to Save Money" brochure through the Federal Citizen Information Center, where it remains the most popular publication, and through other national networks. Frankly, we have no idea exactly what consumer impact this brochure, and related website, have had, but continuing strong consumer demand for this information, coupled with the program's low cost, strongly suggest it is cost-effective. That said, no-one in the Consortium believes that this initiative should serve as the cornerstone of a national financial education program -- it is much too limited in scope and ambition.

Accordingly, for financial education programs to be seriously considered as model programs they must give evidence, through rigorous evaluation, of significant behavioral change resulting in satisfactory ability to manage financial resources. There are some initiatives, described in the "National Strategy for Financial Literacy," that offer much promise for meeting these criteria. We are most familiar with the America Saves program, which in local and

regional areas (often with Cooperative Extension leadership) has recruited public and private organizations to undertake campaigns to enroll thousands of nonsaving individuals as Savers. These participants are required to make written commitments to implement a specific plan that they have developed to meet a savings goal. To date, nearly 60,000 Americans, about half of them African-American or Hispanic-American, have enrolled as Savers. And, assessments funded by The Ford Foundation have revealed that, in the aggregate, these Savers are saving $.50 on each pledged dollar.

Just as importantly, as a related assessment reveals, the local campaigns have persuaded important local institutions, particularly financial institutions and employers, to more effectively promote saving. For example, in several dozen areas where campaigns exist, most banks and credit unions have lowered opening and monthly savings minimums considerably so that less affluent families can afford to begin building savings.

The America Saves program is relatively successful in large part because it seeks not only to communicate important financial information, but also to motivate individuals to apply this information in their financial lives and to create opportunities for the application of this knowledge. And, the program is expanding, both conceptually and physically, so that it can now realistically aspire to positively influence hundreds of thousands of Americans.

This program cannot solve all financial problems or fully prepare participants to effectively manage their financial resources. Its principal goals have been to jumpstart personal saving and wealth-building and to create an institutional environment that supports this wealth-building. So, no-one with the some 1000 participating organizations believes that the program in and of itself is sufficient. But the experience of America Saves does suggest that there are great benefits to organizing a broad array of influential institutions to work together to develop and implement programs -- which combine knowledge with motivation and opportunity -- to change consumer behaviors in ways that are measured and evaluated.

In our view, many of the most successful future efforts will be closely linked to "products" that are sold by institutions which can reach millions of Americans. These organizations include employers, tax preparers, banks and credit unions, other mortgage lenders, mutual funds, credit counseling agencies, the military, and schools. There is increasing study and experimentation in this area, which should be encouraged. One especially promising initiative, for example, involves "financial education" by employers and financial institutions to persuade employees to split directly deposited paychecks into saving as well as checking. Nearly three-quarters of employees now directly deposit these paychecks, the ACH technology allows such splitting, and once employees have agreed to the split, saving is automatic.

Linking Existing Financial Education Programs Through a New Initiative

As noted earlier, an important reason financial education programs are relatively weak is that they are so fragmented. Can they somehow be linked, not institutionally but programmatically, to provide greater program coherence, mutual support, public identity and visibility, and attractiveness to the tens of millions of Americans with financial literacy needs?

Unfortunately, general messages, even the tested, relatively effective ones of programs such as America Saves -- "Build Wealth Not Debt" and "You Can Build Wealth" -- are too diffuse to meaningfully link diverse financial education programs. A more effective linkage would involve a call to a specific action that is personally relevant to consumers. We believe the most effective call would urge consumers to estimate then periodically monitor their net personal wealth.

As financial educators as diverse as columnist Michelle Singletary, the Financial Planning Association, and my own organization have concluded, awareness of net personal wealth is an important motivator for better money management, debt management, and savings accumulation. People who have a pretty accurate idea of their wealth -- real and financial assets minus debts -- are more likely to spend money carefully, monitor their finances, live within their financial means, and patiently accumulate wealth through 401k contributions, amortizing mortgage payments, and other savings strategies. In other words, if Americans were more aware of their net personal wealth, they would be receptive to a broad array of financial education programs that helped them monitor, conserve, and accumulate financial resources. In a recent column, Singletary noted the parallels between keeping track of your physical weight and your net personal wealth. While weight-watching does not always result in weight-restraint, for many it is a precondition and motivator for such restraint.

In such an initiative, there would be a great benefit to having one or two wealth estimators that financial educators would recommend and even help consumers use. The America Saves wealth-estimator fairly easily helps one estimate their current net assets and their future wealth-building potential. But there are other useful asset estimators. Perhaps the most valuable would be one developed and promoted by a credible federal agency, such as the Federal Reserve Board, which all other financial education organizations also promoted and linked to.

Would using such an estimator be too discouraging for the tens of millions of Americans with few assets, including nearly one-tenth of households with negative net wealth? In our view, that might be the case for some but not for most of these individuals and families. There is a simple reason. People tend to grossly underestimate their capability to build substantial personal wealth over time through the combined working of regular deposits and interest compounding. In a new America Saves pilot financial education program with National City Bank, in which a series of case study scenarios show how less affluent households can build six or even seven-figure assets, hundreds of participants with modest incomes have gained hope that they too can build personal wealth. In doing so, they have become more optimistic about their financial futures. When we begin to carefully study any related behavioral changes, we are confident we will learn that this "How to Save $1 Million" program has also persuaded many participants to manage their money and debts more carefully.

What could the role of the federal government be in such an initiative? For it to collectively mobilize its resources behind a public/private initiative to encourage and assist all Americans to estimate and monitor their net personal wealth would give such an initiative a big boost. That boost could involve not only making available and promoting wealth estimators, but also encouraging and assisting a wide array of non-governmental organizations, especially financial institutions who service virtually all American households, to join the initiative.

Testimony of David S. Chernow

President and Chief Executive Officer

JA Worldwide

House Committee on Financial Services
Subcommittee on Financial Institutions and Consumer Credit
September 28, 2006
10:00 AM

Improving Financial Literacy—
Working Together to Develop Private Sector Coordination and Solutions

Mr. Chairman and Members of the Subcommittee,

It is a true honor and privilege to be with you this morning as we meet together to discuss this very important topic.

In my role as President and CEO of JA Worldwide, I represent over 2,600 professional staff, working in over 100 countries throughout the world, in our shared goal of inspiring and preparing young people to succeed in a global economy.

Here in the United States, nearly four million Junior Achievement students annually participate in hands-on, experiential learning programs that are delivered at over 20,000 different schools, by over 135,000 business volunteers in nearly 170,000 classrooms. Our programs span the wide spectrum of business, economics, and free enterprise education—with a focus on what we believe are the three key elements of preparation of our young people's future success: workforce readiness, entrepreneurship, and financial literacy.

To put it as simply as I can, time is of the essence. We are experiencing an epidemic in this country. Financial illiteracy is threatening sustained economic growth and development of the

populace. And what we have learned is that this problem cannot be solved alone.

And that is why I want to share with you today a few words on the topic of collaboration and partnership in financial literacy education. One of Junior Achievement's core values is a belief in the power of partnership and collaboration. Junior Achievement is particularly dedicated to working with the private sector. Each and every one of Junior Achievement's programs delivered to students in the U.S. requires the active involvement of trained business volunteers.

This private sector commitment to financial literacy education is a key component of our success and something we believe is absolutely essential in our efforts to improve financial literacy in our country. Private sector volunteers serve as meaningful role models to our youth as they share their personal and professional insights with students who sincerely wish to prepare for financial stability in their lives.

I also want to emphasize the value of partnership and collaboration among fellow non-profit organizations. Rather than continuously re-inventing the wheel in the financial literacy arena, it is much more efficient for non-profit organizations to pool our limited resources to reach as many youth as we possibly can.

This is something to which Junior Achievement has been particularly committed in recent years. Since 2004, for example, we have been pleased to join with the Jump$tart Coalition for Personal Financial Literacy and the National Council on Economic Education in establishing the Partnership for Financial Education Policy. This partnership sponsors the annual Financial Literacy Day on the Hill event and arranges other activities in consultation with the Financial and Economic Literacy Caucus.

Similarly, several months ago we entered into a collaborative arrangement with America's Credit Unions and the Credit Union National Association (CUNA) to develop a new financial literacy and entrepreneurship education television series for children, aptly entitled *JA's BizKid$*. This new program, to be aired on PBS stations nationwide next year, is being produced by the team who brought us

Disney's Bill Nye the Science Guy. By pooling resources and expertise, America's Credit Unions and JA Worldwide will be able to bring financial literacy education to literally millions of children in large and small communities across our great country.

Another collaboration worthy of mentioning is our new relationship with the National Endowment for Financial Education (NEFE). Beginning next year, Junior Achievement business volunteers will take NEFE's award winning High School Financial Planning program into high school classrooms throughout the U.S. to extend the reach of this great curriculum to tens of thousands of new students each year.

Although our focus today is on collaboration among private sector groups, I would also like to briefly note our commitment to similar collaboration with government, at the federal and the state and local levels. Like our involvement with the private sector, this coordination is perhaps most critical at the local level. While Junior Achievement's programs are developed by our Worldwide headquarters, each of our local chapters works closely with state and local school officials to determine the most appropriate programs for the local market, and to integrate state education standards into our curricula.

Of course, we also are committed to partnering with policymakers at the federal level. As noted, we work closely with the Financial and Economic Literacy Caucus here in Congress. We also are involved with the Financial Literacy and Education Commission and are working on specific initiatives with individual federal agencies such as the Small Business Administration. These collaborations represent the types of partnerships we remain committed to in our shared quest of providing quality financial literacy education to today's youth.

We applaud the efforts of this Committee to keep its eye on such a critical issue facing our youth. And we thank you for allowing us to share our thoughts with you today.

Testimony of

Julie Cripe

On Behalf of the

AMERICAN **BANKERS** ASSOCIATION

Before the

Subcommittee on Financial Institutions and Consumer Credit

Of the

Committee on Financial Services

United States House of Representatives

September 28, 2006

Testimony of Julie Cripe
on behalf of the
American **Bankers** Association
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Mr. Chairman and members of the Committee, my name is Julie Cripe and I am President, Chief Operating Officer and Director of OmniBank, N.A. in Houston, Texas. OmniBank has roughly $325 million in assets and has been in existence for 52 years. I am also Chair of the American Bankers Association Education Foundation Board. For more than eighty years the Education Foundation has supported the banking industry's efforts to teach personal finance skills in schools and communities across the country. I am here today on behalf of the American Bankers Association (ABA) to address the role of the banking industry in promoting financial education for Americans.

ABA, on behalf of the more than two million men and women who work in the nation's banks, brings together all categories of banking institutions to best represent the interests of this rapidly changing industry. Its membership – which includes community, regional and money center banks and holding companies, as well as savings associations, trust companies and savings banks – makes ABA the largest banking trade association in the country.

I want to thank Chairman Bachus for holding this hearing and inviting members of the banking industry to testify on this important topic. I also want to acknowledge the work

of Representatives Biggert and Hinojosa who co-chair the Congressional Financial and Economic Literacy Caucus. Their leadership of this group – which includes most of the members of this subcommittee – shows their commitment to increasing outreach aimed at financial literacy. Representatives Biggert, Hinojosa, Green, Tiberi, and Costa also joined bankers in elementary school classrooms last April as part of the ABA Education Foundation's National Teach Children to Save Day (see attachment A). We had a record 10,000 bankers in classrooms that day and it is particularly gratifying when bankers and Members of Congress can join together to teach children the importance of saving for the future. Coming up on October 19, the ABA's Education Foundation is sponsoring another annual event called National Get Smart About Credit Day. I also want to acknowledge Representatives Lucas, McCollum, and Schwartz who plan to participate in credit education lessons to groups of teenagers and young adults in high school and college classrooms and community centers that day.

As bankers, we are in the fortunate position of helping other people make their dreams come true. Bankers put people in homes and cars, they create jobs by funding the start-up and continuing operations of small businesses, and they help people save for retirement and send their kids to college. Yet it is heart-breaking that so many people fail to realize their dreams or lose their hard-earned money because they lack basic knowledge about money management.

Our individual institutions and our industry as a whole are uniquely suited to helping stop the cycle of financial illiteracy. We recognize that everybody has a vested interest in being as smart about their money as possible. Through the efforts of thousands of bankers every year and the work of the ABA Education Foundation, we hope to make a difference. All of us need to work together to produce and distribute financial education materials and

sponsor outreach programs. The groups testifying today know each other well and we always look for ways to enhance what each is doing. Coordination is a natural complement to the individual programs and methods of learning that each of us produce, which are tailored to the particular needs of our audiences. For banks, we tailor products to serve the unique demographics of our particular communities.

For my bank, 91 percent of our loans are in low- to moderate-income areas. Recently, OmniBank hosted a Congressional Teach Children to Save event with Congressman Al Green for forty fifth-graders at a charter school in Houston. Congressman Green participated directly in the savings education lesson and was so moved by the enthusiasm for the lesson that he pledged $10 to each of the savings accounts we opened for the students. Mr. Green promised to come again next year to see how the children are doing with their savings. I also recently attended a Teach Children to Save Day in San Antonio, which was sponsored by the ABA Education Foundation and Citigroup. The event was in a low-income area, was also attended by the superintendent of schools, and served more than 100 elementary school children. Students worked hard determining needs and wants, and also learned the importance of saving some money for charitable donations.

As my testimony will illustrate, my example is not unique. Each year, more and more bankers take to classrooms, churches and community centers to help people learn about budgeting, saving for the future, and managing credit wisely.

In my testimony today I would like to make four points about financial education:

- Financial education is vitally important in today's complex society and the banking industry will continue to play a key role in expanding outreach efforts.

- The ABA – particularly through its Education Foundation – is working to provide bankers with the tools necessary to expand outreach activities across our country.

- Collaborative efforts among businesses, non-profit organizations, and government agencies will help to leverage each sector's own efforts to provide a variety of choices for consumers to learn about managing money.

- There are several ways the federal government can enhance delivery of financial education.

Financial Education is Important and Bankers Are Actively Involved

As technology and innovation continue to advance, the world continues to become more and more complex. The myriad of options across all industries and products complicates the ability of consumers to make informed decisions. With regard to financial services, the number of available options makes the challenge of money management more difficult and the banking industry is evolving to better meet the needs of its customers. Yet financial illiteracy remains a problem. Basic money management skills are often lacking in adults today and many parents feel unprepared to teach their kids about money.

Few schools in America today are providing basic education in personal economics. Only seven states currently require high school students to complete a course that includes personal finance in its syllabus prior to graduation. And, only a few additional states are

slated to incorporate financial education into their curricula in coming school years. Furthermore, many teachers are not trained to teach personal finance, and many have never even taken a basic economics course.

One aspect of the seriousness of the financial literacy problem is that it can linger for decades – even lifetimes. Those who are uneducated about banking services often turn to check-cashing services and payday lenders to address their financial needs. They pay more than they have to for financial services in a very competitive market and are easy prey for criminals and fraudsters.

The problem has been widely acknowledged by government agencies, cabinet secretaries, lawmakers and other public- and private-sector organizations and leaders. But no industry has a bigger stake in improving America's financial education than banking. An educated consumer base benefits both the economy and the local community, and educated consumers are better customers. Thousands of bankers are in fact taking the lead in communities nationwide with financial education programs aimed at adults, children, high school students, senior citizens and those with limited access to financial services, including recent immigrants and low- to moderate-income residents.

For example, Citizens State Bank of New Baltimore, Michigan has embraced financial education as a means to address frightening statistics about financial literacy among young people. The bank sponsors an in-school program in which elementary school children operate a make-believe bank. The children apply for banking jobs, are interviewed and "hired" as branch managers, assistant managers, tellers, marketing workers and security guards. The lessons learned through the school are further enhanced when real bankers – employee volunteers – go into the schools to teach savings and credit lessons.

Canandaigua National Bank & Trust, located in Canandaigua, New York, promotes financial education through its Web site. Through a series of "Life Situations," such as graduating, getting married, starting a family, and buying a home, the Life Situations program illustrates the financial challenges posed by such situations and the steps needed to meet them. Clicking on any of the Life Situations leads to Canandaigua National Bank's "CNB University," Web section which provides topical articles, Internet links, and other information geared toward helping consumers make sound financial choices.

First National Bank of Chester County, located in West Chester, Pennsylvania launched its financial education program two years ago. As part of the program, First National established a school bank for deposits and arranged periodic bank tours for kids at its main office. Last year, the bank added two fifth-grade classes to its program at the behest of teachers. Among other things, the fifth-graders learn how to enter transactions into a check register, how to add and subtract them properly, and why it's important to keep records of what they take out and put into their accounts.

Another example involves Wayne County Bank in Waynesboro, Tennessee. Last year four employees of the bank received awards from the Tennessee Bankers Association for making numerous financial education presentations between July 1, 2004 and April 1, 2005. Another six employees received similar recognition. Bank employees visit each school in the county at least once per week, with four employees attending each visit.

Wayne County Bank also has operated a school bank for 15 years that enables students to make deposits. But it adds a twist to that concept with a popular "money wheel." Every time a student makes a deposit, a bank employee spins the wheel, and

whatever slot the wheel stops on - $1, $2, $5 (which once a month changes to $10) – Wayne County Bank adds that amount to the deposit.

Initiatives such as these exemplify the role banks play with respect to financial education in their communities, especially the school system. By promoting familiarity with bank employees and financial concepts in general, banks are building trust and confidence, and creating a win-win situation. Such investment pays off not only in present and future business, it undoubtedly boosts the financial literacy of the entire community.

The ABA Continues to Promote and Provide Resources to Advance Financial Education Outreach

Banks are not alone in their efforts. The ABA continues to promote financial education programs that are utilized by bankers and by the general public. The ABA Education Foundation ("Foundation") is committed to educating consumers of all ages about money and helping bankers serve as a source of user-friendly financial information. The Foundation's programs are specifically developed for the banking industry and enable bankers to provide young children, teenagers and adults the skills they need to budget, save and manage credit. They include hands-on presentations, online courses, booklets, Web sites, and newsletters. (see Attachment B)

Among the programs sponsored by the Foundation are "Teach Children to Save" and "Get Smart About Credit." Every April, National Teach Children to Save Day brings bankers into local schools to talk with students and their teachers about savings and money management. Since its inception in 1997, over 46,000 bankers have entered classrooms to teach lessons about the importance of saving money to almost 2 million students nationwide. The Foundation also makes Teach Children to Save resource kits available

which include age-appropriate lesson plans, student worksheets, display posters, and media tips and talking points.

Every October, on Get Smart About Credit Day, hundreds of bankers across the country trade their balance sheets for black boards and volunteer in classrooms to teach kids the do's and don'ts of credit. Nearly 70,000 students have learned how to use credit wisely through the Get Smart About Credit Day program, which is now in its fourth year. The Foundation offers a resource kit for this program as well which includes an introductory video, lessons on credit and debit payment options, lessons on identity theft, pre- and post-tests, and communications tools.

Recently, the Foundation created a new Get Smart About Credit eLearning Program as a means for making it easier for bankers to teach financial skills. Earlier this year, my bank became the first in the country to offer the program. The Foundation also offers the program in Spanish. Based on the Get Smart About Credit resource kit, the self-paced interactive program gives teens and young adults an online experience where they learn how to obtain and manage credit. The eLearning Program allows the cause of financial literacy to be further advanced and adds an extra layer of convenience for students. Banks can offer the program on their own Web sites, and they can brand it with their own logo and color-customized screens. The program even allows banks to track how many students and young adults they have reached.

Teach Children to Save Day and Get Smart About Credit Day are just two examples of what the Foundation is doing to increase financial education. The number of bankers involved and the number of students reached through these programs by no means capture

what the banking industry as a whole is doing. Indeed, bankers are reaching more and more people every day, teaching lessons on budgeting, credit and savings.

Together with the Foundation, the ABA has produced its Toolbox on Financial Education. Designed as a resource tool for bankers all across the country, it contains five separate books that provide guidance to banks on how to start, or enhance, a financial education program.

The Toolbox includes information on how to measure success and how to partner with community-based groups. It also contains case studies from bankers who have developed their own comprehensive financial education programs. Furthermore, the Toolbox contains 14 Web pages that banks can add directly to their own Web sites, including a Parents Guide: Teaching Your Kids About Money. Finally, the Toolbox provides tips for effective presentations and three detailed lesson plans on budgeting, saving, and understanding a credit report. It also encourages bankers to participate in Teach Children to Save Day and Get Smart About Credit Day.

The ABA has taken other steps to reach the public directly. The ABA Web site contains a "Consumer Connection" section through which consumers can obtain information and advice on banking and personal finance directly. The page includes information related to creating a budget, establishing good savings habits, managing credit effectively, and protecting against identity theft and predatory lending scams. The page also includes interactive tools such as a mortgage calculator, a lease calculator, an investment calculator, and a retirement calculator.

Finally, the Consumer Connection section contains the Family Savings Goal Worksheet. The worksheet can be downloaded or printed and is designed to get the entire

family involved in establishing and reaching savings goals for things such as an outing to the local amusement park, or a once-in-a-lifetime vacation.

Collaboration and Individual Efforts Create a Variety of Choices

If we were to start from scratch, delivery of financial education would surely look different than it does today. Like our system of highways, the numerous financial education programs available are not the result of a centralized effort to bring financial literacy to every corner of America. Rather, they are the product of separate and distinct undertakings by businesses, non-profit organizations and governments. Just as individual roads were initially constructed to meet the particular geography and needs of varying communities, so too have financial education programs been developed to meet the specific needs of unique and varying communities. As with the highway system, the key is to interconnect all of these pathways in an effort to promote greater efficiency, while simultaneously encouraging continued development of new and innovative programs.

Interconnecting the financial education efforts of individual entities is a natural complement to the work that is already being done. While numerous organizations are reaching a lot of people through distinct endeavors, we all recognize the benefits that can accrue from working together and we are building bridges to connect our separate efforts. As I mentioned earlier, my bank hosted a Congressional event for a charter school in Houston that was attended by Congressman Green. And banks all across the country are participating with other Members of Congress and local leaders in both Teach Children to Save Day and Get Smart About Credit Day.

The ABA Education Foundation also benefits from working with other organizations. It has formed financial literacy partnerships with several national

organizations such as the Jump$tart Coalition for Personal Financial Literacy and with Scholastic Inc., the world's largest publisher of children's books. The Foundation has also worked with the U.S. Department of the Treasury, pairing Treasury officials with local bankers for participation in National Teach Children to Save Day since 2001. And, the Foundation features the FDIC's Money Smart program on its Web site and encourages its use among bankers.

Yet it is important to bear in mind that there are certain limits to collaboration. America is a melting pot of differing peoples and cultures. Because individual banks serve unique and varying communities, the financial education programs employed by one bank may not be of the same value to another because their audiences might be different. As I noted earlier, 91 percent of the loans my bank makes are to lower- and middle-income Americans. Thus, the financial education programs we employ are specifically designed to reach this audience and may not be the best fit for banks located in other communities.

Just as there are benefits to collaboration, there are also benefits to encouraging individual creativity. Banks are in the best position to adapt financial education programs to meet the needs of the communities they serve. This includes determining what channels are most appropriate for delivery. Whether it's hands-on classroom presentations, video presentations, interactive Internet programs, brochures, Web links, or some combination of teaching methods, banks are well-poised to decide which roadways to financial literacy make the most sense for their communities.

Our national highway system promotes efficiency by interconnecting pre-existing roadways. However, just as there are benefits to interconnectivity, having multiple options when traveling from one place to another is also of benefit. Collaboration with regard to

financial education will also promote efficiency and should be encouraged, but not at the expense of creative solutions designed to address unique community needs. I think we can all agree that a choice in learning products is always a good thing.

The Federal Government Can Enhance Delivery of Financial Education

While bankers, nonprofit organizations and governments are doing much to promote financial education on their own and in collaboration, there are several ways in which the federal government acting alone can help in this effort.

Encourage Bank Regulators to Grant CRA Credit for Financial Education Activities

Congress can encourage bank regulators to grant Community Reinvestment Act ("CRA") credit for all financial education programs. Under the current CRA regulation, credit for financial education efforts is given only for programs targeted to low- and moderate-income (LMI) areas or individuals. The banking agencies should eliminate this obstacle.

Many banks have reported that examiners require them to document the percentage of financial education program participants that are LMI. This draws an artificial and inappropriate distinction between programs that are targeted to LMI consumers, and those that are not. Clearly, consumers from all socioeconomic levels stand to benefit from additional financial education. As the ABA has reminded the agencies for years, the CRA is about banks helping to meet the credit needs of their ***entire*** community, not just LMI residents or neighborhoods. By allowing full CRA credit for any financial education program offered by a bank, without reference to a percentage of LMI participants, the banking regulators will encourage greater financial education outreach.

Furthermore, it is often difficult for community banks to find appropriate CRA investment opportunities. Providing CRA credit investments for financial education programs would help alleviate this problem. It would also address another shortcoming of the current system, which only allows credit for eLearning products that are directed at first time homebuyers. This is too late to start helping people with credit and savings advice.

Incorporate Financial Education into Existing School Lessons in a Meaningful Way

The Department of Education should incorporate financial education into existing school lessons in a meaningful way. Through direct involvement in coalitions (such as the Jump$tart Coalition) and participation in discussions centering on the goal of bringing financial education to students at the earliest possible convenience, the Department of Education can lend credibility and funding to ongoing efforts to make financial education resources and teacher training available to schools nationwide.

Sponsor Public Service Announcements with Basic Money Management Lessons

The federal government can sponsor public service announcements relating to basic money management lessons. Public service announcements can be an effective way to deliver simple lessons on budgeting, savings and credit. Partnering with nonprofit organizations to develop and produce these is an effective way to leverage resources and expertise.

Provide Financial Support for Existing Activities

Providing financial support for existing activities not only complements what the federal government is already doing, it may be a more effective use of resources than putting the federal government forward as an organizing and screening "body" for all financial education efforts. There are many creative organizations that deliver high quality

educational materials quickly and efficiently. The Jump$tart Coalition, for example, was created by and still engages content specialists and educational experts who ensure that materials meet a set of recognized standards and benchmarks. The coalition provides a clearinghouse for these educational materials, reviews and screens new and available resources, organizes and updates information about available resources, and makes that information available online. Offering financial support for such activities should be encouraged as it ensures their continued success while not being unnecessarily duplicative.

As previously stated, coordination between the public and private sector is important. However, attempting to organize and distribute the depth and breadth of material that each sector has created would be a frustrating exercise that is likely to fall short of expectations. Rather, it makes more sense to support and fund that which already exists and involves educators and academics.

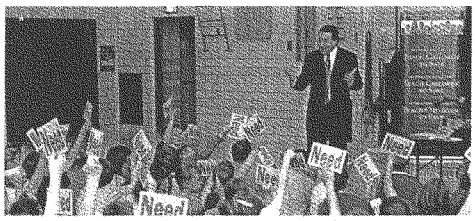
Conclusion

Financial education is vitally important, and as the financial world becomes more and more complex, the banking industry will continue to play a key role in expanding financial education outreach efforts. Thousands of bankers nationwide are taking active roles in developing programs in their communities. Organizations such as the ABA Education Foundation are working to provide bankers with the tools they need to enhance their individual programs. Because the issue of financial education is so important, we all need to work together to create programs that best meet the needs of all Americans. Individual businesses, non-profit organizations, and government should continue to develop financial education programs specifically designed for their particular audiences, while seeking to also work together to provide a variety of choices for consumers to learn about managing their

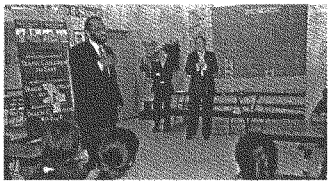
money. Finally, the federal government can help by encouraging bank regulators to grant CRA credit for financial education programs; supporting the inclusion of financial education programs into school lessons; sponsoring public service announcements that teach basic money management; and providing financial support for existing programs with proven track records.

AMERICAN BANKERS ASSOCIATION EDUCATION FOUNDATION
10TH ANNUAL NATIONAL TEACH CHILDREN TO SAVE DAY

2006 Congressional Events



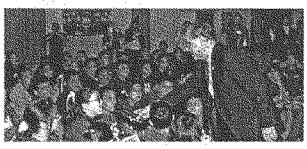
Rep. Pat Tiberi (OH-12)



Rep. Al Green (TX-9)

Rep. Judy Biggert (IL-13), Co-Chair, House Financial Literacy Caucus

Rep. Jim Costa (CA-20)



Rep. Ruben Hinojosa (TX-15), Co-Chair, House Financial Literacy Caucus

National Partnerships with the ABA Education Foundation

The ABA Education Foundation has formed financial literacy partnerships with several national organizations. These organizations are all involved with education and/or working with young people and offer opportunities for partnerships at the local level.

In addition, you may have organizations in your state or local area that are receptive to working together. These groups offer resources and access to target audiences and can provide assistance in getting your educational programs to the right people.

America's Promise **www.americaspromise.com**

ABA's partnership with America's Promise builds on the lasting contributions bankers make in their communities on a daily basis. Every day across the country, banker volunteers are teaching financial skills, providing resources for young people in after-school programs and working through America's Promise to build a brighter future at the local and national level.

Family, Career and Community Leaders of America (FCCLA) **www.fcclainc.com**

The FCCLA network of chapters boasts over 227,000 active member students in all 50 states, the District of Columbia, the Virgin Islands and Puerto Rico. Under the leadership of a teacher/adviser, the chapters focus on promoting personal growth and leadership development through the family and consumer-sciences education.

Jump$tart **www.jumpstart.org**

The Jump$tart Coalition for Personal Financial Literacy seeks to improve the personal financial literacy of young adults. Jump$tart's purpose is to evaluate the financial literacy of young adults; develop, disseminate and encourage the use of curriculum standards for grades K-12; and promote the teaching of personal finance.

FDIC's "Money Smart" **www.fdic.gov**

The FDIC's Money Smart training program is designed to help adults outside the financial mainstream enhance their money skills and create positive banking relationships. This curriculum contains a set of 10 comprehensive units, and is available in several languages to bankers at no cost.

Operation HOPE **www.operationhope.org**

Operation HOPE, a national nonprofit self-help organization, seeks to bring economic self-sufficiency and a sustained spirit of revitalization to America's inner city communities. Operation HOPE measures success through the number of conversions of people who use check-cashing outlets into depositors at banks; renters into homeowners; people with dreams into small business owners; and minimum-wage workers in inner-city communities into living wage workers.

Scholastic **www.scholastic.com**

The ABA Education Foundation teamed up with Scholastic, the largest publisher and distributor of children's books, to create "Money in Motion," a program that helps educate teens about financial skills they will need to become financially responsible adults. Through this partnership, the foundation has brought financial teaching materials to 35,000 teachers across the country. Program lesson plans and handouts are available to bankers upon request by calling 1-800-BANKERS.

Children's Financial Network **www.childrensfinancialnetwork.com**

Neale Godfrey has more than 20 years of experience in the financial field as a banker, author and frequent commentator on national television. A mother of two, she founded Children's Financial Network more than 10 years ago to educate children and parents about money. She has written two books ("A Penny Saved" and "Money Doesn't Grow on Trees") on teaching children the values and life skills they will need to live in a complex financial world today.

WRITTEN TESTIMONY OF
DONALD D. KITTELL
EXECUTIVE VICE PRESIDENT
SECURITIES INDUSTRY ASSOCIATION

BEFORE THE
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS
AND CONSUMER CREDIT
OF THE HOUSE COMMITTEE ON FINANCIAL SERVICES

HEARING ON FINANCIAL LITERACY

SEPTEMBER 28, 2006

Chairman Bachus, Ranking Member Maloney and members of the subcommittee, I am Donald Kittell, Executive Vice President of the Securities Industry Association.[1] I appreciate the opportunity to testify on the challenge of financial literacy and the efforts of our industry and our member firms to meet that challenge. Investor education is a topic that the securities industry and I, personally, are deeply committed to addressing, and we are very proud of our accomplishments. Similarly, we support and applaud your efforts to improve Americans' financial literacy, as well as the many initiatives undertaken by the Administration and the organizations testifying here today.

[1] The Securities Industry Association brings together the shared interests of more than 600 securities firms to accomplish common goals. SIA's primary mission is to build and maintain public trust and confidence in the securities markets. SIA members (including investment banks, broker-dealers, and mutual fund companies) are active in all U.S. and foreign markets and in all phases of corporate and public finance. According to the Bureau of Labor Statistics, the U.S. securities industry employs nearly 800,000 individuals, and its personnel manage the accounts of nearly 93-million investors directly and indirectly through corporate, thrift, and pension plans. In 2005, the industry generated an estimated $322.4 billion in domestic revenue and an estimated $474 billion in global revenues. (More information about SIA is available at: www.sia.com.)

SIA will soon be merging with The Bond Market Association (TBMA) to form the Securities Industry and Financial Markets Association (SIFMA).[2] As a result, my testimony today will focus on the programs SIA conducts through our non-profit Foundation for Investor Education as well as the variety of educational projects undertaken by TBMA's charitable, non-profit Bond Market Foundation. I will also briefly describe some of the ventures we have participated in with the U.S. Department of Treasury's Office of Financial Education.

Importance of Financial Education

Unprecedented education reform has swept across America over the past decade as parents, teachers, legislators, and business leaders strive to improve instruction and curricula to help students learn. These efforts have resulted in new education standards, new performance indicators, and rigorous standardized testing that in most states will determine whether or not a student will be promoted or allowed to graduate. We fully recognize that classroom time is at a premium and that, above all, we must ensure that students learn, achieve, and gain the relevant skills to succeed in life.

America's strength lies in the cumulative knowledge of its citizens. And that knowledge must include a basic and thorough understanding of the economy and the role of the capital markets, particularly as individuals will increasingly bear more direct responsibility for building and managing their own retirement nest eggs. That is why the Foundation for Investor Education, The Bond Market Foundation, and our member firms support educational and skill-building programs that help teach children and adults about the importance of long-term saving and investing.

[2] http://www.sia.com/press/2006_press_releases/29100863.html

Foundation for Investor Education (FIE)

Nearly 30 years ago, a group of securities industry executives formed a non-profit foundation affiliated with the Securities Industry Association to foster a better understanding of the American economic system and the role of the securities industry within the system. The Foundation for Investor Education has helped millions of Americans better prepare for their financial futures through its two programs and vibrant partnerships with teachers, school administrators and elected officials.

The Stock Market Game™ Program

The cornerstone of the Foundation is the Stock Market Game™ program, a simulation in which teams of students in grades four through 12 learn the fundamentals of investing through a hands-on experience investing a hypothetical $100,000 in real securities. Teachers receive grade-level specific curriculum guides, lesson plans, and newsletters to incorporate into their activities. These materials help support core curriculum in mathematics, social studies, business, economics and language arts. In addition, the team construct of the program helps students learn cooperation, negotiation, and leadership skills.

Since the program began in 1977 with 1,600 students selecting from around 2,400 listed companies, it has grown to half-a-million students a year picking stocks from more than 7,000 companies on the New York Stock Exchange, NASDAQ and the AMEX.

SMG has been correlated to the national standards in mathematics, economics, and business and marketing, and will correlate curricula to standards in all 50 states by year-end 2007. The Stock Market Game™ is not an add-on; indeed, we continually work with teachers, administrators, and parents throughout the country to develop an intensive standards-based

curriculum that can be easily assimilated and fully integrated into a teacher's regular lesson plans.

We are very proud of the fact that each school year we have approximately 14,000 teachers that use the Stock Market Game™ and value the program as one that contributes to student achievement in a fun, interesting way. And we are proud that our efforts to reach out to traditionally underserved populations have been enormously successful. We partnered with the 100 Black Men of America's New York Chapter in 2004, for example, to establish The Stock Market Game at the then-newly founded Eagle Academy for young men in the South Bronx. And partnerships with the National Basketball Association, the Girl Scouts of America, the National Academy Foundation, Newspapers in Education, the National Council of Economic Education, the Future Business Leaders of America, and the Distributive Education Clubs of America have greatly increased the number of teams participating in SMG.

In the same vein, SMG newsletters are published in English and Spanish and we are working on making SMG lesson plans and activities available in both languages. In addition, SMG can be found in schools all over the world.[3]

The true value of the Stock Market Game™ is its ability to capture the interest of students and teachers and bring the economy to life in the classroom while supporting core curriculum subjects. Events that occur in far-away places or neighboring states, cities, or towns take on a new meaning as students begin to understand how a decision at Daimler-Chrysler in Auburn Hills, Michigan may affect workers and their families in Tuscaloosa, Alabama.

The skills and knowledge that SMG students acquire are more relevant today than ever. In 1977, only 15 percent of the population owned equities. By 2005 that number had jumped to

[3] Department of Defense schools for the children of military personnel stationed in countries such as Australia, Vietnam, Canada, Egypt, Mexico, Singapore, India, Venezuela, Lithuania, Germany, and South Korea use the SMG.

half of households, or roughly 91 million people owning equities according to the SIA/ICI Equity Ownership in America report.[4] The new reality is that most people today must save to fund their retirement. As employers increasingly turn from a "defined benefits" to a "defined contributions" framework, workers are essentially becoming individual pension managers, and as such bear ultimate responsibility for their financial futures. Are they prepared to assume this new role? As importantly, will the millions of students preparing to enter the workforce be ready to handle this huge fiscal responsibility? We believe the Stock Market Game program helps them prepare for this new reality and are proud to contribute to this critically important effort.

Member-Firm Programs

Our member firms, too, are essential to the Stock Market Game program's success. For example:

- Merrill Lynch partners inner-city schools with local NBA teams as part of its *Investing Pays Off* program. The program started with the New York Knicks; was expanded to the New Jersey Nets, and Merrill Lynch plans to add two more NBA team partnerships next year. In addition to supporting the Stock Market Game program, *Investing Pays Off* combines Merrill Lynch's financial resources with its people to deliver create a potent combination. *Investing Pays Off* offers curriculum and its volunteer guide covers 15 strategies for success in the essential areas of leadership, entrepreneurship, personal finance, and business savvy. Free to the public, *Investing Pays Off* can be presented in a variety of settings, from classrooms to community centers to living rooms.

[4] *Equity Ownership in America, 2005*, Investment Company Institute and the Securities Industry Association. Available at http://www.sia.com research pdf/EquityOwnership05.pdf.

- Merrill Lynch's *Young Entrepreneurs* program aims to cultivate individual economic prosperity through business development and the pursuit of new and enterprising ideas. Minority entrepreneurs accomplish this through the support of a broad range of initiatives, such as creating mentorship opportunities between students and successful business leaders as well as sponsoring studies on the use of technology.
- Wachovia Securities partnered with the SMG program to launch *Financial Advisor in the Classroom*. This firm-wide initiative recruited teachers and expanded student participation by providing financial advisors for educational presentations in classrooms around the country.
- Morgan Stanley provides inner-city schools in Atlanta and Baltimore/Washington, D.C. with educational materials and access to The Stock Market Game program. The program is designed to increase access to the Stock Market Game in underprivileged communities and targets teachers and students in Title One schools. Morgan Stanley sponsors team fees, teacher workshops, and awards ceremonies.
- A.G. Edwards sponsors team participation fees and teacher workshops for The Stock Market Game program for schools in St. Louis, Missouri, Denver, Colorado and Southern Illinois. A.G. Edwards also has a section on its Web site dedicated to teaching children about money and investing called *Big Money Adventure*.
- PNC Financial Services sponsored The Stock Market Game program for schools in New Jersey's Bergen, Passaic, and Hudson counties for the 2005-2006 school year. PNC's grant funded the SMG program student-team participation fees,

teacher workshops, and our InvestWrite essay contest and awards ceremonies. PNC also provides a fun Web activity for students called the *Christmas Price Index*, which teaches them about saving and investing using the 12 days of Christmas.

- The Charles Schwab Foundation not only provides general operating dollars to the Foundation for Investor Education, but it also partners with the Boys and Girls Clubs of America to sponsor *Money Matters: Make it Count*. The program was created to promote financial literacy among teens by building basic money management skills through fun, interactive activities and exercises. Topics include using a checking account, managing debt, saving for college, and the basics of investing.
- Chicago-based Cabrera Capital Markets sponsors Stock Market Game teams in Chicago, New Mexico, and California.

Even our smaller member firms are engaged in improving young people's understanding of saving and investing. American Century Brokerage, Inc., a regional firm in Kansas City, offers free, web-based, professionally designed, modular educational curriculums for middle- and high-school classrooms. Today, more than 4,000 registered users representing all 50 states have registered to use Tips for Kids® (middle-school curriculum) and Tips for Life® (high school).

Many institutions in the financial community that are not members of our association also support the Stock Market Game program. The Investment Company Institute, for example, has supported the inclusion of mutual funds and mutual funds curriculum in the Stock Market Game.

In addition, ICI sponsors an *Investing for Success* program designed to strengthen investor awareness in the African-American community.

And last, but certainly not least, is the New York Stock Exchange. For more than a decade, the New York Stock Exchange has been a pillar in its financial support of the Stock Market Game. The NYSE also holds free workshops every summer to help teachers learn how to teach about financial literacy.

The Capitol Hill Challenge

Another highly successful program with which many of you are familiar is SIA's Capitol Hill Challenge. In this national version of the Stock Market Game program more than 3,200 students from 136 schools have participated during its first three years. The winning students earn a trip to Washington, D.C. to meet their elected officials, and see first-hand how our national economic policies are developed. I am pleased to note that the team representing Speaker Hastert's district won the 2004 competition, Chairman Bachus' district was victorious in 2005, and a team from Representative Bart Gordon's district took the honors this year.

I also am pleased to note that 10 members of this subcommittee sponsored teams in the competition this year, and an additional seven members of the full committee participated. I especially want to acknowledge Representative Biggert for her efforts to visit the students at school. And, she and Congressman Ruben Hinojosa should be congratulated for establishing and co-chairing the House Financial and Economic Literacy Caucus.

InvestWrite

Two years ago, based on teacher feedback, the Foundation created a national essay competition to complement the SMG program called InvestWrite. InvestWrite requires students to draw on logic, critical thinking, and writing skills to demonstrate how concepts learned in the

classroom respond to a specific real-world investing situation. Students are judged on the depth of understanding of the market, as well as on how well they convey their ideas. National winners are chosen at the elementary, middle- and high-school levels. In the competition's first two years, students submitted more than 32,000 essays. I am proud that this program earned us the inaugural Chairman's award of the National Council of Economic Education.

Path to Investing Web Site

For more than a decade, SIA has sponsored market and opinion research on what investors think about investor education. Many investors told us that they did not feel knowledgeable enough about investing and that they wanted our industry's help in educating them. But they also told us that the advice we provide must be objective, individually customized, entertaining, and easy-to-understand. In response, we launched an educational Web site for adults at all levels of investing experience in 2002. *Path to Investing* offers objective, timely, practical information from leading industry and academic experts to help build the knowledge needed to make sound investment decisions. Featuring more than 1,500 pages of content, topics include: a financial planning tutorial, preparing for retirement (more than 300 pages), investor protection, equities, fixed-income, futures, investment products, saving for college, life-cycle investing, and how markets work.

Beginning in 2003, adults and families could also access the Path to Investing Web site to participate in the SIA Investor Challenge – the adult version of the Stock Market Game™. Since its launch, the number of visits to the site has more than doubled – 26,000 monthly unique visitors viewing 140,964 pages of educational content – and it has earned awards from Barron's and a Webby Award. *Newsweek* magazine featured Path to Investing among five key sites it recommended for those who want to be smarter about money, and *On Wall Street* magazine said

it "provides an objective tutorial that would fit into any advisor's introductory presentation to prospects." I encourage you to take a look at this highly rated, informative site at http://www.pathtoinvesting.org.

Our Web site, though, doesn't mean that we've abandoned a far older technology – printed publications. Over the last decade, we have published a broad range of brochures to address specific investment issues. When online trading grew quickly, we published a brochure that outlined the issues that investors should keep in mind when investing online. Amid the bull market of the late 1990s, we published two brochures – *Understanding Market Risks* and *Managing Your Expectations For Long-Term Success In The Stock Market* – that cautioned investors about the potential risks and explained to them the historical performance of markets. Our most popular publication, though, remains *Your Guide To Understanding Investing* – an easy-to-read handbook that covers the basics of investing.

To make these resources available as widely as possible, we joined the Alliance for Investor Education – a group of financial services trade associations and regulators dedicated to facilitating greater understanding of investing, investments, and the financial markets among current and prospective investors of all ages. The joint Web site www.investoreducation.org serves as a clearinghouse of objective investment resources.

Joint Efforts with Administration, Regulators

We have often collaborated with the Securities and Exchange Commission, self-regulatory organizations, the North American Securities Administrators Association, and the Administration on our educational activities. We know that by working together, our impact is far greater than if we were to work alone. Our relationship with the Treasury Department's Office of Education, for example, continues to deepen. On July 1, Treasury officials invited two

Stock Market Game students to walk the floor of the New York Stock Exchange with Secretary Paulson on his inaugural visit as Secretary. The purpose was to highlight student financial education.

Likewise, U.S. Treasurer Anna Escobedo Cabral was the keynote speaker at the Foundation's California Tribute Dinner in Los Angeles on September 26. The event was designed to raise awareness about the Stock Market Game in particular and investor education in general and to honor local dignitaries.

The Foundation and 2006 InvestWrite champion Melissa Chan were invited to be one of four featured speakers at the September 19 meeting of the Financial Literacy and Education Commission at the Treasury Department.

We are working with Treasury and the Office of Management and Budget to identify ways that the retirement content on our Path to Investing Web site might be included in their recommended and distributed resources.

One of the results of the recent global research settlement was the designation of $80 million to be targeted to investor education. The SEC, NASD, and state regulators are charged with the oversight of these funds, and we are extremely interested in how the money is invested and what that return yields. Although the securities industry is not eligible for any of this money due to perceived conflicts, we are very concerned that the funds be used to further investor education to the greatest extent possible.

Activities of The Bond Market Foundation and The Bond Market Association

I mentioned at the beginning of my testimony that the SIA is merging with the Bond Market Association to become the Securities Industry and Financial Markets Association. We are very excited about the opportunities presented by even more closely connecting and

leveraging our various activities, serving more people even better. Like SIA and FIE, the Bond Market Association and its non-profit educational and charitable partner, the Bond Market Foundation, have a rich history of commitment to financial and investor education and literacy programs aimed at adult audiences.

The Bond Market Foundation works in three areas. I will focus on the first area – our unique, research-based skill-, confidence- and motivation-building financial literacy and education programs. These activities are targeted at: young people aged 18-34; women and their families; Spanish-speaking Americans; people facing financial decision-making related to unexpected life changes such as change in marital status, job loss, sudden disability; as well as people needing accessible basic information on personal finance, economic and consumer concepts to begin to save and invest.

The demand for the Bond Market Foundation's programs has grown significantly since its launch in 2001.

- Between 2001-2005, the Web-driven program grew from two Web sites with 60 sections of content to five Web sites with more than 700 sections, including: www.tomorrowsmoney.org for women; www.tomorrowsmoney.org for young people; www.ahorrando.org for Spanish-speaking Americans; and, www.unwantedchange.org/www.cambiosinesperados.org for people facing financial decision making related to unwelcome change. Annual traffic continues to increase to all sites – largely through viral marketing and partnerships – including increases in the number of unique visitors, repeat visitors and average time per session per site.

- TBMF programs are successfully reaching Spanish-speaking Americans: 40-45 percent of Web site traffic is to the Spanish language sites. Foundation programs are available in Spanish and English with a toggle feature so users can shift between the two.
- TBMF works with key partners that reach people who need and want the information. By year-end 2006, more than half of State Treasurers will partner with TBMF through the National Association of State Treasurers (NAST) Foundation-TBMF Gateway Initiative of Web sites and educational programs. This network of partnership Web sites and customized content, conferences, and outreach creates additional traffic and demand for TBMF content, programs, and expertise nationwide. This Partnership has taught us a tremendous amount about what financial information target audiences need and gives us an extraordinary opportunity to direct future initiatives.
- TBMF works with non-profit partners serving communities across the country, including in extraordinary circumstances. The Foundation conducts training and educational programs directly to individuals and through partners such as the American Red Cross, United Service Group (helping families of victims of 9/11/01), and Hurricanes Katrina and Rita recovery and rebuilding organizations. The Foundation is asked repeatedly to assist in "train the trainer" situations and to train community-based organization staff to use the Web sites, particularly in post-disaster settings.

The Bond Market Foundation has focused on core financial literacy skill building for underserved adult audiences. Recently, the Foundation lent its expertise in financial literacy and

education to the Bond Market Association in overseeing the redesign of the Association's non-commercial, award-winning www.investinginbonds.com site. For the first time, individual investors can see – free of charge – real-time municipal and corporate bond price data on the Web. The www.investinginbonds.com Web site is the only place on the Internet where this information is available free to individuals. This site now has about 75 market data feeds and real-time price information that serves a wide range of investors.

Along with the site, BMF investor education initiatives include print guides of the basics of investing in fixed-income products.

Conclusion

We believe that in much the same way that compound interest brings great returns over time, so too does establishing quality educational programs that provide a solid return for our children. Thank you for your efforts to advance the goal of improving Americans' financial literacy and we look forward to working with you to achieve this essential mission.

Statement of

David Kittle, CMB
Vice Chairman-Elect
Mortgage Bankers Association

Before the

Subcommittee on Financial Institutions and Consumer Credit
Committee on Financial Services,
United States House of Representatives

On

September 28, 2006

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Chairman Bachus, Ranking Member Sanders and members of the Subcommittee, my name is David Kittle, CMB and I am the Vice Chairman-Elect for the Mortgage Bankers Association (MBA)[1] and the President of Principle Wholesale Lending in Louisville, Ky. I appreciate the opportunity to participate today, and I commend the Subcommittee for addressing the very important issue of financial literacy.

MBA represents the real estate finance industry – an industry that invests in communities, where people live, work, shop and play. Currently, we are in the midst of the highest homeownership rate in our country's history – nearly 70%[2]. As a result, Americans are building tremendous wealth. According to the Federal Reserve's Flow of Funds data, the value of residential real estate assets owned by households has increased from $10.3 trillion in 1999 to $20.4 trillion as of the first quarter of 2006, and aggregate homeowners' equity now exceeds $10 trillion. According to the Fed's 2004 Survey of Consumer Finances, the median net worth for homeowners was $184,000. For renters, it was $4,000. Clearly, many homeowners have been successful in accumulating wealth, both by steadily building up equity through their monthly payments, and through the impressive rate of home price appreciation we have seen in recent years.

Americans have put this wealth accumulation gained through homeownership to work for them. In recent years, consumers have demanded a variety of mortgage products to not only help them afford homeownership but also to tap some of the equity in their homes for other financial needs or opportunities. Through this consumer demand and huge advances in technology, the choices in the market for mortgages have become plentiful.

Many borrowers have kept up with this innovation. Some have learned through hands-on experience in the record refinancing boom of the last several years. Others have paid attention to increased information from banks and mortgage companies. Additionally, there is now widespread coverage of real estate issues in the mainstream media – nearly every major newspaper in America has a real estate section, and Web sites on the subject are abundant. A search on Amazon.com for books related to the

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[1] The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 500,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the Nation's residential and commercial real estate markets; to expand homeownership and extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees through a wide range of educational programs and a variety of publications. Its membership of over 3,000 companies includes all elements of real estate finance: mortgage companies, mortgage brokers, commercial banks, thrifts, Wall Street conduits, life insurance companies and others in the mortgage lending field.

[2] More than a third of homeowners, approximately 34 percent, own their homes free and clear. Of the 66 percent of the remaining homeowners, three-fourths have fixed rate mortgages and one-fourth have adjustable rate mortgages. Many of the borrowers with adjustable rate loans have jumbo loans (over $417,000), indicating a higher than average level of income and assets.

word mortgage returns nearly 68,000 results. A Google search for topics related to home buying returns hundreds of millions of Web pages.

While many Americans have become engaged in these ways and kept up with changes in the mortgage market and home-buying process, many have not. And it is for these less-educated consumers that more must be done. Private industry must work together with government at every level to help facilitate education so that all borrowers can best choose among the many options available to best serve their needs.

While we have one of the greatest housing finance systems in the world and are at a time of record homeownership, consumers still often find the mortgage process complicated. As important as it is to educate today's consumers on financial responsibility, increasing choice in loan products make it even more vital to consider ways in which we can reach tomorrow's first-time homebuyer.

What We Are Already Doing

MBA and its member companies are committed to educating consumers about the importance of good credit, of working within a budget and of better understanding the mortgage process and the range of loan products available. By understanding all of these elements, consumers are able to determine if homeownership is the right choice for them, and if so, what type of financing is right for their personal financial situation. Educated consumers that understand the value of financial responsibility are likely to maintain good financial habits over the long term which helps them to *stay* homeowners.

While we want to ensure that home buyers have the educational tools they need available to them, we also want to ensure that people in our industry have the tools *they* need to inspire confidence among our customers. That is why we are so committed as an association to providing educational opportunities to our members. MBA provides dozens of courses and professional development opportunities for the industry. These classes are based on the principle that only a person with real knowledge of how all aspects of the industry works will be able to provide the best level of service to our customers.

Campus MBA, the MBA's educational arm, offers classroom courses, customized courses for particular companies, innovative Web-based offerings and audio training. We gear our efforts toward the full range of mortgage professionals, from brokers to underwriters, CEO's to loan officers. All of these classes are supplemented by MBA's extensive roster of conferences. In addition to our annual commercial and residential conventions, we hold high quality special interest conferences on topics as diverse as mortgage servicing, regulatory compliance, and document custody.

The capstone to the MBA's education program is the Certified Mortgage Banker (CMB) designation. I am proud to be a CMB. This professional designation was conferred upon me by the Mortgage Bankers Association upon completing a demanding curriculum: I had to be in the industry for at least three years, go through a rigorous

education program, with both oral and written examinations, and commit to further continuing my commitment through future professional education. But what was most important to me was gaining a CMB sponsor, somebody who was willing to stand up for me and the kind of person I am. My sponsor was Julie Piepho, and it meant a great deal to have her stand up for me. I personally would never put her faith in me at risk by acting in a dishonorable way.

I wear a CMB pin and sign my name with the CMB because it symbolizes my commitment to continued education, superior service and ethics in my field. It is the standard for the highest caliber of mortgage professionals. More and more people in our industry are achieving CMB status, demonstrating an ongoing and passionate commitment to excellence and service. One of the challenges we have in advancing financial literacy is to reach people where they are. When people shop for homes and mortgages to finance them, they talk to mortgage bankers. Ensuring these professionals are well-qualified and highly knowledgeable is one of the key ways we can further financial literacy.

A National Resource to Help Prospective Homebuyers:
MBA's Home Loan Learning Center

A recent MBA survey of consumers found that people want more information about the home buying process, but they want it in a form that is easier to understand. The findings of our survey helped guide us in expanding MBA's consumer educational Web site, www.HomeLoanLearningCenter.com, which helps borrowers better understand the mortgage process. It also helps consumers learn about the importance of their credit status to their ability to qualify for a mortgage and achieve homeownership. The Home Loan Learning Center also provides helpful tips and suggestions on how consumers can find the loan that fits their financial needs, guides for choosing a mortgage banker, general information on the mortgage process and, importantly, how to "shop" for a loan. Recently, MBA added a homeownership quiz to the Home Loan Learning Center site so visitors could test their own knowledge on the home buying process. MBA also added the following materials:

- Top Ten Tips for Home Buyers;
- Homeownership Statistics;
- "Who Say's You Can't - a Real Life Story";
- Mortgages from A to Z ...Understanding the Home Buying Process;
- Your First Steps toward Homeownership;
- It's Your Credit, Make it Work for You;
- Someone Wants to Give You Money. Help Them;
- Coming to Grips with Settlement; and
- How to Live with Your Mortgage. Not for it.

Additionally, as part of its continued educational outreach efforts via the Home Loan Learning Center, MBA enhanced the Web site content by adding the "See a Lender First" section which explains the importance of talking to a mortgage lender as the first

step when beginning the home buying process. Seeing a lender and pre-qualifying for financing is a smart first step in the home buying process to help consumers understand what they can afford to buy and what loan products meet their financial needs. A mortgage banking professional is best equipped to tell a consumer what financing choices are available and help the consumer make smart choices concerning the most significant investment the consumer is likely to make.

A National Campaign to Protect Homeowners: MBA's Stop Mortgage Fraud[sm] Program

Mortgage fraud is defined as material misrepresentation – the intentional giving of false information that deceives or misleads a lender into extending credit beyond the limits of what would normally be extended if the true facts were known. Mortgage fraud against lenders is sometimes confused with, but truly differs from, predatory lending – which involves unscrupulous lending to an unsophisticated or unknowing borrower.

Mortgage fraud is not a victimless crime, and it has significant repercussions for consumers and communities. While there are times when borrowers engage in fraud, there are many instances when the borrower is not at all part of the scheme. Instead, third-party service providers conspire to cheat the lender. Sadly, even though the borrower has no role in fraud like this, they still may lose their home or savings. This is a problem not only for mortgage lenders and borrowers, but for communities, since entire communities suffer when foreclosures result from fraud schemes that affect multiple properties within a neighborhood.

In reaction to the growing problem, MBA has also established the Stop Mortgage Fraud[sm] program to help consumers identify "red flags" of potentially abusive lending tactics. This checklist can help consumers before entering into a mortgage as well as help them assess, after the fact, whether they have been subjected to deceptive and fraudulent practices when taking out a mortgage or a home equity loan. Under the program, MBA has established a Web site, www.StopMortgageFraud.com, which provides consumers with a way to report instances of predatory lending and fraud to appropriate consumer protection and law enforcement agencies. Consumers may also call (800) 348-3931 to request this information. The print version of this material has been translated into Spanish and Arabic, and the Web site has been translated into Spanish as well. The brochures also have been requested by various consumer protection agencies for distribution by their offices.

Local Solutions: DOLLAR WI$E, BorrowSmart, Consumer Information Summits in Response to Hurricane Katrina and MBA's Financial Literacy/Housing Summit

MBA is a supporter of DOLLARWI$E, the financial literacy campaign of the U.S. Conference of Mayors. The goal of the DOLLARWI$E campaign is to encourage the development of ongoing local financial literacy strategies to educate citizens about financial issues. With improved basic money management and planning skills, citizens will be in a better position to own homes, raise healthy families, educate themselves and their children, and invest in small businesses.

In the wake of Hurricanes Katrina and Rita, MBA held Consumer Information Summits in Mississippi and Louisiana to reach out to community leaders, parish leaders, state, local and federal government officials as well as consumer advocates. The Summits provided useful information, enabling participants to furnish their constituents with knowledge related to the rebuilding of their homes and communities.

Later this year, MBA will host a financial literacy and housing summit in Philadelphia. Federal, state and local legislators and regulators, consumer activists, community leaders and others will discuss financial literacy programs currently underway and identify new programs and outreach efforts that can be developed. Other topics of discussion will include creating better and stronger partnerships with other stakeholders, housing preservation and credit availability. Our hope is that this event will provide attendees important and timely financial education information that they can then share with their constituents.

Our objectives for the Financial Literacy/Housing Summit include:

- Informing target audiences on the importance of homeownership and homeownership preservation;
- Conducting a robust discussion on ways to increase financial literacy;
- Motivating community leaders and activists to promote financial literacy among their constituents; and
- Discussing ideas to promote home preservation.

On November 1, the National Home Equity Mortgage Association (NHEMA) will formally conclude its merger into MBA. In 2001, NHEMA established an independent organization, the BorrowSmart Public Education Foundation. BorrowSmart's mission is to facilitate community efforts to educate homeowners about the home equity borrowing process to promote financial literacy, home ownership retention, foreclosure prevention, and economic empowerment. MBA will be looking for synergies between its consumer education initiatives and those of BorrowSmart.

Public Policy Considerations

Financial literacy is described as the solution to many different challenges. Related to mortgages specifically, it comes up in the context of the predatory lending debate, discussions about whether borrowers are making the right decisions about the mortgages they take out, and other legislative and regulatory issues. The financial literacy of consumers is critical to a smoothly functioning, self-regulating market and ultimately will lessen mortgage delinquencies and foreclosures.

Government has an important role to play in promoting financial literacy. Most importantly, government –at all levels– can help by getting financial literacy taught in our nation's schools. While we understand that the federal government does not generally determine curricula in this country, Congress should set itself to the task of identifying ways to encourage states and local school boards to introduce or enhance curricula to teach financial literacy.

A second area in which government can be involved is to help coordinate financial literacy efforts. Every company and trade association tangentially involved in the financial services sector has some kind of financial literacy effort. Even our regulators have myriad, overlapping efforts. As you survey the field of financial literacy efforts, you will encounter countless Websites and campaigns. But there is no entity saying that at a particular age children should understand a particular concept and by another age another concept. Too often, financial literacy efforts really only engage when young adults find themselves in significant financial trouble and are avoiding calls from bill collectors.

A coordinated national financial literacy campaign need not require any more funding than what is already being spent. By better coordinating the money that is out there already, we could have a much more robust impact on the country.

Conclusion

As we discuss the need for increased financial literacy, we understand that mortgage bankers have a responsibility to our customers. The mortgage transaction is complex, and the product innovation over the last decade has left even the most educated consumers with the need to learn more about an incredible array of options. But a well-informed consumer will find it easier to deal with all of the complexity and will be better able to shop for the best loan product.

MBA's membership includes over 3,000 companies from across the real estate finance industry. Our members range from the largest institutions in the nation to small, local businesses. The Association and its membership will continue efforts to help consumers understand how to become a homeowner and stay a homeowner. On behalf of our members, MBA appreciates this opportunity to participate in this hearing. Financial literacy is a critical area of importance and we look forward to working with the Congress toward a common goal of better educated Americans.

Testimony of

Frank Pollack

President/CEO of Pentagon Federal Credit Union

On behalf of

The National Association of Federal Credit Unions

"Improving Financial Literacy:
Working Together to Develop Private Sector Coordination and Solutions"

Before the

House Financial Services Committee

Subcommittee on Financial Institutions and Consumer Credit

United States House of Representatives

September 28, 2006

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Introduction

The National Association of Federal Credit Unions (NAFCU) is the only national organization exclusively representing the interests of the nation's federally chartered credit unions. NAFCU is comprised of over 800 federal credit unions—member owned financial institutions across the nation—representing over 27 million individual credit union members. NAFCU member credit unions collectively account for approximately two-thirds of the assets of all federal credit unions in the United States. NAFCU, and the entire credit union community, appreciate the opportunity to participate in this important discussion about financial literacy and education.

I am Frank Pollack and I currently serve as the President and CEO of Pentagon Federal Credit Union headquartered in Alexandria, Virginia. With $9 billion in assets, Pentagon FCU serves over 600,000 members in the Air Force, Army, Coast Guard, Department of Homeland Security, Department of Defense, defense-related companies, and the Veterans of Foreign Wars. We were federally chartered in 1935 and serve our members worldwide. I have been involved in the credit union movement for over 28 years, having been with Pentagon Federal Credit Union since 1978. Beginning as a Loan Portfolio Analyst in the Credit Committee, I held successively progressive positions before being appointed to the position of Executive Vice President, Operations in 1997. In 1999, I assumed my current position as President and CEO of the credit union.

As Americans are faced with an ever widening array of financial services, it is important that consumers are armed with a sound understanding of the basics of personal

finance. Financially literate individuals are more likely to spend prudently and put money in savings, retirement funds and other wealth building accounts. Conversely, the same individuals are less likely to rack up large, burdensome—and sometimes unaffordable—debt.

NAFCU and our member credit unions know that financial literacy is an issue that touches all Americans – at every age and income level. Intertwined with financial literacy is personal savings. The nation's savings rate is slumping and personal savings are near their lowest level since the Great Depression. In 2005, the national savings rate fell below zero—meaning that we spent more than we earned—for the first time since 1933.[1] Large numbers of Americans habitually spend instead of save. Credit unions know that saving is a matter of choice and that the most important factor in long-term wealth accumulation is the act of saving itself. NAFCU is proud to be pro-actively involved in promoting financial literacy and personal savings in America. NAFCU is pleased to have been both a sponsor of and a participant in this year's National Summit on Retirement Savings.

NAFCU created and has made available to credit unions for the last few years a financial education curriculum based on the Federal Deposit Insurance Corporation's (FDIC) Money Smart program. The curriculum, tailored to credit unions, is aimed at teaching individuals outside the financial mainstream how to manage their finances,

[1] Final Report on 2006 National Summit on Retirement Savings, citing U.S. Department of Commerce, Bureau of Economic Affairs, *National Income and Product Accounts*

while also stressing the importance of long-term saving. In addition, the curriculum discusses the basics of borrowing and the importance of sound debt management.

Credit unions have long been at the forefront of financial education. Credit union employees have been helping teach personal finance in schools for years. In addition, credit unions have developed a list of financial education classes too numerous to list here, as well as providing valuable one-on-one consultations with individuals who wish to learn how to better manage their finances.

Additionally, the credit union industry is a key partner in the fight against predatory lending, as recognized by the August 9, 2006 "Report on Predatory Lending Practices Directed at Members of the Armed Forces and Their Dependents," issued by the Department of Defense. The credit union movement is dedicated to helping its members to avoid unscrupulous lenders by providing members with low-cost loan alternatives and offering financial education to assist members in developing sound debt management skills.

Working with Local and Federal Agencies in Promoting Financial Education

For years, credit unions have successfully partnered with federal and local government agencies in order to promote financial literacy across the nation. According to NAFCU's July 2006 *Flash Report*, 22 percent of credit unions surveyed are collaborating with U.S. Government agencies in their financial education efforts.

The National Credit Union Administration (NCUA), the independent federal agency that charters and supervises federal credit unions, has been imperative to the national effort to foster financial knowledge. Credit unions have joined with the NCUA in numerous important programs including:

- NCUA's Access Across America initiative
- Biz Kid$ public television program
- The National Youth Involvement Board

As well, NCUA Chairman JoAnn Johnson serves on the Financial Literacy and Education Commission (FLEC), which is comprised of 20 federal agencies and chaired by the Secretary of the Treasury. The Commission was created by Congress in 2003 to improve financial literacy and education for people throughout the United States. Since launching its National Strategy for Financial Literacy in April 2006, the Commission has successfully carried out a number of its "Calls to Action," including improvements to the www.mymoney.gov website and the 1-888-mymoney telephone hotline; the first of several quarterly summits on reaching the "unbanked;" and a roundtable meeting in which government, non-profit, private sector, and trade association participants, including NAFCU, discussed the advancement of homeownership.

Credit unions have also collaborated with local government, community groups, and school boards to promote financial literacy throughout America. Through these

positive partnerships, dedicated credit union staff and volunteers have made a difference at the local level by visiting youth groups, teaching at local schools, donating credit union resources, and participating in community education events to provide citizens young and old with sound money management skills.

Trends in Credit Union Financial Education Programs

Financial education and volunteerism embodies the guiding principle of the credit union system—"People Helping People." Data from NAFCU's July 2006 *Flash Report* survey indicates that 94 percent of responding credit unions contribute to the betterment of their communities by offering financial education programs. Among these, a vast majority of credit unions—78 percent—offer general financial education programs to teach their members the fundamentals of personal finance management.

Credit unions understand that responsible money management is one of life's most vital skills, a skill that is best learned early on. It is critical that children are provided with the tools they need to enable them to achieve their dreams for success. Recognizing this, credit unions are making an extraordinary impact on youth financial literacy. According to NAFCU's data, a large majority of those credit unions offering financial education also offer youth-oriented programs: 73 percent of credit unions surveyed offer programs for members ages 25 and younger; 48 percent offer programs for high school students; and 42 percent provide education oriented toward younger, elementary school children. Additionally, NAFCU member credit unions indicate that 40

percent offer programs for middle school students, while 30 percent specifically target college students.

Just as important as early education, is *late* education. In recent years, personal savings has become increasingly important to an individual's future retirement security. With this increased emphasis on individual responsibility for retirement income, credit unions are also recognizing the need for financial education for those in the latter stages of their lives. Accordingly, credit unions are rising to the challenge of providing financial education to older Americans; indeed, 43 percent of NAFCU member credit unions surveyed indicated that they offer programs geared towards retirees.

Other groups that credit unions' financial literacy efforts target include military families, women, and underserved communities. Various groups have very different needs and credit unions are making great strides to strengthen the financial literacy of Americans of all ages and backgrounds.

Shining Examples of Successful Education Strategies

Many credit unions have extremely innovative financial literacy programs to educate their members and to assist them in becoming more financially literate. I would like to share a few success stories with you. But first, I would like to tell you a bit about my credit union's own financial literacy program.

In 2001, as a response to the difficulties experienced by some military personnel in achieving financial security for themselves and their families while serving in the armed forces, Pentagon FCU created The Pentagon Federal Credit Union Foundation (Foundation), a nonprofit organization fully devoted to improving the financial literacy and well-being of the military members served by the credit union. Many young servicemembers have little grounding in the basics of budgeting, wise spending, and saving. This inexperience is compounded by the general nature of military service—members are often in distant locations and subject to frequent duty station changes, leaving the financial responsibilities to spouses and family members. The Foundation's programs are designed to creatively address these challenging circumstances.

For example, as discussed in the August 9, 2006 Department of Defense report entitled, "Report on Predatory Lending Practices Directed at Members of the Armed Forces and Their Dependents," predatory lenders thrive from being near military bases and often take advantage of inexperienced junior military personnel by giving them high-cost payday loans. Some of these abusive and unscrupulous lenders charge young service-members up to 1000 percent interest on short-term loans. Payday lenders purposefully seek out young and financially inexperienced borrowers who have steady jobs but also have little savings, and flawed, little, or no credit. Most predatory lending business models further exploit the borrower's inability to pay the loan when due by encouraging extensions through refinancing and loan flipping. These refinances often include additional high fees and little or no payment of principal, thereby trapping financially unsophisticated service-members in a vicious cycle of debt.

To combat predatory payday lending, we offer the Asset Recovery Kit (ARK) program, which provides low-cost, small cash loans to our military members. Along with the low-interest loans, members are required to undergo financial counseling so they can learn how to successfully manage their finances. Neither the Foundation nor the credit union earns a profit from the program; the sole purpose is to help our members to develop solid budgeting skills and to foster a relationship with Pentagon FCU, a financial institution that works in its members' interest rather than to extract an exorbitant profit.

The Foundation also uses two unique concepts to provide financial education in a new and inventive manner. First, we provide members with interactive, online financial education that builds on the concept of "accidental learning." In accidental learning, a member playing a web-based game learns about money management as a means of scoring; however, the financial concepts are not the overt focus of the game. The program utilizes electronic games, cartoons, and competitive situations to teach financial literacy, and is specifically designed to target younger members who find it difficult to learn through traditional books and written materials.

Second, with our Dream Circles program, the Foundation uses the "home party model" to propagate financial education to military families. Military spouses have a strong tradition of sharing resources and relying on one another for information and knowledge. This tradition creates a powerful conduit for the sharing of successful strategies for financial planning and money management. By creating a network of

military spouses and volunteers with financial expertise, knowledge can be successfully disseminated in a manner in which these members are already very accustomed.

Another major initiative by the Foundation is a program called Dream Makers. This program is aimed at helping military personnel and Department of Defense employees to achieve the American dream of homeownership. Members who are first-time homebuyers can receive grants of up to $5,000. These grants do not have to be repaid.

It is our hope that with these programs, we can help to foster financial literacy, personal wealth, and success for all our members. These brave men and women are joining our armed forces and laying their lives on the line for us; we want to give them all that we can in exchange for their service to our country.

Many other credit unions are also stepping up to the challenge of helping Americans of all ages to build a solid foundation of financial management skills. Here are just a few examples of credit unions that are making a positive impact in financial education across the nation:

The Summit Federal Credit Union: In 2002, this Rochester, NY, credit union began offering a financial education class to local middle school and high school students. Working in conjunction with the Hillside Work Scholarship Connection, Clover Lanes Bowling Center and the Roland Williams Youth Lifeline Foundation (formed by National Football League player Roland Williams), Summit FCU employees designed a six-week

financial literacy course that teaches the basics of personal finance. Each classroom session lasts one hour and focuses on a topic such as financial goal setting, savings, investments, budgeting, savings and checking accounts, and credit.

In order to foster participation, classroom sessions are held at the Clover Lanes Bowling Center, where students and volunteers are able to enjoy free bowling after each one hour classroom session. The strategy has been a great success. Since the program's inaugural class in 2002, The Summit FCU has continued to team up each season with the Foundation to teach financial fundamentals to at-risk youths in the community. Attendance has steadily been increasing every session. Additionally, this past June, Summit staff was on hand to lead a youth financial education session entitled "Credit 101" for 150 campers at John Marshall High School in Rochester, as part of the annual Roland Williams Youth Lifeline Foundation Free Football and Life Skills Camp.

In addition to their youth education efforts, The Summit FCU also provides frequent financial education seminars including Credit 101, How To Buy Your First Home, Fraud and Identity Theft, and How to Get Out of Debt. These programs help their members, young and old, to understand the fundamentals of financial services and money management so they are better able to handle their finances, make positive financial decisions, and ultimately, improve their financial lives.

Affinity Federal Credit Union: Affinity FCU boasts a number of innovative financial education programs, covering everything from basic personal finance for elementary

school aged children to sound debt management for individuals who have become overextended. Affinity's youth education program is designed to begin teaching children about personal finance early on. Children who open an account are encouraged to save through a reward program that gives away gift certificates to stores that appeal to children, such as The Disney Store, The Gap, KB Toys, and Borders. The more money children save, the better chance they have of winning gift certificates. The program follows young members through each stage of their development, with separate educational programs geared towards middle school students, high school students—even college aged students and beyond.

Affinity FCU also offers credit management services and education for members who find they have taken on too much debt. Affinity helps members consolidate debt into fewer payments with less interest. In addition, Affinity's credit management specialists help members devise a management plan that will help eliminate debt, guard against future credit problems, and, if possible, save for the future.

Navy Federal Credit Union: NAFCU member Navy FCU encourages its youngest members to develop early savings habits by signing up for the Navy Federal Kids Club. As a member of the Kids Club, children receive a membership card, activity book, bookmark, savings pad and other goodies. As an incentive to saving, every time a young member increases their savings account by $50, kids get a stuffed animal of Sammie the Sea Otter, the Kids Club mascot. As they increase their savings, they can also earn other

prizes. Kids can also enter the Kid Zone online to learn about money and financial management via interactive games and activities starring Sammie and friends.

Navy Federal also provides its members with free personal finance counseling. This program helps members to attain their financial goals, avoid monetary pitfalls, and deal with financial crisis. There is no charge for the service, and assistance ranges from answering specific questions to developing a detailed money management plan, or even establishing a personalized debt management program. Additionally, certified credit bureau reviewers on staff provide free consultations to help members to understand their credit report, learn how to make changes, guard against identity theft, and take steps to improve their credit score.

Hawaii State Federal Credit Union: Hawaii State FCU's financial education program, developed by its own staff, reached more than 4, 000 students in its first year alone. The program has also earned recognition from the National Youth Involvement Board, which named it as one of the Top 10 programs in the nation for number of student reached and presentations given. Topics covered include: how to avoid credit pitfalls; personal budgeting; checking accounts; buying a used car; starting a small business; and mock interviewing. The program, taught entirely by dedicated credit union staff volunteers, is geared toward high school and college students, and is customized to supplement the curriculum of the students' business classes.

McCoy Federal Credit Union: In September 1993, NAFCU member McCoy Federal Credit Union began a "Youth Savings Program" to teach young people about saving and to give them incentives to encourage them to save. This program reaches future generations by establishing at an early age a meaningful relationship or "link" between young members and their credit union. When a young person joins McCoy FCU's Youth Savings Program and opens a no-fee account, they receive several items appropriate to their age designed to encourage savings and to help them measure their progress in meeting their savings goals. Young people earn various incentive gifts when they attain savings goals of $100, $250, $500, $750 and $1,000. The program continues educating young people as they mature from their teenage years to young adulthood.

San Antonio City Employees Federal Credit Union: SACEFCU, which serves government employees in San Antonio, was initially asked to prepare and teach basic financial courses for the San Antonio's Adult Basic Education and G.E.D. Preparation Program. SACEFCU adopted an educational curriculum initially developed and made available by The National Endowment for Financial Education (NEFE), a non-profit foundation committed to helping Americans gain the skills and knowledge needed to control their personal finances. The curriculum includes courses on financial planning, cash flow, spending and savings, credit and debt management, insurance needs, savings and investments, homeownership and small business opportunities. SACEFCU's financial literacy program is free, and the curriculum is supplemented by guest appearances by area professionals and experts. The financial literacy course is now offered in a number of literacy centers in San Antonio throughout the year.

SACEFCU also offers ongoing financial education to its members. Previous topics have included Wallet Wisdom, Home Buying, Car Buying, and Investment Planning.

Conclusion

These are just some of the myriad ways that federal credit unions across the country are fostering financial literacy among Americans of all ages and backgrounds. Because the credit union mission has always been to promote savings, credit union staff and volunteers were some of the first financial educators in America. In addition to being among the first to emphasize the importance of financial literacy, today credit unions are also among the finest at providing sound financial management advice to their members. Credit unions, as non-profit, financial cooperatives have a unique relationship with their members which is unlike other financial institutions—a relationship that has put credit unions on the front line in combating financial illiteracy. Credit unions will continue to use that special relationship as a conduit to help improve financial literacy, encourage savings, and teach sound debt management skills. We support ways in which the federal government can work with credit unions to provide these services. Credit unions' relationships with their members make them critical partners in the national effort to promote financial literacy and education. Partnerships such as the FDIC allowing NAFCU to tailor the Money Smart program to credit unions help in these efforts. NAFCU and the federal credit union community stand ready to work with the House Financial Services Committee on this important issue.

STATEMENT OF
CARL SORGATZ

CEO HAWTHORNE CREDIT UNION
NAPERVILLE, IL

ON BEHALF OF

THE CREDIT UNION NATIONAL ASSOCIATION

BEFORE THE

HOUSE FINANCIAL SERVICES COMMITTEE

SUBCOMMITTEE ON
FINANCIAL INSTITUTIONS
FINANCIAL LITERACY

SEPTEMBER 28, 2006

AMERICA'S
CREDIT UNIONS™

Where people are worth more than money.™

WRITTEN STATEMENT OF THE
CREDIT UNION NATIONAL ASSOCIATION (CUNA)
ON
FINANCIAL LITERACY PRESENTED TO THE HOUSE FINANCIAL SERVICES COMMITTEE
SEPTEMBER 28, 2006

On behalf of the Credit Union National Association (CUNA), which represents approximately 90 percent of the nearly 8,800 state and federal credit unions nationwide and their 88 million members, we ask that this statement be submitted as part of the record for the House Financial Services Committee hearing on financial literacy on September 28, 2006. CUNA is pleased that the Committee recognizes the need to support a national strategy to promote financial literacy, and we appreciate the opportunity to provide an outline of the programs and initiatives that CUNA and our member credit unions are involved in to promote financial education to both youth and adults. We also want to commend the U.S. Treasury Department and the Financial Literacy and Education Commission for their efforts to develop such a strategy as directed by Congress Financial Literacy and Education Commission.

CUNA and credit unions have a proud tradition and history of helping their members become better educated regarding their personal finances. Indeed, one of the reasons CUNA was founded was to promote greater awareness and understanding of financial matters among credit union members, including those of modest means.

Today, financial literacy and education is an integral part of the work credit unions do in serving their members. In recognition of this fact, CUNA Chairman Juri Valdov has made financial literacy a hallmark endeavor during his tenure, and has just this week held its first annual Financial Literacy Summit here in Washington, DC. We are pleased that Congresswoman Judy Biggert (R-IL), Co-Chair of the House Financial Literacy Caucus, was able to join us and address the CUNA Summit as our leading speaker.

Credit Unions and Financial Literacy

Credit unions have traditionally made financial education a part of their mission, providing financial information and training to members on a one-to-one basis. Many of our member credit unions actively sponsor community and school-based educational programs and seminars, providing individuals with resources such as: how to maintain a share draft account; how and what to look for when purchasing family transportation; how to complete a mortgage loan application; what is involved when applying to finance or repair a home. Many credit unions are actively working in schools to teach personal finance skills to children and teenagers. We also provide credit union staff as volunteers to read to elementary school children, participate in the "Partners in Excellence" program with the local school district, and provide scholarships to needy high school students to

attend institutions of higher learning. These services are often provided at no cost and are open to credit union members and the communities they serve.

As CUNA CEO Dan Mica has commented:

"Recent surveys and polls show many young people today lack basic financial knowledge. That lack of knowledge directly relates to financial problems these young adults may face later in life, such as bankruptcy and difficulty in obtaining affordable credit. We want to help change that. Our partnership with the National Endowment for Financial Education and the Cooperative Extension Service (as described below) are great ways to put the credit union philosophy of 'people helping people' into action."

Highlighted below are several key programs and initiatives that CUNA and its member credit unions use to promote financial literacy.

CUNA Financial Literacy Summit

Just a few days ago CUNA's National Financial Literacy Summit became the springboard for an announcement of a new partnership uniting the resources of the National Endowment for Financial Education (NEFE) with the outreach potential of JA Worldwide (Junior Achievement The two groups said that their agreement for a five-year affiliation came about through a mutual belief that teens with financial literacy are better prepared for challenges they will face striving to achieve their life goals.

It was just such partnerships CUNA intended to highlight and explore through its one-day summit, which brought together major organizations involved in the movement's financial literacy initiatives to explore the future of those efforts.

Summit participants examined financial education initiatives geared toward adults, youth, and underserved markets and explored where efforts could be coordinated so more resources reach their intended beneficiaries.

Before breaking into working groups, those attending the summit were addressed by the following speakers, each of whom has worked closely with the credit union movement on financial education:

- Rep. Judy Biggert (R-Ill.), co-chair, Congressional financial and Economic Literacy Caucus;
- Daniel Iannicola, Jr., Treasury deputy assistant secretary for financial education;
- JoAnn Johnson, chairman, National Credit Union Administration;
- Travis Plunkett, legislative director, Consumer Federation of America;
- Ted Beck, CEO, NEFE;

- Laura Levine, executive director, Jump$tart;
- David Chernow, CEO, JA Worldwide; and
- Jane Schuchardt, national program leader, USDA Cooperative State Research, Education and Extension Service.

Also addressing the group was guest speaker Michelle Singletary, the *Washington Post* personal finance columnist and author of the syndicated column, "The Color of Money."

The next step in the CUNA effort, according to CUNA Chairman Juri Valdov, is to compile the results of the summit and provide more information to credit unions on successful approaches to financial education for members and communities.

"We're not here to pat ourselves on the back," Valdov told the summit participants, but rather to map out the future of credit union involvement in financial education.

Participants in the summit included: Leaders from state leagues, the CUNA board or their designees, the National Credit Union Foundation, the state foundation network, and credit union system organizations including the National Federation of Community Development Credit Unions, Defense Credit Union Council, CUNA Mutual Group, National Youth Involvement Board, Education Credit Union Council, AACUL, the Association of Corporate Credit Unions, and the World Council of Credit Unions

Jump$tart Coalition for Personal Financial Literacy

CUNA is an active member of the Board of Directors for the Jump$tart Coalition, an organization whose mission is to ensure that youth and young adults are equipped with the financial literacy skills that are necessary to make informed financial decisions. A nationwide survey conducted in 2004 by the Jump$tart Coalition examined the knowledge of 4,074 twelfth-graders in 33 states. The survey shows that high school students are reversing declining scores and are demonstrating increased aptitude and ability to manage financial resources such as credit cards, insurance, retirement funds and savings accounts.

On average, survey respondents answered 52.3 percent of the questions correctly—up from 50.2 percent in 2002 and 51.9 percent in 2000. However, students did not match the 1997 aptitude levels when 57 percent answered the questions correctly. The survey also shows that nearly 78 percent of the students have a savings and/or checking account with a bank, and that the 22 percent of students without any bank account scored lower (47.4 percent) than those who have a savings account (52.3 percent), a checking account (50.2 percent), and both savings and checking accounts (55.5 percent).

National Endowment for Financial Education (NEFE)

CUNA has formed a partnership with the National Endowment for Financial Education (NEFE) and the Cooperative Extension Service (CES) to teach the High School Financial Planning Program® (HSFPP) to high school seniors across the nation. The HSFPP is a fully developed curriculum, consisting of six units that integrate easily into a number of existing high school courses, such as math, social studies, economics, and consumer or life science. HSFPP materials provide a basic introduction to personal financial planning, covering the impact of career and work factors on earnings potential, spending and saving money, using and managing credit effectively, protecting assets, and the time value of money. Students also are taught how to develop their own personal spending and savings plan.

CUNA underwrites the cost of printing course materials that are offered free of charge to any school requesting them, and credit union staff volunteer to either teach the course itself, or to train teachers how to teach it. The program is based on the idea that discipline in managing money is best achieved if it is learned early in life. It features 8 hours of in-classroom instruction, which has proven to secure results. Since 2000, nearly 3 million high school seniors have participated in the program.

According to a 2004 evaluation, three months after participating in the program:

- 59% of the students indicated that they had changed their spending patterns.
  - (They now only purchase things they really need and spend more wisely.)
- 60% indicated that they had changed their savings patterns.
  - Of these, 80% said they now save for what they really need or want and 20% indicated that they now save every time they receive money.

CUNA and its state affiliates work to promote the HSFPP in their local schools by encouraging teachers to "team teach" the program with a financial professional, which CUNA and the state associations work to provide on request.

Since 2000 (the first year of CUNA/credit union involvement with the program):

- More than 400,000 high school students have participated in the program directly through involvement by credit unions; and
- More than 2,000 high schools have participated with credit unions

In 2005:

- More than 650,000 of the teaching materials were distributed to high school students in 7,300 schools in all 50 states.
- Credit unions working directly with schools reached more than 85,000 students in 1,200 schools last year.

This year:

- Recent numbers (end of first quarter) indicate that 56,000 students participating in the program through credit union involvement.
- The program is being revamped, with credit union help. The aim is to ensure that the program remains relevant to the times, and reflects good consumer practices (thus, credit union involvement).

Thrive by Five: Pre-K Financial Education

To help parents teach healthy spending habits and behaviors from an early age, CUNA has developed the "Thrive by Five: Teaching Your Preschooler about Spending and Saving," which is a program aimed at providing free resources to parents to teach basic money concepts to preschoolers. The "Thrive by Five" program was developed by CUNA with a grant from the National Credit Union Foundation and additional funds from the Ohio and Texas Credit Union foundations. A special task force of credit unions and Cooperative Extension educators developed the materials, had them reviewed by experts in child development, and tested them with three focus groups of parents and preschool children.

The "Thrive by Five" materials include eight activities parents can download at no charge to help teach their young children such concepts as waiting to spend money, how not to lose money, how money is used to buy something, that when money is spent, it's gone, and that having fun or giving gifts does not have to cost money.

CUNA provides materials to help parents teach their pre-schoolers about money and its many uses. The program is FREE to anyone who wants to use the materials. Credit unions distribute them to members by linking through their websites. Since the program debut in 2005, more than 62,000 copies of CUNA's free teaching materials for pre-K kids have been downloaded from CUNA's website.

CUNA's main goal is to encourage healthy attitudes about money in young children. Long before they enter school, children observe adults using money and buying things and they watch television daily and see thousands of commercials each year. We also acknowledge that parents are not the only influence on what their children learn about using money. However, if children are learning basic lessons about money from their parents, parents increase the chance their children's values will be similar to theirs.

National Youth Savings Challenge

CUNA has established April 17-23, 2005 as National Credit Union Youth Week, and has acknowledged a youth credit union week during April the past several years. As part of this week-long initiative that encourages youth participation in financial education throughout the year, CUNA is sponsoring the "Savings Challenge" for affiliated credit unions. This free Savings Challenge program helps credit unions build strong relationships with young people and their families, and encourages them to make deposits at their credit unions. Goals of the "Savings Challenge" include an opportunity for youth to: open accounts; introduce themselves to learn the concept of setting financial goals and saving for them; visit the credit union and learn first hand they are welcome; and empower themselves with the lifelong tool of financial education.

In 2006, nearly $10 million was deposited by more than 66,000 youngsters across the nation during that week into their credit unions.

In the three years that CUNA has sponsored this program:

- The level of deposits has grown nearly seven fold;
- The number of youth involved has expanded four fold; and
- Nearly 14,000 new accounts by young savers have been opened.

National Youth Involvement Board

CUNA's member credit unions created the National Youth Involvement Board (NYIB) in 1972 in order to gain grassroots input from individuals working in credit unions or CUNA's league affiliates to create a national system for the dissemination of information and resources regarding youth participation in the credit union movement. NYIB works with its participating credit unions to better prepare them to serve the projected 90 million-strong youth market. NYIB provides credit unions access to proven tools, techniques, and resources to learn the latest advancements in youth marketing, innovative ideas for educating youth about money, and a built-in network of peers with diverse experiences and valuable "best-practices."

Outreach to Hispanic Communities

The Hispanic community accounts for more than 40 percent of the nation's population growth over the past 16 years (1990-today). Hispanic immigrants are assimilating into the U.S. culture and since 2000, the number of U.S.-born Hispanics has surpassed immigration as the largest source of Hispanic growth. However, within this group – particularly with newer Americans – a tradition of using financial institutions regrettably is almost non-existent. Since newer Americans, Hispanics are traditionally distrustful of financial institutions, it puts them outside of the financial mainstream.

The market is clearly underserved:

- 49% of Hispanics compared to 81% of non-Hispanic whites have a checking account.

- 41% compared to 62% have a savings account.
- 5% compared to 36% have a mortgage loan.

The Hispanic market is also young, with a median age of 27 – meaning the market represents significant long-term membership growth and service potential. And credit unions have a long tradition of bringing those outside of the financial mainstream (such as new workers, young sailors, soldiers and Marines) into the community by offering low-cost financial services, and a secure, safe and sound place to do business. Hispanics are also looking for some institutions to offer them services:

In fact:

- 88% wish more financial institutions would offer products and services with Hispanics in mind.
- 82% wish they had more information about saving and investing their money.
- 83% feel the need to pay cash whenever possible versus borrowing the money or placing it on a credit card. They are less likely to base their future spending on future earnings.

CUNA has developed extensive materials for credit unions to use in reaching out to the growing Hispanic community such as our recently introduced "Quick Start Guide", which includes step-by-step instructions for developing products and relationships for this mostly underserved, but growing, segment of the population. Additionally, our "Hispanic Resource Center" on our website offers (among other things) a resource file library, links to additional resources for serving Hispanics, Our "Quick Start Guide," and the report of our Hispanic Task Force, updated regularly, on how credit unions can better serve this burgeoning market.

Other Initiatives

CUNA's league affiliates and member credit unions have also worked to put student-run credit unions and/or branches in schools. Involving students in the daily operation of a credit union provides them greater insight to financial safety and soundness, and provides them direct access to savings and other programs.

Though the ideal situation is to teach youth while they are young about financial best practices, CUNA and its member credit unions recognize the need and importance to offer adult financial literacy programs. Though credit unions already provide financial counseling and financial planning services to their members as a regular service, CUNA strongly supported the provisions in the Bankruptcy Abuse and Consumer Protection Act (S. 256) that required mandatory financial counseling -- ensuring individuals are fully apprised of all their options before making a decision that could prevent future access to financial services. CUNA has recognized another key component of financial literacy is outreach to the underserved communities. CUNA has created a Hispanic Outreach Task

Force, which is committed to helping credit union attract and serve members of the Hispanic community.

Additionally, CUNA's National Credit Union Foundation, with support from the Ford Foundation, implemented a nationwide financial literacy campaign called "Plan For It. Save For It" to address the need for increased savings among low-to-moderate income families. More than 4,000 credit unions currently use the "Plan For It. Save For It" guide to increase savings among low-income credit union members. In addition, financial literacy training contributes to the greater control of one's financial future and retirement savings, and can lead to the creation of an entrepreneurial class in local communities.

Is Financial Education Effective?

Just ask Mrs. Roberta Stepp, who teaches Family and Consumer Science at Pomona High School in Arvada, CO. She recently visited with her Member of Congress, (who happened to be her eighth grade teacher) to discuss "Making Sense" – a free financial literacy program developed for students K-12 in partnership with Jeffco Credit Union in Lakewood CO. This program was designed to enhance the current curriculum focusing on budgeting, checking, credit, identity theft and investing.

Mrs. Stepp recently visited with her former students, and videotaped their responses to her questions about how her class made a difference.

SEE INDEX A

Several studies have been designed to quantify the belief that teaching people about financial topics will help them make better consumer decisions. By 1985, 29 states had passed laws requiring some kind of consumer education at the high school level. (See www.jumpstart.org/legislation.cfm for current state legislative mandates and resolutions.)

The results of a 2001 study established a connection between state mandates and the subsequent accumulation of assets as students reached adulthood. The authors claimed to have found the first evidence of long-term behavioral effects as a result of legislated financial education curriculum requirements, and concluded:

> We also find that mandates significantly increase exposure to financial education, and ultimately elevate the rates at which individuals save and accumulate wealth during their adult lives. These results contribute to the growing body of evidence that education may be a powerful tool for stimulating personal saving.

In his 1998 Jump Start Coalition report Mandell stressed that it's not enough to simply throw financial education at students. Materials that purport to teach personal finance topics must be evaluated:

> It is very clear that state mandates, by themselves, are not very effective in promoting financial literacy. Mandates must be accompanied by a clear set of standards that stress understanding and decision-making ability, not just memorization of definitions. Teachers must be educated and appropriate teaching materials found and adopted.

One personal financial curriculum that researchers have evaluated for efficacy was the NEFE High School Financial Planning Program (HSFPP), which the National Endowment for Financial Education (NEFE) distributes free of charge as a public service in partnership with the Credit Union National Association (CUNA) and the U.S. Department of Agriculture Cooperative State Research, Education, and Extension Service. The study demonstrated that significant changes in knowledge, attitudes, and behavior occurred in students as a result of participating in the program. For example, in addition to those who maintained knowledge, skill, and confidence levels, students exhibited the following changes:

- For five of the eight behaviors, between 36% and 40% of the students increased their behavior after studying the HSFPP. These behaviors were: writing goals for managing money; setting aside money for future needs or wants; tracking expenses; achievig their money management goals; and using a budget.

- About 30% of the students increased their behavior in the remaining three behaviors: comparing prices when they shop; repaying money they owe on time; and discussing money management with their families. Slightly over 40% felt more confident about making money decisions after studying the HSFPP curriculum compared to before studying it.

"Three months after studying the HSFPP, 59% of students reported that they had changed their spending patterns and 60% said they had changed their saving patterns. The primary ways in which the students indicated that they changed their spending habits was that they now only get things they really need and they spend more wisely. Of those who reported having changed their saving habits, 80% indicated they now save for what they really need or want and 20% indicated that they now save every time they get money."

Since launching the HSFPP in 1984, NEFE has distributed materials to more than 4 million students and 10,000 schools (a number which does not include repeat participants). Roughly two-thirds of that distributing has occurred since 2000, when NEFE formed a partnership with CUNA and America's credit unions. During the past six school years, credit unions have directly assisted in bringing the program to more than 400,000 students in more than 1,000 schools, which is 13.6% of total overall program participation.

Credit Unions and Financial Literacy

Credit unions have traditionally considered financial education to be part of their social mission. Indeed, education is one of the operating principles of the international credit union movement.

Credit unions actively promote the education of their members, officers, and employees, along with the public in general, in the economic, social, democratic, and mutual self-help principles of credit unions. The promotion of thrift and the wise use of credit, as well as education on the rights and responsibilities of members are essential to the dual social and economic character of credit unions in serving member needs.

Founders of the U.S. movement made it clear that from the start that they thought educating members was one of a credit union's fundamental duties. Edward Filene once said, "There is no permanent remedy for our economic and social ills other than better thinking, which must come through better education."

Furthermore, early credit union leaders stressed the importance of beginning financial education with the youngest family members. In 1936, one of CUNA's magazine editors said:

> Our children of today will be the heads of families of tomorrow. They will be the buyers and sellers of the nation, the financial executives of the world. If they are to be fitted to meet these responsibilities we must give them an opportunity to learn how to manage money and we must do it now.

Credit unions have responded to these challenges in a number of ways.

First, they provide information to members through newsletters and other mailings. Since 1989, for example, credit unions have purchased from CUNA for distribution to members 80 million brochures on subjects ranging from managing a checking account to protecting against identity theft.

Second, credit unions provide financial information to members on a one-on-one basis. As of the end of 2005:

- 80% of credit unions with more than $50 million in assets provide financial education to adults. The topics these credit unions help members with include: auto buying (89%); fraud prevention (85%); home ownership (81%); credit cards (73%); retirement planning 69%); investments (68%); budgeting (67%); college funding (58%); estate planning (54%); insurance (53%); long-term care (44%); tax strategies (37%); and remedial credit (24%).

- 73% of credit unions with more than $50 million in assets provide financial education to members under the age of 18.

- 29% of credit unions (representing 74% of U.S. members) offer member education seminars to provide instruction in money and debt management.

- 14% of credit unions (representing 52% of U.S. members) offer financial planning programs to help with mid-and long-term goals

Third, credit unions actively approach schools and after-school programs to teach personal finance skills to children and teenagers, in addition to participating in the NEFE High School Financial Planning Program.

- 141 credit unions in 30 states operate branches in 490 schools (kindergarten through college). All are student-run to some degree.

- In 2005, CUNA launched Thrive by Five™: Teaching Your Preschooler About Spending and Saving, a free resource for parents in English and Spanish. Since then, more than 40,000 visitors to the Thrive by Five page on CUNA's web site downloaded more than 70,000 copies of the eight free parent activities (an average of nearly three copies per visitor). Visitors also examined or downloaded related free resources more than 28,000 (e.g. Tips for Teaching Preschoolers, Picture Books About Money) times, for a total of 98,000 items requested.

- Since 1972, the National Youth Involvement Board (NYIB), a loose network of credit union volunteers, has educated youth about money and credit. During the 2005-06 school year, 690 NYIB volunteers conducted 9,351 classroom presentations for 285,730 students.

Fourth, credit unions seek every opportunity to draw attention to youth -- their accomplishments as well as their needs.

- In 2006, CUNA sponsored a fifth annual National Credit Union Youth Week (April 23-29) during the Jump Start Coalition's Youth Financial Literacy Month to showcase the members who will provide our nation's economic leadership and strength in the future. Modeled after long-standing observances in states such as North Dakota and Pennsylvania, the national event will shine a spotlight on the problem of youth financial illiteracy and the many ways that credit unions, in partnership with other local institutions, are giving young people the tools of financial security.

- For the third consecutive year, Credit Union Youth Week has featured a National Saving Challenge, during which 66,269 members under the age of 18 added $9,626,748 to their savings accounts at 346 participating credit unions.

From the beginning, the people of the credit union movement have firmly believed in the power of information to better members' well-being. An indication that their long-standing faith in the efficacy of financial literacy to improve lives is well-grounded, is the

following: In 2005, the overall bankruptcy rate for the general U.S. population was 6.8 per 1,000. For the same period, the rate for U.S. credit union members was only 4.0 per 1,000.

Closing

CUNA and its member credit unions have long been in the forefront of advancing, developing and implementing effective financial literacy programs for members of all ages and from all economic backgrounds. CUNA appreciates the opportunity to provide comments on our financial literacy outreach efforts, and looks forward to working with the Committee to bring the greatest access and awareness of financial literacy programs to our members and the general public.

Testimony

Of

Elisse B. Walter

Senior Executive Vice President
Regulatory Policy and Programs

Before the
Committee on Financial Services
Subcommittee on
Financial Institutions and Consumer Credit

Hearing on Financial Literacy

United States House of Representatives

September 28, 2006

Mr. Chairman and Members of the Subcommittee: Thank you for inviting us to testify on financial literacy and for allowing us to submit this statement for the record. NASD is committed to expanding the knowledge and confidence of all Americans wishing to build a more secure financial future through saving and investing.

NASD

Founded in 1936, NASD is the private-sector securities regulator for the U.S. securities industry. In 1939, the SEC approved NASD's registration as a national securities association under authority granted by the 1938 Maloney Act Amendments to the Securities Exchange Act of 1934. We regulate every broker-dealer in the United States that conducts a securities business with the public—about 5,100 securities firms that operate more than 171,000 branch offices and employ nearly 660,000 registered representatives.

Our rules regulate every aspect of the brokerage business. Our market integrity and investor protection responsibilities include compliance examinations, rule writing, enforcement, professional training, licensing and registration, dispute resolution and investor education. NASD examines broker-dealers for compliance with NASD rules, MSRB rules and the federal securities laws, and we discipline those who fail to comply. Last year, NASD filed a record number of new enforcement actions (1,410) and barred or suspended more individuals (830) from the securities industry than in any previous year. We regulate trading on the NASDAQ Stock Market, the American Stock Exchange and the International Stock Exchange under contractual arrangements with those markets. NASD has a nationwide staff of more than 2,400 and is overseen by a Board of Governors, more than half of whom are not in the securities industry.

Executive Summary

My testimony today will focus on NASD's work in the area of investor education. NASD believes that educating investors is the first line of defense in protecting them. Our core mission of investor protection and market integrity is advanced greatly by having investors be more knowledgeable. We have issued educational materials to alert investors to potential problems and provide plain English explanations of products and processes. We have developed tools for investors to use in making financial decisions. We conduct public education events to reach out to investors. In addition to the investor education activities of NASD itself, the recently created NASD Investor Education Foundation supports innovative research and educational projects that give investors the tools they need to better understand the markets and the basic principles of saving and investing. The NASD Foundation has awarded more than $4.8 million in grants for educational programs and research projects targeting underserved segments of the population. And as I previously testified before Congress recently, we launched efforts to educate military personnel and their families so that they are able to avoid fraudulent and inappropriate products and sales pitches and manage their money with confidence.

Tools for Investors

An overwhelming number of investors realize they need to be better informed about investing, and NASD has responded with a wide variety of resources. These include devoting a large segment of our Web site, www.nasd.com, to information useful to mainstream investors. We issue investor alerts and other publications, and we have an assortment of free Internet based tools to give investors the information they need to make informed investment decisions. Our materials cover information that can be valuable to all investors—those starting out, saving for a home, saving for a college education or contemplating or enjoying retirement. These groups each have different needs and NASD has resources available to help all of them, whether they are selecting an investment professional, comparing the fees and expenses of mutual funds, or choosing a college savings plan that's right for the investor.

NASD BrokerCheck

A critical first step when doing business with an investment professional is knowing about that person's or firm's background. NASD's BrokerCheck Program gives investors convenient access to information about brokerage firms and individual brokers. Like other NASD tools for retail investors, it is available free of charge. We encourage investors to use this valuable resource to learn about the disciplinary history, professional background, business practices and conduct of brokerage firms and brokers with whom they invest. Through the Web at www.nasdbrokercheck.com or a toll-free hotline (1-800-289-9999), investors may obtain employment and registration information and request a disclosure report. NASD obtains this information from brokers, NASD member firms, the SEC and state regulators as part of the securities industry's registration and licensing process.

BrokerCheck is not only an essential first step in selecting a broker or firm, but also a resource that individuals should use periodically to check on their broker or firm. BrokerCheck tells you the states in which brokers are registered to do business. It tells you their employment history and whether they have had any disciplinary problems, such as certain types of criminal actions, enforcement actions by NASD and other regulators, customer complaints and certain investor-initiated arbitrations.

We urge investors to use BrokerCheck to learn about their investment professionals BEFORE they invest. Investors can also contact their state securities department to obtain information about brokers. Each state has its own securities department that regulates the securities industry within its boundaries.

Professional Designation Database

The regulatory landscape can be confusing to investors. Depending on whether the professional they are dealing with is a broker-dealer, an insurance professional or a registered investment advisor, the rules that govern the relationship between the customer

and the person advising them differ. Moreover, in recent years, there has been a proliferation of certifications obtained by investment professionals that can be used to strengthen that person's credentials or, on the other hand, simply to enhance that person's apparent credibility. NASD's Professional Designation Database, *http://apps.nasd.com/investor_Information/resources/designations*, is the only tool available to investors that helps them to sort through the list of professional designations and better understand what education and experience requirements are necessary for a designation. With this tool, investors can see whether the granting organization mandates continuing education, offers a public disciplinary process, provides a means to check a professional's status, offers a dispute mechanism and otherwise ensures that a professional designation is more than just a string of letters.

Mutual Fund Expense Analyzer

Many investors do not realize that the fees and expenses charged by mutual funds can make a big difference in the performance of their investment. With a data feed of expense data on virtually every mutual fund and exchange traded fund, the NASD Mutual Fund Expense Analyzer lets investors analyze the impact of fees and expenses on fund performance by showing how those fees add up over time. Investors can research one fund at a time, or can compare the costs of as many as three funds or classes of a single fund at a time. And the tool provides investors with a graph that shows not only the impact of time on their investment—but the impact of time on expenses, and how those expenses can affect an investment, particularly over the long term.

Bond Learning Center

The NASD Bond Learning Center covers all types of bonds, from savings bonds to municipals, treasuries and agency bonds, as well as information about bond funds. The Bond Center offers a risk report card for each bond category. It walks investors through how to buy and sell different types of bonds and provides some strategies for bond investing. For example, investors can learn about bond "laddering." This involves spreading money among several different bonds with increasingly longer maturities—for example, a bond that matures in two years, one in four years and one in six years. Laddering is a way to minimize both interest rate risk and reinvestment risk, which is the risk that after a bond matures, the options for reinvesting that money aren't as favorable as when you first bought the bond. NASD strives to provide a balance of basic information and more advanced concepts—and lets investors decide which is more appropriate for them.

529 College Savings Center

The NASD College Savings Center, also accessible through www.nasd.com, includes information about 529 plans—both prepaid tuition and college savings plans—and other options, including savings bonds, Coverdell Education Savings Accounts and custodial accounts. 529 plans have generated a lot of interest—and for good reason. These are excellent vehicles for saving and investing for your children's or grandchildren's college

education. The prepaid version is a savings option that allows investors to lock in tuition prices, with lump-sum and installment payments based on the child's age and number of years of tuition being purchased. Besides being a type of forced savings, the prepaid plan can be a hedge against rising college costs, which in the past decade have outpaced inflation, in some years by a wide margin. 529 college savings plans do not lock in college costs, but earnings grow tax free and withdrawals are also tax-free when used for qualified education expenses, which include tuition, fees, books and supplies, and room and board. 529 college savings plans are offered by state governments and almost every state has one, but they're not all the same. For example, some states give tax deductions or credits to 529 plan investors, on top of tax-free earnings growth at the federal level, but others do not. In addition, the investment choices, fees and other features of 529 plans vary from state to state, so the NASD site can help investors choose carefully. Our College Savings Center offers tips for choosing from the various college savings options. Since 529 college savings plans carry fees and expenses—and because there are a lot of plans to chose from—the Center also includes a tool that compares and analyzes expenses associated with these plans.

Retirement Savings Initiatives

We are also focused on two areas of investment that affect every American—retirement savings and retirement spending. To help investors on the savings side, we have developed a 401(k) Learning Center that walks employees through everything from the enrollment process, to the role of risk and reward when making allocation decisions, to issues of portability and the risk to your retirement nest egg from cashing out of your plan before retirement.

We are teaming with AARP and the Retirement Security Project to try to increase participation rates among employees whose companies offer 401(k) plans. A recent issue brief by the Employee Benefit Research Institute (EBRI) notes that almost a third of recently hired employees who are eligible to participate in their company's defined contribution plan do not participate, and participation rates for employees earning less than $20,000 a year is even lower. A number of academic studies have found that changing the default option to require workers to opt out of, instead of opt in to, participation in 401(k) plans raises participation rates to more than 90 percent. The goal of this collaboration is to encourage employers to adopt this and other so-called automatic 401(k) enrollment options, in whole or in part.

On the retirement spending side, we will be launching a Retirement Income Management Center later this year. It's important that retirees—who have spent the better part of their adult lives accumulating wealth—be given information and resources to help manage this income wisely. In particular, given the longer life expectancies of baby boom retirees, the Center will provide tools and information aimed at managing retirement savings so that, if at all possible, the savings are not depleted too soon.

Investor Alerts and Other Publications

NASD has issued a number of investor alerts that warn people about potentially problematic or confusing products or practices. These include alerts on equity-indexed annuities; variable annuities; "stretch" IRAs and other products. Most recently, NASD issued an investor alert on early retirement investment pitches.

NASD Investor Education Foundation

NASD established the NASD Investor Education Foundation in December 2003, inspired in part by survey data that showed mainstream investors had a troubling lack of knowledge and understanding of markets and investment products. Since then, we have contributed $31 million to the NASD Foundation, all derived from disciplinary fines. The endowment received another $33 million from a court-ordered settlement of the SEC's research analyst cases, and there is another $22 million still to come from that case.

The NASD Foundation issues grants to universities and non-profits for research and programs that help mainstream investors understand the markets and the complexities of investing. The Foundation is particularly concerned with population segments that are underserved, such as minorities, members of the armed forces and senior citizens.

Senior Outreach

Our senior outreach is informed by a study that examined why some older investors are more susceptible to investment fraud than others. The study exposes the various persuasion tactics criminals use to exploit seniors and offers strategies to help them avoid becoming victims. The report was released in cooperation with WISE Senior Services and the AARP Foundation. It's called *Off the Hook Again: Understanding Why the Elderly Are Victimized by Economic Fraud Crimes*. The study was published in July and is available on the Foundation's Web site, *www.nasdfoundation.org*.

The report included some surprising conclusions. For example, financial fraud victims tend to be more optimistic, less likely to use financial professionals and more financially literate than non-victims. The researchers also found that most investment fraud goes unreported, in part because victims are embarrassed about having fallen prey to it. Research such as this informs our approach to educating seniors about how to protect themselves from fraud. The NASD Foundation has begun formulating a plan to fund further research and develop an investor protection program and public awareness campaign to help seniors spot and reject the social persuasion tactics that con artists use.

Leveraging Resources through Strategic Grants and Partnerships

Investor education in all its forms is a critical aspect of what we do and we're quite proud to be doing it. But at the same time, we know that our education programs reach only a small percentage of the population that could benefit from them. That is why it is

essential that we, and others in the investor education community, leverage resources to reach the broadest number of people and partner with others.

Through grant making, the NASD Foundation funds programs that provide information and resources to audiences typically underserved by financial education programs. More than $4.8 million dollars has been awarded to organizations for educational programs and research projects that reach out to, among others, minorities, young investors, Native American communities and the elderly. Last year, we tripled our grant making over 2004 levels, and committed $ 3.4 million to programs and partnerships that support our communities, our men and women on the frontlines and young people.

Foundation Research Grants

Research grants offer experts a chance to provide insight into how investors make decisions, what information they need to make better-informed decisions and how to create better learning environments. For example, the Ohio State University will examine racial and ethnic influences on investment behavior in order to develop guidelines for effective investor education programs for African-American and Hispanic populations. Princeton University is examining psychological biases that play a role in poor investment decisions and developing and testing a set of interventions to promote wise investing by mitigating those biases.

All Americans—regardless of their background or goals in life—deserve the opportunity to create a secure financial future for themselves and their loved ones. The NASD Foundation awarded grants to organizations that are helping more Americans take control of their financial decision-making. For example, Kidz Online, a nonprofit group in Los Angeles, is producing an interactive financial literacy Web show comprised of ten educational episodes geared towards high school students. The episodes will be broadcast in schools around the country. The Metro New York Better Business Bureau's Foundation created a national education project that provides simple tools, in English and Spanish, to guide financial decision making.

SaveAndInvest.org

Last year, as the result of a settlement with a broker-dealer that was targeting members of the armed forces with misleading sales pitches and improper sales tactics, approximately $6.8 million was transferred to the NASD Investor Education Foundation for the development and deployment of comprehensive financial education programs for members of the armed services and their families.

Before developing this programming, NASD conducted a survey of the military population. Many servicemembers reported having difficulty covering expenses and saving for the future. Research conducted in June 2005 found that only 29 percent of military personnel who currently invest received a passing grade on a quiz about basic financial knowledge. However, 62 percent of survey respondents said that they planned to increase their investment levels in the next year.

Working closely with the Department of Defense, the NASD Foundation launched a multifaceted military financial education program early this year. This comprehensive campaign to help servicemembers and their families manage their money with confidence is being implemented on military installations worldwide. It encourages members of the armed forces to take control of their financial futures—by providing them and their spouses with financial information to help them make intelligent saving and investing decisions. As a result, servicemembers and their spouses now have access to financial tools and information 24 hours a day through a program created to meet the unique needs of the military community.

The program includes an online resource center, *www.SaveAndInvest.org*, that serves as a centralized source of unbiased information on saving and investing. We are also supporting the Defense Department's Personal Financial Management program by establishing a coordinated and uniform financial education program, including the training and continuous certification of personal financial counselors and other volunteers.

We have instituted a spousal fellowship program that will train a corps of military spouses to provide financial counseling and education within the military community. One of the publications we have developed with the National Military Family Association and the National Endowment for Financial Education is called Money and Mobility. It helps servicemembers and their families deal with the financial issues arising from deployment and duty-station changes. We have distributed over 270,000 copies of this publication to service members and their families.

Soon after launching SaveAndInvest.org in January 2006, an NASD Investor Education Foundation team traveled around the world to conduct a series of free financial education forums at bases and duty stations in the United States and far beyond our borders, including aboard the San Diego-based USS Ronald Reagan, an aircraft carrier then in the Persian Gulf.

This program is a broad collaborative effort. First and foremost, we are working closely with the Department of Defense, the United States Securities and Exchange Commission, the Federal Trade Commission and the Board of Governors of the Federal Reserve System. Our partners in this journey also include the National Military Family Association, the California Department of Corporations, the Association for Financial Counseling and Planning Education, the InCharge Education Foundation, the National Endowment for Financial Education, the American Savings Education Council, CincHouse.com and the Consumer Federation of America. By forming partnerships with groups such as these, which have experience in addressing military audiences, we complement the NASD Foundation's commitment to providing financial education information and resources to service members and their families.

NASD Regulatory Work to Protect Investors

NASD protects investors by adopting rules to govern the conduct of the securities industry; examining securities firms to determine whether they are complying with those rules, both on a periodic basis and in response to customer complaints and other red flags; and disciplining firms and brokers who fail to comply—imposing sanctions ranging from censures to fines, suspensions and expulsion from the industry. In our routine examinations of broker-dealer firms, NASD focuses on sales practice issues, including suitability, the requirement that a recommendation of a securities transaction be appropriate for the investor to whom it is made. Misconduct by firms is identified in several ways, including our sales practice reviews, customer grievance reviews, advertising/sales literature reviews and sweeps, which are series of targeted examinations involving particular products.

Investor Complaints and Dispute Resolution

NASD's goal is not only to be a source of critical information for individual investors so they can make better-informed decisions, but also to take direct action to protect them. Despite our best efforts to protect investors, however, problems do occur. What recourse do investors have if they feel that they've been treated unfairly or misled?

In addition to contacting the securities firm's compliance department to discuss a broker's unfair or improper conduct, an investor may lodge a complaint directly with NASD. Investigating complaints from investors is a significant function of NASD, and we look into all complaints that we receive. Alert investors have helped NASD successfully discipline many firms and brokers that have violated NASD rules or the federal securities laws. To report a problem, investors may submit complaints online via our Web site or send a letter to the NASD Complaint Center.

Although the vast majority of investors will never need to resolve an investment-related problem, all investors should know that NASD operates a dispute resolution forum, which handles more than 90 percent of securities arbitrations and mediations in the country. To get more information or the forms needed to begin such a process, investors may visit our Web site or contact one of the NASD Dispute Resolution offices. By clicking on the Arbitration and Mediation tab at the NASD Web site, investors can access a list of the Dispute Resolution regional offices and hearing sites.

Conclusion

Thank you for giving us the opportunity to testify on these important topics and for your important work on this issue.

SUBMITTED TESTIMONY OF AMERICA'S COMMUNITY BANKERS BEFORE THE HOUSE FINANCIAL SERVICES COMMITTEE, SUBCOMMITTEE ON FINANCIAL INSTITUTIONS AND CONSUMER CREDIT, REGARDING FINANCIAL LITERACY

September 28, 2006

America's Community Bankers (ACB) appreciates the opportunity to submit the following statement to the House Committee on Financial Services, Subcommittee on Financial Institutions and Consumer Credit, on the topic of financial literacy in the United States. ACB thanks Subcommittee Chairman Bachus for holding this very important and timely hearing to examine the various proposals designed to enhance the level of personal financial acumen in our nation today.

ACB is an independent national trade association representing the nation's community banks of all charter types and sizes, including state and federally chartered savings institutions and commercial banks. ACB members pursue progressive, entrepreneurial and service-oriented strategies in providing financial services to benefit their customers and communities. Our members are both stock and mutually owned. As community bankers, many ACB member institutions are specialists in mortgage lending and services.

Background

The American financial services system is a complex maze of decisions, and ACB endeavors to provide the tools and resources necessary for establishing safeguards against fraud and for planning accordingly for one's future. However, there is no true panacea, since the burden is on the individual to make use of the means available. As the responsibility for individuals to manage their own finances increases, so does our responsibility to provide individuals from every economic background with the tools they need to navigate their financial environment, and ACB is committed to ensuring that all Americans have fair and equitable access to credit, and that consumers have the necessary skills to make wise credit and other financial decisions. ACB has always made financial literacy a top priority for our trade association. As community-based lenders, we are dedicated to strengthening America's communities by meeting the financial needs of consumers fairly and efficiently.

ACB recognizes that financial literacy must start early, and therefore we believe that financial literacy initiatives must be incorporated into overall education curriculum in the United States. To be truly effective, financial literacy cannot be treated as either an additional requirement or a separate component. We also strongly believe that an informed, educated consumer is better able to make financial decisions and prevent

manipulation by providers of financial services that prey on the uninformed. In 2002 ACB renewed its focus on fostering a healthier degree of financial literacy nationwide. In just 4 short years we have realized several noteworthy accomplishments that have advanced awareness on the value of financial literacy, some of which we will briefly outline below.

Money Rules

Money Rules was established in 2002 as an information program to help community bankers educate their customers by providing our members with materials for their financial education efforts. As community bankers, ACB members know the answers to the fundamental questions people face concerning mortgages products, interest rates, credit cards, and other financial tools that we depend on to make our life easier. Yet many consumers are often left in the dark when faced with these difficult decisions, much to the detriment of their financial well being, creating an inherent disadvantage that increases their susceptibility to predatory lenders, investment scams, identity theft, and other unscrupulous business practices. Money Rules encourages customers to ask their community bankers to share their expertise on basic financial issues, and to offer financial tips on subjects such as budgeting, using credit wisely and achieving savings goals.

Money Rules is distributed in pamphlet form – printed in both English and Spanish – and offered to ACB institutions for display in their banks or as an insert in monthly statements. To date over one million Money Rules pamphlets have been distributed on topics such as:

- Building Good Credit
- Following A Budget As A Key To Maintaining Good Credit
- Recognizing Debt Disaster Signs
- Avoiding Getting Burned By Financial Hot Water
- Credit Repairs
- Avoiding Scams

The brochures include a series of questions designed to make customers think about their own level of financial literacy, and to demonstrate that their community banker is there to help them understand the financial issues they face.

More recently, ACB has prepared a number of pamphlets on important financial issues, such as Individual Retirement Accounts (IRAs), Online Banking, Identity Theft, Deposit Insurance, and Disaster Preparedness, which we provide to our member institutions for distribution to their customers. To date, nearly 20 million of these pamphlets have been distributed by in ACB member institutions. These useful financial tools enable banking customers to take a proactive approach to learning about the resources available to them, which helps to mitigate potential fraud and makes them more responsible with their financial decisions.

Congressional Black and Hispanic Caucuses

Over the years, ACB has participated on a number of Congressional Black and Hispanic Caucus panels to highlight our initiatives to promote financial literacy. We have also contributed to a video entitled, "Fostering Financial Literacy for All Americans," recorded during the Congressional Black Caucus' 33rd Annual Legislative Conference. This video brought together our nation's leaders in financial literacy advocacy from both the private and public sectors, and discussed a number of important principles for increasing awareness. This video was circulated by Congresswoman Julia Carson (D-IN) and remains an important resource tool for educating our communities on the importance of financial literacy.

Cooperation with Federal and Private Organizations

ACB members believe that the best approach for promoting financial literacy is to work in concert with other organizations that share your ideals and philosophy for improvement. Therefore, ACB has developed strong working relationships with a number of private and public organizations to further our common goal of enhanced financial literacy.

ACB is a proud partner of the Jump$tart Coalition for Personal Financial Literacy, which seeks to improve the personal financial literacy of young adults by evaluating young adults, developing, disseminating, and encouraging the use of standards for grades K-12, and promoting the teaching of personal finance. The Jump$start Coalition and ACB agree that early intervention is the key to success in making informed financial decisions, and ACB is proud of its sponsorship and participation in this cause.

ACB has also developed a strategic partnership with Operation Hope, a non-profit organization dedicated to bringing economic self-sufficiency to inner cities through education and awareness. As community lenders, ACB members are acutely concerned with the financial strength of their surrounding neighborhoods. Too often, our less fortunate communities are left behind in the information age due to a lack of education. Operation Hope strives to create sustainable change within under-served communities by serving as a bridge and facilitator between mainstream and minority communities, and by consistently promoting opportunity, self-esteem, optimism and future aspiration.

The Department of the Treasury established the Office of Financial Education in May of 2002 to promote access to the financial literacy tools that assist in making wiser choices in all areas of personal financial management, particularly saving, credit management, home ownership and retirement planning. ACB has long been an advocate for an increased federal presence in financial education, and we commend the Department of the Treasury for setting the standard for other agencies to follow, and for consistently building on their progress to make financial awareness a priority issue.

ACB has been an active supporter of the Financial Literacy and Education Commission since its creation in 2003 as a part of the Fair and Accurate Credit Transactions Act.

ACB was also pleased to offer comments on the Commission's development of a national strategy to promote financial literacy during the Treasury Department's official comment period. The Commission, which develops national policy to promote financial education and improve financial literacy in the United States, brings together 20 federal agencies representing the spectrum of financial issues and markets in the United States. ACB staff regularly attends the Commission's meetings to offer input on the scope and direction of the Commission's initiatives, and to provide feedback from the collective voice of the community banking industry.

Conclusion

ACB is encouraged by the Subcommittee's examination of this very important issue today, and we appreciate the opportunity to offer comments for the hearing Record. Furthermore, we are pleased that there is a bicameral interest in the issue of financial literacy, and that it reaches across both sides of the isle. We look forward to working with the Subcommittee during the 110th Congress to actively promote financial literacy awareness, and to continue to share ACB's ongoing work to improve financial education in the United States.

NASAA

NORTH AMERICAN SECURITIES ADMINISTRATORS ASSOCIATION, INC.
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WRITTEN STATEMENT OF THE
NORTH AMERICAN SECURITIES ADMINISTRATORS ASSOCIATION
Committee on Financial Services
Subcommittee on Financial Institutions and Consumer Credit
"Improving Financial Literacy: Working Together to Develop Private Sector Coordination and Solutions."
Thursday, September 28, 2006

Introduction to NASAA:

The North American Securities Administrators Association (NASAA) is the oldest international organization devoted to investor protection. It was organized in 1919 and is a voluntary association with a membership consisting of 67 state, provincial and territorial securities regulators in the 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, Canada, and Mexico.

These state administrators are responsible for the licensing of firms and investment professionals, registration of certain securities offerings, examination of broker-dealers and investment advisers, enforcement of state securities laws, and investor education.

Financial Education Role of State Securities Regulators:

The securities regulators that form the NASAA membership are firmly committed to promoting and supporting financial literacy, and are dedicated to delivering financial education. We believe we have an ongoing obligation to help our constituents develop the knowledge they need to make sound personal financial decisions. We believe that reaching our young citizens with financial education at a very early age can help them build a lifetime of good money management habits. And we believe that financial education is the first and best defense against financial fraud, abuse, and exploitation.

We recognize that the ability to make good financial decisions can make the difference in assuring that our citizens become and remain productive economic contributors. We also realize that the ability to make good financial decisions ultimately impacts the economic health of our families, our communities, our states, and this nation overall.

NASAA Investor Education Section:

The NASAA Investor Education Section was created in 1997 by the NASAA Board of Directors to help support the financial education efforts of our members. The Investor Education Section, along with a network of professionals from across the NASAA membership, is responsible for

developing, coordinating, delivering, and supporting financial education initiatives that can be utilized by state securities regulators in their ongoing endeavor to improve the level of financial literacy in their jurisdictions. Currently, the Section has five focus areas: Youth Outreach, Senior Outreach, Affinity and Ethnic Based Outreach, Online Resources Awareness, and General Education Program Coordination.

At the Grassroots Level:

Nearly all state and provincial securities regulators have established investor education departments or divisions within their agencies. The result is a unique network of dedicated professionals delivering financial education at the grassroots level throughout North America. Our financial education professionals can be found at work in such venues as the classroom, the workplace, senior centers, and at trade and professional organization events. They partner with teachers, employers, and peer-based volunteer groups to deliver financial education to our constituents of all ages.

Specific Examples of Successful State and Provincial Programs:

The NASAA Youth Outreach Project Group created a blueprint for NASAA members to use in developing and hosting teacher-training academies. The purpose of this type of event is to train teachers on how to integrate financial education into the classroom curriculum. Through teacher training academies, we work to provide teachers with the knowledge, tools and resources they need to efficiently and effectively deliver financial education to their students. Several of our members host this type of event on an annual basis and have done so for many years. The newly created blueprint provides a step-by-step program development guide for our members, and brings together best practices from existing, successful programs. The teacher training blueprint covers everything from structuring an agenda, suggested categories of speakers, obtaining curriculum and financial resources, coordinating lodging and meals, partnering with an institution of higher education, qualifying the event for continuing education credits, and much more.

In the area of Senior Outreach, our California member has developed a highly successful anti-fraud education program that utilizes peer-based volunteerism. The Seniors Against Investment Fraud program (SAIF) - provides seniors with a toll free call center to utilize before purchasing or investing in any type of "financial" product. SAIF can help seniors:

- Confirm if the sales person and company are properly licensed and registered.
- Identify possible "red flags" associated with the solicitation.
- Get the facts BEFORE investing.
- Locate valuable resources to assist with investment decision making.
- Obtain information on current scams targeting seniors.

More than 1500 volunteers have been trained to carry this anti-fraud program to seniors. Volunteers include seniors, law enforcement professionals, consumer and advocacy groups, and senior service providers. The NASAA Senior Outreach project group is developing a best practices blueprint based on SAIF that will facilitate the rollout of this type of peer-based, volunteer education program across our member jurisdictions.

Partnering Relationships/Collaborations:

NASAA looks for opportunities to join forces with other members of the financial education community. NASAA believes it is essential to pool our resources and share our expertise on these joint ventures. For example, we collaborated with the Securities Industry Association to produce a Spanish version of an education tool titled "Understanding your Brokerage Account Statement" and also worked with the Investment Company Institute and the College Savings Plan Network to produce the "Guide to Understanding 529 Plans."

NASAA has also been working with the Department of Labor on their retirement preparedness program. Here again, the NASAA network of investor education professionals can be an excellent delivery vehicle for the Labor Department's program. Last year, we published a Fraud Awareness Quiz and the AARP will include this resource in newly created speakers' guides for its 53 local offices. Several months ago, the Coalition on Investor Education – a broad group of consumer organizations, state securities regulators, and investment services providers released a free brochure designed to guide investors through the process of choosing an investment services provider. The coalition that produced the publication includes the Consumer Federation of America, North American Securities Administrators Association, Investment Adviser Association, Financial Planning Association, and CFA Institute.

On a regular basis, our members work with the American Savings Education Council, the Councils for Economic Education, and are involved in state level Jump$tart coalitions. We entered into a Memorandum Of Understanding with the Department of Defense through which our members will work to deliver financial education to members of the military.

State securities regulators meet annually with the financial education professionals from the Securities and Exchange Commission to engage in a dialogue about our respective programs and progress in the ongoing quest to improve financial literacy. This meeting gives us an opportunity to learn what's new or under development, helps us identify gaps in financial education, leverage resources of our financial education colleagues, and further hone best practices. Earlier this year, NASAA and the SEC announced a joint initiative to protect senior investors. An important part of the initiative will involve investor education and outreach to senior investors.

NASAA's General Education Program Coordination Project Group has compiled an *Investor Education Resource Directory* that contains the names and contact information for more than 130 groups in order to make it easier for NASAA members to reach out and coordinate educational efforts with other groups and agencies. A library of NASAA member educational PowerPoint presentations is also being compiled to enable members to more easily coordinate educational outreach efforts.

Resources:

Through the NASAA Web site at www.nasaa.org, visitors will find a wealth of information to help them build both financial knowledge and financial security. Among other educational experiences on the NASAA Web site, visitors can utilize the Senior Investor Resource Center and the NASAA Fraud Center, learn more about the Financial Literacy 2010 curriculum

designed for junior high and high school students, and locate state and provincial-specific resources available through individual NASAA members.

In order to share its resources, NASAA compiled a directory of investor education publications, public service announcements, and investor education videos of its members both by category and by jurisdiction. The directory includes publications of NASAA members translated into Spanish, French, Chinese, Russian, Polish, and Tamil. This valuable tool is accessible on NASAA's Web site for use by the public as well as NASAA members that might have a need for a resource of a different subject matter.

Conclusion:

State securities regulators have traditionally been a highly effective resource in the pursuit of greater financial literacy. They represent a nationwide network of highly trained, unbiased, non-commercial experts in financial services, products and fraud avoidance. They are on the front lines of financial education initiatives in every state, translating Wall Street to Main Street for small investors throughout the country. NASAA and its members welcome the opportunity to work more closely with the Subcommittee members in their ongoing efforts to improve the level of financial literacy throughout the country.

Suspend the Rules And Agree to the Resolution, H.Res. 973 with an Amendment

(The amendment consists of a new preamble)

109TH CONGRESS
2D SESSION

H. RES. 973

Recognizing Financial Planning Week, recognizing the significant impact of sound financial planning on achieving life's goals, and honoring families and the financial planning profession for their adherence and dedication to the financial planning process.

IN THE HOUSE OF REPRESENTATIVES

JULY 28, 2006

Mr. HINOJOSA (for himself and Mrs. BIGGERT) submitted the following resolution; which was referred to the Committee on Government Reform

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RESOLUTION

Recognizing Financial Planning Week, recognizing the significant impact of sound financial planning on achieving life's goals, and honoring families and the financial planning profession for their adherence and dedication to the financial planning process.

Whereas the financial planning process can play a vital role in helping workers achieve financial independence by empowering them to identify and manage realistic financial objectives and meet the financial challenges that arise at every stage of life;

Whereas all individuals in the United States can improve their quality of life by securing competent, objective, and comprehensive financial advice to assist them in attaining their financial goals;

Whereas 2 surveys released in 2006 by the Consumer Federation of America and the Financial Planning Association revealed that 77 percent of financial planners think it is very important for Americans to understand what net personal wealth is, but only 49 percent of Americans know what constitutes this wealth—financial assets plus home equity and other tangible assets minus consumer debts;

Whereas, in the past year, proclamations have been issued in numerous States and the District of Columbia recognizing the importance of the financial planning process in meeting the goal of financial independence and other long-term financial objectives; and

Whereas the Financial Planning Association has designated the week beginning October 2, 2006, as "Financial Planning Week": Now, therefore, be it

Resolved, That the House of Representatives—

(1) encourages Americans to observe "Financial Planning Week" with appropriate programs and activities;

(2) supports the goals and ideals of "Financial Planning Week";

(3) recognizes the significant impact that sound financial planning can have on securing financial

1 independence and achieving life's goals and dreams;
2 and
3 (4) acknowledges and commends the millions of
4 families across the United States, as well as the fi-
5 nancial planning profession, for their adherence and
6 dedication to the financial planning process.

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THE FINANCIAL SERVICES ROUNDTABLE

Impacting Policy. ImpactingPeople.

September 25, 2006

The Honorable Ruben Hinojosa
U.S. House of Representatives
Washington, DC 20515

Dear Congressman Hinojosa:

We write to applaud your leadership in introducing House Resolution 973, recognizing Financial Planning Week. The Roundtable believes the financial planning process allows Americans to achieve their dreams by empowering them to identify and manage realistic financial goals.

This resolution highlights the impact of sound financial planning on achieving life's goals, and honoring families and the financial planning profession for the adherence and dedication to the financial planning process. Everyone can benefit from knowing the value of financial planning and knowing where to turn for objective financial advice.

The Financial Services Roundtable represents 100 of the largest integrated financial services companies providing banking, insurance, and investment products and services to the American consumer. Member companies participate through the Chief Executive Officer and other senior executives nominated by the CEO.

Roundtable member companies provide fuel for America's economic engine, accounting directly for $50.5 trillion in managed assets, $1.1 trillion in revenue, and 2.4 million jobs.

We thank you for your leadership in recognizing Financial Planning Week through H. Res. 973. The Roundtable is proud to support this important resolution.

Best regards,

Steve Bartlett
President and CEO

OFFICERS
George Franco
Chair

Luis Torres Llompart
Vice Chair

Michael L. Barrera
President and CEO

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Cape Coral, FL
Enid Toro de Baez
Mayaguez, PR

* [illegible] Chair

September 7, 2006

Rep. Ruben Hinojosa
2463 Rayburn House Office Building
Washington, DC 20515

Dear Congressman Hinojosa,

On behalf of the U.S. Hispanic Chamber of Commerce, the largest and most influential advocate for the nation's 2 million Hispanic-owned businesses, I would like to express our support for your legislative efforts to recognize October 2-8, 2006 as Financial Planning Week.

Indeed, Americans of all background, especially in the Latino community, must further their reliance on competent and ethical financial planners to help make smart financial decisions, open businesses, and plan for the future. Acknowledging the importance of sound financial planning can help inform consumers on how to maximize their and their family's potential to improve their quality of life. I was particularly impressed that Financial Planning Week activities would include toll free hotlines in both English and Spanish for individuals to call a financial planner with questions about their finances.

Attached to this letter is a generic letter addressed to "Dear Member of Congress" that we will be forwarding to Congressional offices and that you can use to promote the bill in your communications with other Members of Congress.

Please contact me or David Ferreira, Director of Government Affairs, at 202.842.1212 if we can be of further service in advancing this worthwhile goal.

Sincerely,

Michael L. Barrera
President and CEO

CC: Mr. Dan Maldonado, MARC & Associates

2175 K Street NW - Suite 100 - Washington, DC 20037 - Telephone (202) 842-1212 - Fax (202) 842-3221
http://www.ushcc.com

CROSS
FINANCIAL SERVICES CORPORATION
Financial Planning • Wealth Management

September 11, 2006

The Honorable Rubén Hinojosa
U.S. House of Representatives
2463 Rayburn House Office Building
Washington, D.C. 20515

Dear Congressman Hinojosa,

As a member of FPA®, I would like to thank you for introducing H.R. 973, in recognition of Financial Planning Week. I would also like to personally express my gratitude for your efforts for increasing financial literacy. On a daily basis, I see the need and importance for increasing financial literacy as a nation. Financial Planning Week serves as an opportunity to help the American public realize the importance of sound financial planning in their personal lives.

Many Americans seem to have not been taught the lessons their forefathers learned during the depression about debt and cash reserves nor have had the basic understanding of financial knowledge passed on to them from the previous generation. It is imperative that they receive that information. Today, financial planners, like myself, deliver objective advice to help individuals and families as they make their financial decisions. I work with a variety of clients, including individuals and small businesses, to support and deliver objective financial planning advice.

Thank you for your efforts to support sound financial planning for all Americans.

Sincerely,

Kirk W. Francis
Government Relations Director
San Antonio-South Texas Chapter
The Financial Planning Association

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THE FINANCIAL PLANNING ASSOCIATION

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Website: www.fpanet.org

September 8, 2006

The Honorable Rubén Hinojosa
U.S. House of Representatives
2463 Rayburn House Office Building
Washington, D.C. 20515

Dear Congressman Hinojosa,

As the leading membership organization for the financial planning community, the Financial Planning Association® (FPA®) would like to thank you for introducing H.R. 973, in recognition of Financial Planning Week. This resolution will help expand our goal of increasing financial literacy and as a result, help the national savings rate.

In a few weeks, our efforts to promote the benefits of wise personal financial planning will be extended to Capitol Hill. We would like to personally invite you to attend our sixth annual Financial Planning Day on Capitol Hill on October 4, in the Senate Dirksen Building, room 430, from 12 p.m. to 3 p.m. Over a dozen financial planners will be available to answer any financial questions from you or your staff. I would also like to use that opportunity to personally express my gratitude for your efforts in support of sound financial planning for all Americans.

FPA connects those who need, support and deliver financial planning. Our 28,000 members work with a variety of clients, including individuals and small businesses, to support and deliver objective financial planning advice from a competent, ethical financial planner. Our members demonstrate and support a professional commitment to education and a client-centered financial planning process.

Sincerely,

Daniel B. Moisand
President, FPA

The Financial Planning Association® (FPA®) is the membership organization for the financial planning community. Its members are dedicated to supporting the financial planning process in order to help people achieve their goals and dreams. FPA believes that everyone needs objective advice to make smart financial decisions and that when seeking the advice of a financial planner, the planner should be a CFP® professional.

The Financial Planning Association is the owner of trademark, service mark and collective membership mark rights in: FPA, FPA/Logo and FINANCIAL PLANNING ASSOCIATION. The marks may not be used without written permission from the Financial Planning Association.

COSPONSOR H.RES. 973
FINANCIAL PLANNING WEEK
OCTOBER 2-8, 2006

Dear Colleague:

With an overall negative national personal savings rate, the time has come for us to join forces and recognize the importance and the need for all Americans to take control of their finances. To work toward this goal, we have introduced H.Res. 973, recognizing October 2-8, 2006, as "Financial Planning Week" and honoring families and financial planning professionals for their adherence and dedication to the financial planning process.

This resolution recognizes the many benefits of sound, objective advice from a competent, ethical financial planner to make smart financial decisions. It acknowledges the significant impact that sound financial planning can have in helping Americans achieve their life goals, and the professional commitment of financial planners to education and a client-centered financial planning process.

Financial planners help people with a variety of financial needs including: college planning, retirement planning, investments, life insurance and estate planning. Specifically, a financial planner creates a detailed strategy to meet a client's specific goals based on the client's specific situation. The financial planning process can help Americans achieve financial independence by empowering them to identify and manage realistic financial objectives and navigate the financial challenges that arise at every stage of life.

During Financial Planning Week, financial planners throughout the nation participate in a variety of activities, including financial planning and financial literacy workshops at libraries, civic clubs and community centers. To help improve financial literacy, panel discussions, conferences, and seminars will be held during this special week to increase public awareness about the benefits of objective and comprehensive financial advice, all geared toward helping participants plan for and attain their financial goals. Toll free hotlines in both English and Spanish will be made available for individuals to call a financial planner with questions about their finances.

In the past year, proclamations have been issued in numerous states and the District of Columbia recognizing the importance of the financial planning process in meeting long-term financial objectives and achieving the goal of financial independence. .

Please join us in recognizing "Financial Planning Week" by cosponsoring this important resolution. Let's do our part to help Americans better understand their personal finances and prepare for the future.

To cosponsor, contact either Greg Davis with Congressman Hinojosa at x68010 or via e-mail at Greg.Davis@mail.house.gov or Brian Colgan with Congresswoman Biggert at x67273 or via e-mail at Brian.Colgan@mail.house.gov.

Sincerely,

Rubén Hinojosa
Member of Congress

Judy Biggert
Member of Congress

Biggert
Hinojosa
Baca
Bachus
Baker
Bean
Boswell
Butterfield
Campbell
Capuano
Carson
Clay
Cleaver
Cooper
Crowley
Cummings
Artur Davis
Dreier
Fitzpatrick
Ford
Frank
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