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Testimony of

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Before

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On

The Federal Government's Role in Empowering Americans to Make Informed Financial Decisions

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I am Stephen Brobeck, executive director of the Consumer Federation of America. For nearly four decades, CFA has sought to empower Americans to make informed financial decisions. In February 2002, in testimony before the Senate Banking Committee, we urged Congress to create a federal Office of Financial Education that would work with other federal agencies to "develop a national strategy to advance financial literacy." So, we thank you Mr. Chairman for organizing this hearing and for providing us the opportunity to comment on federal financial literacy programs and the activities of the Financial Literacy and Education Commission (FLEC).

Federal Agencies Have Played an Important Role in Increasing Financial Literacy

For decades the federal government has played an important role in informing and educating consumers about personal financial challenges and opportunities. These efforts, which have involved dozens of federal agencies, are far too extensive to summarize here. However, I can illustrate how useful these efforts have been by briefly describing the work of federal agencies with my own organization and others on one financial literacy initiative -- 66 Ways to Save Money.

In the early 1990s, after helping organize several tests of the nation's consumer knowledge, which uncovered many deficiencies, we worked with several federal agencies to organize two White House dialogues on consumer literacy. In the second, the head of the Federal Reserve Board's Division of Consumer and Community Affairs, Griff Garwood, proposed consideration of a consumer literacy initiative that might reach some of the tens of millions of financially challenged Americans who will never read a detailed brochure or attend a workshop -- think like a marketer and develop a series of short, powerful, and attractive money-saving messages that could be communicated, by many organizations and educators using many vehicles, to millions of Americans.

That suggestion seized the imagination of many dialogue participants, and for several months thereafter, a half-dozen of us met at the Federal Reserve Board to discuss a practical way to implement Griff's idea. Our conclusion was a decision to create a Consumer Literacy Consortium that would research and seek consensus on the most useful money-saving tips that we would collectively disseminate. This Consortium -- which we limited to 25 organizations to facilitate discussion and consensus-building -- included several federal agencies, such as the Federal Reserve, the Federal Consumer Information Center (now the Federal Citizen Information Center), the Federal Trade Commission, and the Department of Agriculture's Cooperative Research and Extension Services.

For two years, Consortium members used research on consumer information needs and demand as a basis for developing 66 key money-saving tips in 26 product areas. We agreed with the suggestion of the FCIC's Mary Levy that we call these tips, "66 Ways to Save Money," and also agreed to disseminate these tips individually and collectively. From 1995 until last year, the group did just this through a wide variety of strategies that featured coverage in mass media and promotion by nationwide networks such as Cooperative Extensive and consumer credit counseling.

In this decade, we received requests for nearly two million copies of the brochure -- the most popular FCIC publication for a fee during the period -- disseminated many more copies through member and non-member websites, and received extensive press coverage, including several articles in Parade Magazine. We would be surprised if more than 10 million Americans had not heard about and read at least some of the 66 tips.

In brief, the contributions of federal agencies to this relatively low-cost and high-impact program included -- initial conceptualization, expertise needed to develop consumer messages, consensus-building skills on the messages, expertise on message communication, and effective delivery of the messages -- and were invaluable. Each federal agency participant in this program was enthusiastic, exercised good judgment, and worked well with the group as well as assisting message development and delivery. We are aware of similar contributions they have made to many other financial consumer and financial literacy initiatives.

FLEC Has Made Progress in Advancing Financial Literacy

We agree with the thoroughly researched and well-reasoned GAO assessment of FLEC during its first three years of operation. We think FLEC, and its coordinating agency, Treasury's Office of Financial Education, deserves credit for making progress in advancing financial literacy while meeting its congressional mandates.

- Federal agencies are working more closely together than ever before on financial literacy initiatives. One example is the recent release of an excellent consumer guide to interest-only mortgage payments and payment-option ARMs that was developed by the Federal Reserve Board in consultation with four other federal agencies, as well as national non-profit organizations including my own.

- The Office of Financial Education has initiated many new useful partnerships with other FLEC members and with other organizations. Some of the most useful have been conferences, summits, and roundtables that brought together diverse groups to stimulate and publicize financial literacy efforts.

- The number of visits to FLEC's My Money website suggests that it had added value to that of other federal agency websites containing similar materials. As the GAO notes, consumer demand for this website has already reached levels similar to those experienced by other important consumer finance websites. In the future, as FLEC evaluates website use, we will be interested to learn if it is serving those with the greatest financial literacy needs.

- FLEC's *Taking Ownership of the Future* document represents a unique and useful source of information about financial literacy programs and strategies. It represents a milestone in the development of the field of financial education.

We also agree with the GAO's conclusion that the *Taking Ownership* document "is largely descriptive rather than strategic and lacks certain key characteristics that are desirable in a national strategy." As identified by the GAO, these characteristics are:

- a detailed discussion of problems and risks;
- specific goals, performance measures, and milestones;
- resources needed to implement the strategy; and
- recommended roles and responsibilities for achieving its mission.

FLEC faces several significant constraints in developing such a national strategy, including:

- **Inadequate funding of FLEC:** The 2006 budget of the Office of Financial Education, for example, was far less than that of all other significant financial education programs. And, Congress understandably but unwisely required that more than two-thirds of the 2005 appropriation of $1 million be used for a national multi-media campaign. Those funds, in our view, could have been used more productively, for example, to undertake research and evaluation to determine truly cost-effective programs meeting the nation's most pressing financial literacy needs.

- **Inadequate participation by federal agencies:** Congress identified 20 agencies that it required to participate in FLEC. But it did not provide additional resources for them to do so, nor did it give the Office of Financial Education authority to require significant participation. Nevertheless, a number of these agencies did commit resources, especially staff time, which allowed more effective inter-agency cooperation, new partnerships, creation of the website, and completion of the *Taking Ownership* document.

- **Inadequate understanding of effective financial education:** Most of the programs profiled in the *Taking Ownership* document have not been well enough evaluated so that we know which are the most cost-effective in meeting the nation's financial literacy needs. Outside of the area of retirement savings, there is little authoritative research on the effectiveness of specific financial literacy interventions. Moreover, the most useful research has identified interventions that produce statistically significant, but not necessarily socially significant, results. For instance, increasing understanding of interest-only mortgages from 10 to 15 percent among a large group of consumers is statistically significant, but far from adequate from a societal point of view.

- **Inadequate recognition of the limits of financial education:** The nation's financial services marketplace is too complex and dynamic, and much of the nation's population too poorly educated, for any financial literacy efforts to succeed on their own without effective regulation. Even well-educated, financially sophisticated Americans have difficulty understanding and evaluating complex mortgage, investment, and life insurance products. Given the financial stakes for consumers, government must ensure that financial services products meet certain minimum standards and that consumers have important information about these products.

- **Inadequate appreciation of the complexity of developing a national strategy:** Beyond lack of understanding about cost-effective interventions, financial educators confront dozens of specific, but pressing, financial literacy challenges in the areas of budgeting, basic money management, financial product purchases, debt management, and asset accumulation. These diverse challenges affect different populations and require the participation of different groups of government and private agencies. In light of this complexity, developing an effective operational national strategy represents a monumental general challenge.

How FLEC Can Begin Developing an Effective National Financial Literacy Strategy

As an achievable way for FLEC to begin developing a broad national financial literacy strategy, as defined by GAO, Congress should consider asking the Commission to fully develop specific financial literacy strategies to achieve significant and measurable improvement in specific financial decisions made by most Americans. In our testimony on financial literacy before the Senate Banking Committee last May, we recommended consideration of a campaign to encourage all Americans to periodically estimate their net personal wealth. As financial educators as diverse as columnist Michelle Singletary and the Financial Planning Association have concluded, awareness of net personal assets is an important motivator for better money management, debt management, and savings accumulation. People who have a fairly accurate idea of their net wealth 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 and information programs that helped them monitor, conserve, and accumulate financial resources.

But this **periodic wealth assessment** is by no means the only financial decision that FLEC could productively focus attention on. Others include:

- getting, or self-administering, an **annual financial checkup** that could involve the use of an on-line instrument, developed by FLEC, that drew freely from existing instruments and was widely promoted by all FLEC members, financial institutions, mass media, and interested nonprofits;

- the use of **automatic savings** opportunities, including workplace retirement accounts, child education accounts, and emergency savings through regular checking transfers supported by partnerships with financial institutions, employers, mass media, and interested nonprofits;

- the periodic **checking of credit records** and purchasing of credit scores, working in cooperation with lenders, credit agencies, mass media, interested nonprofits and others;

- **making loan payments on time** to reduce fees paid, lower interest rates charged, and ensure greater access to affordable credit.

Here is an example of the broad outlines of a national strategy to encourage more Americans to make loan payments on time, attempting to meet all the GAO criteria for an effective strategy.

- Problems and risks: Late loan payments have increasingly imposed an array of significant costs on many borrowers (and many creditors as well). Borrowers are assessed costly late payment fees, suffer lower credit scores, may be charged higher penalty interest rates, and in the future, would pay more for, and possibly be denied access to, credit.

- Specific goals and performance measures: Reduction in different delinquency rates (30, 60, and 90 days) on various types of credit by specified amounts. Individual lenders could set goals for reducing late payments.

- Roles and responsibilities: There are specific roles for most members of FLEC. Financial regulatory agencies could work with those they regulate to set and meet specific goals. All agencies could take some responsibility for reducing delinquency rates among agency employees. Mass media and nonprofits, especially those such as credit counseling agencies that encourage timely payment of debts, would be encouraged to join the campaign.

- Resources needed: That would depend on the ambition of the campaign but resources could be available not only within agencies but also from financial services providers--and not just lenders since other providers also depend at least indirectly on prompt loan payments.

Our greatest concern about the efforts of FLEC members is that they are not reaching those populations with the greatest financial literacy needs. Sharply focused campaigns that persuade and empower millions of Americans to improve key decisions in their financial lives would address this concern and also demonstrate to the country that financial education can be effective.