



### Financial Literacy

Financial literacy is the ability to understand money and how to manage it so that a person can make informed financial decisions. Financial literacy often is the first step toward financial stability and helps consumers save, better protect and manage their money, prepare for unexpected life events, and plan for short- and long-term goals.

Today's complex financial services market offers consumers a vast array of products and providers to meet their financial needs. The degree of choice requires a consumer to be equipped with the knowledge and skills to evaluate the options and identify those that best suit their needs and circumstances.

Financial literacy and education also are essential to help consumers understand how to prevent becoming involved in transactions that are fraudulent or financially destructive. Especially at risk are unbanked and underserved consumers who may be unfamiliar with personal financial management, or the elderly and persons with language barriers, who are often targeted by unscrupulous vendors.

Several broad categories of financial literacy activities can help potential bank customers participate in the U.S. financial system and help banks strengthen their communities:

- **Basic financial services and asset building programs** provide a working knowledge of financial products, financial planning, and an overview of the U. S. banking system.
- **Credit management and repair programs** enable individuals to correct and learn from previous financial mistakes.
- **Homeownership counseling** prepares individuals for what is often the largest single investment in a lifetime and what it takes to maintain a home over the long term.
- Education aimed at **recognizing and avoiding fraudulent or abusive lending practices** can protect individuals at risk of losing their assets and identify or obtaining inappropriate loan products.
- **Small business and microenterprise technical assistance** provides entrepreneurs with practical business knowledge.

#### **Benefits of financial literacy programs**

Banks engage in financial literacy and education activities for a variety of reasons. These programs often assist residents of lower-income neighborhoods to build wealth and participate in the American financial system. At the same time, financial literacy and education activities enable banks to extend the reach of their products and services to low- and moderate-income persons

and to unbanked and underbanked markets, and thereby, grow their customer base.

In addition, these efforts help to increase access to depository institutions by educating consumers about available products and services and enabling consumers to make better-informed choices in the financial marketplace.

Bank participation in financial literacy and education programs may receive positive consideration under the Community Reinvestment Act (CRA), as will be described in more detail, below. These programs often help to enhance a bank's visibility and credibility in the communities it serves.

## **CRA considerations**

Financial literacy and education programs targeted to low- and moderate-income individuals and families may be deemed responsive to community needs and may receive positive consideration as retail or community development services under the CRA ([12 CFR 25](#)). Such programs must have a community development purpose, which is defined to include community services targeted to low- and moderate-income individuals.

A large bank's participation in, or support for financial literacy programs may receive consideration under the lending, investment, and service tests of the CRA regulations. Intermediate small banks may receive CRA consideration under lending test and the community development test. Small banks may receive consideration under the CRA for lending to financial literacy providers and are eligible to receive consideration for investments and services if their lending performance exceeds satisfactory standards.

Examples of bank support for financial literacy that may receive positive consideration under CRA include:

- Loans to organizations to be used for financial literacy programs targeted to low- and moderate-income individuals.

- Investments in, or contributions to a program, activity, or organization that provides financial services education programs targeted to low- and moderate-income individuals.
- Providing bank staff to serve as educators in financial literacy programs targeted to low- and moderate-income individuals.

## **Examples of financial literacy activities**

Financial institutions around the country often work with their local governments, local community groups, and community leaders to participate in financial literacy and education activities. The following are examples of a broad range of financial literacy activities in which banks have engaged or supported:

### ***Basic financial services and asset building programs***

#### School Age Programs

- School savings programs and savings clubs in elementary schools.
- Educational programs that progress in complexity as students get older.
- Field trips to banks, guest speakers, investment clubs, stock market simulation games.
- School-based bank branches.

#### Adult Programs

- Presentations to local community and religious organizations.
- On-the-job financial literacy seminars conducted in conjunction with employers.
- Educational outreach tailored to consumers with limited English proficiency provided in partnership with community based organizations.
- Counseling, training, and offering of Individual Development Accounts (IDA) and asset building programs.
- Providing assistance at Volunteer Income Tax Assistance (VITA) sites offered by the Internal Revenue Service (IRS) which can help qualifying low-income individuals apply for the federal Earned Income Tax Credit (EITC).

### ***Credit management and repair programs***

- Assistance to organizations that offer consumer credit education programs.
- Providing staff and materials for credit-training classes.

### ***Homeownership counseling***

- Providing financial assistance to support programs or providing staff to lead classes.
- Jointly offering targeted counseling classes with realtors, private mortgage insurers, and employers.
- Counseling homeowners to help them avoid mortgage modification and foreclosure rescue scams.

### ***Recognizing and Avoiding Abusive Lending Practices***

- Supporting educational campaigns aimed at warning borrowers about these practices.
- Providing financial support to organizations that help individuals target and avoid some financial products that might pose threats to them.

### ***Small Business and Microenterprise Technical Assistance***

- Providing seminars on topics such as developing a business plan.
- Providing financial and teaching assistance to business development centers and small business incubators.

## **For more information**

### **OCC**

OCC maintains an on-line [Financial Literacy Resource Directory](#) that provides information about existing programs and initiatives.

In [Advisory Letter AL 2001-1](#), the OCC provides information on the types of financial literacy activities in which banks have participated. The advisory also outlines how these activities qualify for consideration under the CRA.

### **Community Development Insights**

[School-Based Bank Savings Programs: Bringing Financial Education to Students](#) (2009)

### **Community Development Insights**

[Individual Development Accounts: An Asset Building Product for Lower-Income Consumers](#) (2005)

[Reaching New Bank Customers Through the Earned Income Tax Credit](#), a publication that describes bank activities and partnerships that promote EITCS

[Financial Literacy Update](#) is the OCC's bi-monthly publication of financial literacy events, initiatives and resources

[Reaching Out on Financial Literacy](#), the OCC's web site shows its financial literacy events around the country,

[Small Business Web Resource Directory](#), the OCC offers technical assistance for small businesses,

The Financial Literacy and Education Commission, representing 20 federal agencies, provides links to the financial literacy materials and programs of the participating agencies at [MyMoney.gov](#).