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THE STATE OF FINANCIAL LITERACY AND EDUCATION IN AMERICA

HEARING

BEFORE THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

ONE HUNDRED SEVENTH CONGRESS

SECOND SESSION

ON

THE STATE OF FINANCIAL LITERACY AND EDUCATION IN AMERICA

FEBRUARY 5 AND 6, 2002

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TUESDAY, FEBRUARY 5, 2002

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The Committee met at 9:30 a.m. in room SD–106 of the Dirksen Senate Office Building, Senator Paul S. Sarbanes (Chairman of the Committee) presiding.

OPENING STATEMENT OF CHAIRMAN PAUL S. SARBANES

Chairman SARBANES. Let me call this hearing to order.

Today, we begin the first of 2 days of hearings on the state of financial literacy in the United States. We are very pleased to have this panel with us. This panel had originally been scheduled for September 20. But in view of the developments of September 11, we shifted the subject to the financial markets and the measures taken to assure their timely reopening and functioning.

Actually, they reopened after only a few days of interruption. And on its first day, the New York Stock Exchange handled the largest volume of transactions in its history. And I want to express my commendation to the three of you, Treasury Secretary O'Neill, Chairman Greenspan, and Chairman Pitt, for your expert contribution to that effort.

I know that they were very intimately involved and Chairman Pitt I think was in New York for a good part of that week before the reopening took place. That was a very impressive accomplishment and I want to put that on the record this morning.

We are going to depart a bit from the usual procedure. Secretary O'Neill has a commitment on the House side which was made some time ago and which he needs to honor. But he very much wanted to be with us this morning because he has a keen interest in the subject matter of the Committee's attention.

So, we are going to take Secretary O'Neill's statement and, if he has time, perhaps ask him a few questions, before he departs. And then we will go back to the normal course with statements from the Members of the Committee and then we will hear the testimony of Chairman Greenspan and Chairman Pitt.

So with that, Secretary O'Neill, we are very pleased to recognize you. We appreciate your being with us and we particularly appreciate your own keen interest in the subject matter of the Committee's hearing this morning.

STATEMENT OF PAUL H. O'NEILL, SECRETARY U.S. DEPARTMENT OF THE TREASURY ACCOMPANIED BY: SHEILA BAIR ASSISTANT SECRETARY FOR FINANCIAL INSTITUTIONS

Secretary O'NEILL. Mr. Chairman, Members of the Committee, I thank you so much for accommodating me in this way so that I would have an opportunity to be here with you.

I do have a prepared statement of some length that I think comprehensively covers the subject of the Committee's attention. And rather than read through it, if I may, I would just make a few comments and then see if you have a few questions for me before I have to depart for the Ways and Means Committee.

Chairman SARBANES. The full statement will be included in the record.

Secretary O'NEILL. Thank you, Senator.

As you noted in your own opening remarks on financial literacy and, more broadly, education, particularly the foundation of education for every human being, is something that I have come to care a lot about and to be involved in in many different ways over the last 30 years.

Just to mention a few of those, during the period of 1989 to 1992, I was the Chairman of President Bush's 41's Education Policy Advisory Committee and helped to formulate the national education goals that were established in that time period.

During Governor Ridge's time in Pennsylvania, when I was in Pennsylvania, I chaired the State education standards committee. And through the whole period that I was in Pennsylvania, I chaired a group of people at the local level who were dedicated to the idea that every child can learn. It is just a matter of our organizing ourselves to achieve that purpose for every human being.

More directly to the subject of financial literacy, it is more and more imperative, it seems to me, that every American citizen be financially literate. This ties very well to my notion that by the age of 10, every child should have the ability to read and write and compute at a level that, if they never saw the inside of a formal educational institution again, they would have the foundation stones that, if they had the will, would permit them, with access to a library, to develop their brain power and their knowledge to the fullest possible extent.

In order to do that, one needs to have all of the foundation stones, which means reading and reading comprehension and computational capability, and an ability to express oneself in writing at a competent level.

I believe if we can—let me say better—when we reach that objective, financial literacy will be what will come along without special attention. In the meantime, we do have problems I think in the subject of financial literacy with the population that is adult, or nearly adult, because they have not achieved or received these foundation skills in their earlier years. This Committee and other Committees of Congress have focused particularly and specifically on the issue of financial literacy, I think appropriately so.

We in the Treasury Department have several efforts that we are pursuing to help with the accomplishment of this objective. And, as I say, for myself, education is the foundation of a civil society and this aspect of education fits very neatly into the legislation that was passed last year with the President leading the charge, saying, no child should be left behind.

I would make a plug for what I would consider to be a subordinate idea to the President's no child left behind, which is an idea that says, every child, one at a time. In my experience in working on this subject at the local level, I found that schools do not learn and classrooms do not learn, the issue of learning and attaining knowledge that is necessary to function as an adult human being, happens one at a time. I believe we are not going to achieve the objective of no child left behind until we recognize that fundamental issue, that people learn one at a time, and we so organize ourselves to assure that every child is learning and that we assess the learning process on a very regular basis, so that where we are not creating building blocks in a person's mind, we recognize it early and not wait until a child gets to be 10, but discover, as we now do, that 20 percent of them cannot read and write and compute. At a national level, 20 percent of 10 year olds cannot read and write and compute. It is not to say that they cannot do it well. They cannot do it, period.

So it is obvious that we have very fundamental issues to deal with. Financial literacy, in my judgment, should be integrated into the basic learning process. And it is not too early to start when we teach people how to add and subtract.

Mr. Chairman and Members of the Committee, with that, I would be happy to take a few questions before I have to go.

Chairman SARBANES. Well, we understand your time constraints. Let me ask you one question and then I will yield to some of my colleagues.

Senator Corzine and I wrote to you back in the summer when we saw the announcement that the Department of the Treasury was considering a financial literacy initiative and indicated that we thought that was a very high priority. And in fact, Senator Corzine got a very important amendment into the Education Act with respect to providing financial literacy programs in the school system.

One of the things that I have been very interested in is these first accounts, trying to get the unbanked into the banking system. That is not directly a financial literacy issue, but if they become part of the banking system, I think they would receive a lot of protections and benefits.

We have provided a substantial sum of money to try to get first accounts going to serve low- and moderate-income individuals. I am interested in how the Treasury is doing in implementing that program.

Secretary O'NEILL. Senator, as I recall, the rules have been issued and distributed at the end of December. We are looking to beginning to make grants under that program banner in the next 3 months.

So, we are moving ahead and we are very anxious to see how this works. It has been an initiative shared by the Treasury Department and you particularly and Members of this Committee. And we are anxious to get it into place and see how it works.

Chairman SARBANES. Good. Well, we intend to follow that very closely and we look forward to continuing to work with you on that.

Senator Shelby.

COMMENTS OF SENATOR RICHARD C. SHELBY

Senator SHELBY. Thank you, Mr. Chairman.

Mr. Secretary, isn't accurate information, financial information, essential to every economic decision made, whether it is at the very high levels of finance or the low levels of the man on the street or the woman on the street?

Secretary O'NEILL. Yes, sir, no doubt about it.

Senator SHELBY. And without that, financial literacy would not matter, would it? You have to have accuracy. You have to have truth.

Secretary O'NEILL. It is necessary to know when you do not have what you ought to have.

Senator SHELBY. You could be the most literate person in the world and still not be informed if there was one set of information here and one set for you on the street.

Secretary O'NEILL. That is certainly true.

Senator SHELBY. And that should not be, should it?

Secretary O'NEILL. Absolutely not.

Senator SHELBY. Thank you, Mr. Chairman.

Chairman SARBANES. Senator Dodd.

STATEMENT OF SENATOR CHRISTOPHER J. DODD

Senator DODD. Thank you, Mr. Secretary, for being here.

I am going to raise this with both the other witnesses later on, and my colleagues have heard me talk about this over the years, and it relates to the literacy issue. That is, among young people and credit cards.

Chairman SARBANES. Yes.

Senator DODD. I have tried on I do not know how many occasions to adopt some legislation, most recently, I think, this past year, that would require that if you are under 21, when you demonstrate an ability to pay or have someone cosign or, third, either one of these things, to show that you have taken some literacy course in what the responsibilities of debt are.

The statistics are still pretty stunning. I have them right here. Seventy-eight percent of college students have at least one credit card. The debt now is almost $3,000. It has gone up 46 percent since 1998. Nine percent of students carry balances of debt in excess of $7,000, almost 10 percent. We had the number of bankruptcies declared by people between the ages of 18 and 25, went from 60,000 in the 1990's to 118,000 in 1999.

Seven percent of all personal bankruptcies are taken by people under the age of 21. That is stunning, those statistics, and they seem to be getting worse.

Again, I do not want to deny anyone a credit card. All I am suggesting in the first two instances, you either demonstrate an ability to pay, which any older person would have to do, cosigned, or that you would be required to have some knowledge of credit.

I wonder if you might just comment on that, without seeing the specifics of the bill. I am not asking you to endorse a bill, but just to comment on the general proposition.

Secretary O'NEILL. For all of us who have children or grandchildren, who have gone through a learning experience with credit cards, we can relate to some of the statistics that you are talking about.

You watch young people go through their own learning experience. It is so easy to turn up a card and to end up with unserviceable debt. One would wish the young did not have to learn lessons we have already learned for ourselves. But it is a very complex issue because, at the same time, we are saying, well, maybe children or young people should not have access without some special provisions until they are 21 years old. Eighteen year olds are serving in Afghanistan.

So there are certain times and rights of passages, I suppose. And for me, at least, the question of what the Federal Government should do on behalf of we the people in setting demarcation lines and limits on individual freedom, is really a complicated issue.

And while I can relate to the concern that you are expressing that, not just young people, but many people, have an inadequate financial literacy and abusing and, in fact, destroying, their creditworthiness, are really complicated issues.

I think at the Federal level, we need to be very careful about how much we interfere with the rights of individuals to make their own decisions, including ones that turn out not to be everything we would hope they might be.

Senator DODD. To be continued, I guess. Thank you.

Chairman SARBANES. Senator Bennett.

STATEMENT OF SENATOR ROBERT F. BENNETT

Senator BENNETT. Thank you, Mr. Secretary, and thank you for your testimony, both written and oral.

Let me just share with you an experience I had when I was teaching a class on financial management. After I had gone through the formal presentation and opened the floor for questions, a woman said to me, I just had a windfall of about $1,000 that I was not expecting. I have this money. Tell me an investment that I can put this in that will be worthwhile.

I said to her, do you have any credit card debt? She said, yes. I said, all right. I have an investment that will pay a minimum of 16 percent, that has absolutely no downside risk whatsoever, and the 16 percent is guaranteed.

She said, well, that is wonderful. What is it? I said, pay off your credit card bill. She said, no, no, no, no. I am making my payments on the credit card. But I want this money to grow. I want it to be something.

We had this exchange and I could never get her to accept the idea that paying off her credit card was a good investment. It becomes a semantic kind of thing. We think of an investment and money growing as a good thing and we think of our credit card payments as the regular course of doing business, and we never quite get the understanding that paying off debt at a certain level, certain carrying cost, is an investment at that level. Whereas, debt at a lower level, say a mortgage and the benefits you are getting out of it, tax-wise and other, with rent, is a good kind of thing.

I just leave that with you to plug into whatever information you may be putting out because most Americans do not speak the language that leads them to understand where their financial interests will best be served.

Secretary O'NEILL. Senator, I think your example illustrates in a very important way how much this issue of financial literacy is ingrained into decisions that people make every day in their lives all over this country. And it is why this is such a worthy subject that you all have undertaken the work on. I am committed, as I am sure my friends here are, to helping in every way that we can to do our part to raise the standard of financial literacy for the American people.

Mr. Chairman, I must go. I thank you all very much for letting me lead off.

Chairman SARBANES. Let me just get Senator Corzine, who has had a keen interest and who wrote you this letter——

Secretary O'NEILL. I will explain to the Ways and Means Committee, Senator Corzine, why I am late.

[Laughter.]

STATEMENT OF SENATOR JON S. CORZINE

Senator CORZINE. I will be brief. I would hope that we could work together following on a concept that you talked about with regard to education, which I think most of us would put solidly on the same side that you would be on basic education.

I think that there is a need for curriculum and real proactive educational process, or otherwise, people do not understand what interest rates are, compound interest, how to put together tax returns and how to deal with mortgages.

I was a little concerned that you were arguing that the 10 year old who learns how to read and calculate will automatically get the result. That does not seem to be the case even among students that are having adequate educational experiences with regard to reading and arithmetic and other issues. So are you familiar with some of the statistics of how poorly all of our students do with regard to some of these various fundamental issues?

Secretary O'NEILL. Indeed, I am. And I pointed out, one of the confounding things in all of this is that the national statistics show that 20 percent of our children cannot read and write and compute at all. If they cannot read and write and compute at all, teaching them financial literacy when they are 12 does not seem like a very rewarding process to me.

So, I was making the case that we need to establish the basic things. And I would say this. In my own experience in looking at the data, I am absolutely convinced that every 10 year old has the capability to learn to add and subtract and do multiplication and division in their head at 12 times levels. With those foundations, it is possible to understand all the rest of esoteric mathematics. But without that foundation, we are not going to get there.

What I am saying is, I think it is important that we integrate financial literacy concepts into the regular curriculum and not treat it like a separate subject. It can be part of reading. It can be part of elementary arithmetic, building a foundation up, so that, in fact, by the time a child finishes the 8th grade, they should have most of the foundations to understand most of what one would consider to be financial literacy, including the credit card example that Senator Bennett gives. And then I would say just one more thing. If you include in financial literacy all of our citizens understanding the tax code, I am not sure I agree with you that that is possible.

Senator CORZINE. All I would cite is 82 percent of high school seniors in a 2001 survey failed a 13 question personal financial quiz. I am sure that that encompasses the 20 percent that you are talking about that did not get the basic skills. But it also includes a whole wealth of kids who may have those fundamental skills. And so, I think that question of whether you have particular curriculums or whether it is embedded is a fair debating point among educators.

Secretary O'NEILL. The tax code was a joke. I am sorry.

Chairman SARBANES. Well, Mr. Secretary, I was just going to say, as you depart, maybe Senator Enzi wants to leave you with a final thought.

COMMENT OF SENATOR MICHAEL B. ENZI

Senator ENZI. Recognizing the importance of the Ways and Means Committee, just tell them that I let you go, even though I was the second person here.

[Laughter.]

Secretary O'NEILL. Thank you all very much. It was nice to be with you.

Chairman SARBANES. Thank you. I understand Sheila Bair is going to stay behind. So if we have further questions—she is a very worthy stand-in.

Secretary O'NEILL. She is a wonderful public servant and she is really on top of these issues in great detail. So, I commend her to you and I am sure that she will give you great answers to any questions that you may have for Treasury.

Chairman SARBANES. Thank you very much, Mr. Secretary.

Secretary O'NEILL. Thank you.

Chairman SARBANES. We look forward to working with you on this issue.

I will say to the Committee Members, we will revert to the regular procedure. I have a short statement that I would like to make here at the outset, and then I will recognize other Members and then we will go to Chairman Greenspan and Chairman Pitt.

There is a vote scheduled at 10:30 a.m., so, I would hope that we can move along and hopefully get the testimony in before that time. We would have to adjourn briefly and come right back.

As I indicated at the outset, we had originally scheduled this hearing for September 20. It was obviously put off. It seems always things are happening that could warrant putting it off, and I do not know that this circumstance is any different right now. But I wanted to press ahead.

I would say to my colleagues that I hope we can stay away from monetary policy in the question period, particularly with Chairman Greenspan. The Chairman is scheduled to come back before the Congress in just a few weeks, both House and Senate, to present the Fed's semiannual monetary policy report to the Congress. And of course, we will have a hearing here at the beginning of next month because the Chairman will go to the House side first devoted to that subject. So, I hope we can focus with both of the Chairmen on the financial literacy.

And I would also say to my colleagues, a week from today, the Committee will begin the first in a series of hearings on the issues raised by Enron, but not only by Enron. But other things that have occurred in the corporate world.

We will have a series of hearings stretching through the rest of this month and into next month. We intend to go into it in a very thorough and comprehensive way. We will get the benefit of a lot of very expert opinion. And we hope at the end of that process to be able to move ahead with what we think will be an appropriate work program.

I want to say just a few words about the financial literacy issue that is before us today. I think this is very important. It is by no means a magical solution. It will not solve all the problems that confront consumers with respect to financial decisions. I frankly think that you need a framework, which also includes strong legal protections, vigorous enforcement, and best industry practices with respect to the availability of responsible credit. In fact, I agree here with a three-pronged approach, which was outlined to the Committee last year by Roger Ferguson, the Vice Chairman of the Federal Reserve Board, at his confirmation hearing, when he said, "legislation, careful regulation, and education are all components of the response to these emerging consumer concerns."

There is substantial evidence that Americans do not have an adequate basis for making sound decisions about their personal and household finances, especially given the myriad choices they face.

Now, Senator Shelby touched on an important point and that is, you may be very financially literate, but if you are not given the proper information, you cannot do very much.

But a number of organizations have sought to assess the level of Americans' grasp of financial matters, and their survey evidence consistently shows very substantial gaps.

We know that there are some costly consequences of financial literacy: Increasing reliance on the high-cost fringe financial sector by men and women who find themselves closed out of mainstream banking institutions.

Millions of people in this country are without bank accounts. They are, in effect, unbanked, a status which usually carries with it heavy financial penalty. To conduct even the most essential transactions, like paying bills or cashing paychecks, unbanked Americans must rely on financial operations which have large and often hidden fees. Furthermore, without access to banking facilities they face serious obstacles to saving and accumulating assets, and to building credit.

The growth of various predatory lending practices, when people are persuaded to borrow on terms they do not fully understand and cannot afford. Single-premium credit life, yield spread premiums, various pay-day lending, all contribute to an environment in which consumers are very vulnerable to overcharges and to hidden costs.

There is an issue that I hope to develop in this Committee at some point and that is the exploitation of remittances. Millions of Hispanic and, indeed, other workers support families in their home countries by sending a portion of their earnings home in the form of remittances. This has long been a common practice among newly-arrived Americans. Today's workers, however, are paying very high fees for the service, as much as 20 percent in some cases, and they are given an exchange rate which is both highly disadvantageous and often not disclosed. The amounts are quite large taken in the aggregate. And I think it warrants examination. In fact, the return of a larger percentage of these remittances to the home country would be a form of economic assistance that would amount to a considerable amount of money once one looked at the figures.

If financial literacy is important in the short-term, as we go about the business of our daily lives, I think it is also critical to our future. It is constantly asserted that Americans are spending too much on consumption now, with little thought to the years ahead. America's personal savings rate has averaged an anemic 1.6 percent for the last year, while consumer debt has grown at a much faster rate.

Secretary Summers actually saw a benefit of an emphasis on financial literacy that might result would be to raise the savings rate in the United States. That is a macroeconomic benefit, which, if it were to occur, I think would be very significant.

We also know that the largest generation in this Nation's history is approaching retirement. One example of the challenges facing us with respect to retirement is the status of women who face particular challenges as they grow older. Millions of women, either because they have been widowed or divorced, find themselves in charge of their household's finances at or near retirement age, without having had significant financial education. At that point, they are expected to make very complex financial choices which will affect them throughout their retirement.

These hearings, which have been long in the planning stage, take on a special urgency in the context of our present circumstances. The economy is in recession. Its future course remains unclear. Recent events in the markets threaten to undermine the confidence on which the functioning of the markets depends.

I believe that it is long past time for the public and private sectors to come together in a national strategy to raise the level of financial education in our country. These hearings are a first step in that direction.

Tomorrow, we will hear from a number of organizations that have been working to enhance financial literacy. But today, of course, we begin with our three public-sector witnesses who I think are uniquely qualified to examine this question. I look forward to hearing from both of them. Chairman Greenspan has actually on a number of occasions highlighted the importance of this issue. Last year, in an address to the Federal Reserve's Consumer Affairs Research Conference, the Chairman stated: "Efforts to increase awareness of, and access to, information that promotes financial literacy are increasingly seen as necessary to ensure that consumers can meet their immediate obligations, as well as achieve their broader goals of buying a home, funding higher education for themselves or their children, and preparing for retirement."

And, of course, Chairman Pitt's agency, the SEC, bears a unique responsibility now, when, for the first time in our history, over half of our population qualify as investors, either directly or indirectly. Many of these people have had little preparation for these financial responsibilities which they now confront.

So, I thank the witnesses for appearing this morning and I yield to Senator Shelby for any statement he may have.

Senator SHELBY. Thank you, Mr. Chairman. I will be brief.

First of all, I want to thank you for pursuing this hearing. I think it is very important. I think it is important for all of us to recognize what we can and cannot hope to achieve when considering a topic as broad as financial literacy here.

I think we can find ways to better inform American consumers and investors so that they are more likely to achieve their financial goals in the marketplace.

But we cannot eliminate risk from the world. Fundamentally, our market system requires the existence of risk and reward to function. In order for markets to efficiently operate, individuals must be able to properly identify and assess the risks and the rewards. Without timely disclosure of the appropriate information, analysis is impossible. Decisions are merely guesses.

Furthermore, where criminal activity occurs and little is done to prevent or appropriately punish it, people are not true market participants. Rather, they are unknowingly playing a rigged game that they can never win at any level. I believe we must recognize that individuals are responsible for their choices. Recognizing this, however, does not mean abandoning people in the marketplace. Instead, it requires the complete opposite.

Congress must ensure, Mr. Chairman, that markets provide full and timely disclosure and ensure that the law is actively and uniformly enforced. Under these conditions, the market will provide the greatest benefits to all of us and then financial literacy will take care.

Thank you.

Chairman SARBANES. Thank you very much.

Senator Dodd.

Senator DODD. Thank you very much, Mr. Chairman. And again, thanks to our witnesses.

It is going to be an important 2 days. It is not going to probably attract the same degree of attention that other hearings focusing on Enron specifically will in the short-term. But in the long-term, what we do on this subject matter may have as much to do with minimizing the kinds of problems that at least we know about now in the Enron situation from occurring again. So, Mr. Chairman, I think this is extremely worthwhile. It is very forward-looking.

Senator Corzine mentioned the statistic of 82 percent of high school seniors—I think it is seniors—that fail the basic quiz on what interest rates were and credit cards and the like.

There is a series of data and statistics, Mr. Chairman, that you have assembled. I think the Committee staff assembled it, which I am going to ask unanimous consent be made a part of the record. I assume it would be, anyway. But some of them are just stunning in their revelation. There is a chart that indicates where they have come from.

I would certainly agree with Senator Shelby and others. Obviously, having accurate information is absolutely critically important. But when you read that two-thirds of investors believe that there is an agency some place, or an organization that ensures you against losing money in the stock market, you get some idea of the gap that exists, even with people who are making investments.

So these numbers are terribly important to look at and be aware of. I mentioned to the Secretary of the Treasury the numbers relating to credit cards and, again, credit card debt. I realize that there are a lot of factors for this, but it is just alarming to me when I see the tremendous increase in the amount of consumer debt in the last few years.

In 1995 through 1998, the median amount of family debt jumped from $23,000 to $33,000, an increase of 42 percent in 3 years. Debt service payments constitute approximately 14 percent of Americans' disposable income. And the ratio of debt to after-tax income in the average household was 85 percent. Today, it is 104 percent.

Going on down with the numbers, Americans are more in debt to credit cards than they are to education obligations. And the numbers I mentioned earlier about young people—again, I realize the tremendous value that credit cards provide to people who would not have been able to become consumers without that kind of assistance, but it is getting out of hand, it seems to me.

I do not have any quick solution for you, but it seems to me that the subject of literacy and consumer debt are not unrelated. We have to find some way to connect these, and we need to do something more than just warning people about it. It seems to me that we need some guideposts here about what people can do, what credit card companies can do, what steps they ought to be taking to minimize that risk is important.

I think that these are extremely important hearings and I look forward to the testimony of both of these very powerful witnesses.

Chairman SARBANES. Thank you.

Senator Bennett.

Senator BENNETT. Thank you, Mr. Chairman. I will follow your admonition to avoid talking about monetary policy with Chairman Greenspan.

Chairman SARBANES. It is a great temptation, I realize that.

Senator BENNETT. It is a great temptation. But there is a temptation that I cannot resist, and everything has been said about consumer education that I think needs to be said, and I will not go on to repeat it.

I am concerned about the level of economic literacy in the Congress. We are having a debate about stimulus packages, about what stimulates the economy and what does not.

Yesterday, Robert Bartley had an editorial in the *Wall Street Journal,* quite frankly, on this issue of Keynes and Phillips Curve and other issues which dominate the policy debates around here.

I know that the Nobel Committee seems to alternate between giving a Nobel Prize to a very conservative economist and the following year, a Nobel Prize to a very liberal economist, so they are hedging their bets that no matter who comes out, the Nobel people will say that it was a Nobel Laureate that led us to the promised land, either way.

[Laughter.]

And if Chairman Greenspan could find his way clear to comment a little on the question of economic education in terms of fiscal policy, I would be very grateful. If he decides to hide behind your caveat and say, we will deal with that later, I would understand that as well.

Thank you, Mr. Chairman.

Chairman SARBANES. I am reminded of President Truman's story that he wanted a one-armed economist. And they asked him why. He says, I am tired of getting this, on the one hand and on the other hand advice.

[Laughter.]

Senator Corzine.

Senator CORZINE. Thank you, Mr. Chairman. I welcome the witnesses and thank them for their thoughtful presentations that they will be making.

This is an issue that I think is fundamental to the sound workings of free markets. If you are committed to the economic system that we have and that has prospered in America, I think it has to be built on an understanding of the workings of it.

I am extraordinarily troubled by the kinds of statistics, level of understanding among our students. But, frankly, it is a life-long issue. Those most vulnerable in our society appear to pay the highest price for lack of financial literacy. I think the Chairman cited some of those statistics on remittances and I think you can see 9 and 10 percent charges for cashing checks for the unbanked. And then we find quite frequently that predatory lending that comes with refinancing homes of seniors and others that are often cited.

So, we have a problem that faces our total population. I think it begins with a solid curriculum as one begins their educational process. A lot of us went back to business school so we could understand what compound interest was about and other kinds of issues. And I just do not think this is a priority and we end up with results that I think make Americans more vulnerable than would otherwise be the case.

So, I think this hearing, it is terrific that we are spending the time on this. I hope we can flesh it out in something that is in practical terms, other than saying that people ought to inform themselves more, because I think that this is something that, not unlike science, not unlike other complicated issues in life, needs some detail in the educational process, and adult education would be fine, too. I look forward to it. I have a longer statement that I would like to put in the record that it is terrific what we are doing.

I also want to thank Senator Enzi and Senator Akaka for their help on the financial literacy issue that we included in the ESEA education reform bill.

Chairman SARBANES. Thank you. The statement will be included in the record.

Senator Enzi.

Senator ENZI. Thank you very much, Mr. Chairman. And I do thank you for holding this hearing. I know that it was planned months ago and was to be held at about the time that the September 11 events happened.

We did have the same panel before us at that time. But our topic changed to stock market stability. And I think it made an impact, thanks to the caliber of the people that were able to be at that hearing. I think it made a difference in convincing America that the stock market was still capable of functioning and that it still would do a good job.

It is imperative that we do focus on financial literacy. And it is a little different area of discussion than you normally get to do, or than we normally get to do. But it is very basic to the future of our country.

As Senator Corzine mentioned, we did an amendment to the Elementary and Secondary Education Act, no child left behind, that allowed flexibility so that money could be spent for financial literacy. I think that is a good first step.

I have taken a look at some of the education plans or some of the courses that are being provided in schools, and one of the distressing things that I found was that, while they allocate the students a certain amount of money to work with, say $2,000 a pay period, one of the things that they usually forget to do is take out withholding and Social Security and Medicare first. And that leaves that as a much later literacy shock for those kids. They do need to learn at an earlier age that death and taxes are the only things that are sure.

Evidently, the programs that are in place are not making it because we have this huge college students' credit card debt. I think it is an average of $2,748. That translates into some adult problems after they get out of college.

I used to be the mayor of a boom town. This was 25 years ago. And the people that come to a boom town are the young people who do not have jobs. They leave their source of normal financial advice, which are their parents—now they do not always take that advice, but the advice is often given, and it is still something that they have to mull through their minds. These kids came to Gillette and made an average of about $60,000 a year. That was far more than their parents had ever dreamed of making. What we discovered was that you could go broke on $60,000 a year. This was in the 1970's, and at that time, $60,000 was worth a lot more.

We tried to find a way to get some financial literacy programs going, and it is hard to find a credible source. The ones that were willing to do it were the churches. But the churches are the ones who are always asking for money.

The banks would be a good source, but they are looking for bigger customers, usually, than the people who are in financial difficulty. So, I will be asking to see what you think would be good sources of advice for these people. Now, I am encouraged by some programs that are happening.

In my home State, the Wyoming Community Development Authority has joined with Fannie Mae and they are educating first-time homebuyers. And they are doing this by distance education. They are having a lot of applicants—it is a relatively new program—but they are about to have their thousandth customer.

Incidentally, the financial institutions give a little break in the interest rate if people take this financial literacy course on how to buy a house. It gets into several of the other aspects of financial literacy as well.

Wyoming students have been doing well on tests. Eighty-two percent of school seniors fail nationally. We have a much better rate in Wyoming. It still can be improved quite a bit. And of course, the Enron situation shows that people need to have a little bit more financial literacy when it comes to dealing with their 401(k) plans, a little reminder not to put all the eggs in one basket. Other financial literacy lessons will be coming out of hearings that will be held in the next several months. So, I think this is really a prime area of investigation that we need to do and I am so pleased that we have such a distinguished panel to do it.

I thank the Chairman for having this hearing.

Chairman SARBANES. Thank you, Senator Enzi.

Senator Stabenow.

STATEMENT OF SENATOR DEBBIE STABENOW

Senator STABENOW. Well, thank you, Mr. Chairman, for holding this hearing. And to our witnesses, Chairman Greenspan and Chairman Pitt, welcome.

I share along with all of my colleagues a great interest and belief that this is a critical, long-term issue and part of the solution as we move forward on a number of fronts.

Last December, back in my home State of Michigan, I attended an event at Eastern High School in Lansing, Michigan, where the Michigan Jump$tart Coalition for Personal Financial Literacy released the findings of a statewide survey in conjunction with the National Institute for Consumer Education, and it was much like what we have been hearing today in terms of the numbers. I am very pleased to see that the Michigan legislature in a bipartisan way is moving forward on literacy education. I commend them.

One of the interesting findings in the survey that was released back in December in Michigan was the fact that students who participated in the Stock Market Game, which is a national investment game, did better in the survey than people who had entire courses in money management or even an entire course in economics.

And I say that only because I believe that from the standpoint of learning, that we need to be looking at interactive learning, reality-based learning and that, clearly, on the survey, students were learning much more through an interactive approach than they were through other more traditional classes that had been developed.

I also wanted to recognize, as others have, Freddie Mac for their "Don't Borrow Trouble" campaign, which they brought to southeastern Michigan, to the Detroit area.

Mr. Chairman, I know that you have been a real leader and at the forefront of that and I want to thank them because the efforts of Freddie Mac, as well as Fannie Mae, their counterpart, I think are critical in tackling abusive lending, especially as these two companies move increasingly into the subprime lending market.

But we have some real challenges for adults, as colleagues have raised, as well, in addition to the next group of adults as our children are moving up through the system.

Mr. Chairman, I would ask that my entire statement be placed into the record and I again welcome those who will be speaking to us in the next 2 days and I hope that we can develop some recommendations as well as, in the long run, in predatory lending some legislative actions that will help address those critical issues.

Chairman SARBANES. Thank you very much, Senator Stabenow. We will include your full statement.

Senator Akaka.

STATEMENT OF SENATOR DANIEL K. AKAKA

Senator AKAKA. Thank you, Mr. Chairman, for convening this first hearing on the state of financial literacy and education.

And I want to add my welcome to Secretary O'Neill, Chairman Greenspan, and Chairman Pitt to this morning's hearing. I look forward to their views on this important subject.

Mr. Chairman, I wish to make a brief statement and ask that my full statement be included in the record.

Chairman SARBANES. Your full statement will be included in the record.

Senator AKAKA. I became actively involved in this issue in 1999, after reading a study on financial literacy conducted by the National Council on Economic Education. The disturbing results of that study caught my attention. In a basic economics test, half of the adults and two-thirds of the high school students received failing scores. More than half of the students and adults did not have a basic understanding of economic concepts such as money, interest rates, and inflation. After reviewing these test results, I investigated further the lack of financial literacy in our society.

Americans of all ages and backgrounds face increasingly complex financial decisions as members of the Nation's workforce, managers of their families' resources, and voting citizens. Many find these decisions confusing and frustrating because they lack the tools necessary that would enable them to make wise, personal choices about their finances.

Increased education about basic economic concepts will help people to make better financial decisions and increase opportunities for participation in today's global economy. All citizens need to be prepared, starting from youth, to make informed decisions regarding fundamental undertakings such as purchasing a first home, financing a college education, and saving for a comfortable retirement.

The reauthorization of the Elementary and Secondary Education Act included the Excellence in Economic Education Act as an amendment, which I introduced along with my colleagues, Senator Corzine and Senator Enzi. This legislation will significantly improve the knowledge of fundamental, yet critical, economic principles among our country's young people. The measure aims to increase student knowledge of, and achievement in economics by providing our Nation's teachers with the tools to enhance teaching methods of economics. This legislation encourages economics-related research and development, dissemination of instructional materials, and replication of best practices and programs. It increases private and public support for economic education partnerships between schools and local businesses and private industry.

I was also pleased, Mr. Chairman, to support another financial literacy amendment sponsored by Senator Corzine that was also included in the legislation.

Today's hearing is the beginning of a national dialogue on financial literacy and education. I applaud the efforts of Secretary O'Neill, Chairman Greenspan, and Chairman Pitt to bring attention to this issue, and I look forward to your recommendations on how to increase financial literacy.

Again, I want to thank you, Mr. Chairman, for convening these hearings on financial literacy. Thank you very much.

Chairman SARBANES. Thank you, Senator Akaka, and thank you for your initiatives in this field, which have already made a significant contribution.

Senator Carper.

STATEMENT OF SENATOR THOMAS R. CARPER

Senator CARPER. Thank you, Mr. Chairman.

Gentlemen, welcome. We are delighted to have you back before us and thank you for coming today.

A long time ago, I used to be State Treasurer for Delaware, at a time when we had the worst credit rating in the country, closed out of the credit markets, could not borrow money, could not balance our budgets. We were a mess. I became a State Treasurer when I was 29 years old. It was a lot of fun.

[Laughter.]

Today, we have a new State Treasurer. His name is Jack Markell. He does not have to worry about any of those things. And what he is focused on is financial literacy, and taking the problems to a lot of our schools where we focus big time on the three R's—reading, writing, and arithmetic. And he has really done a nice job in helping to introduce a fourth R in our schools. I call it relevance. Why is it relevant that we know how to read, write, and do arithmetic? And one of the reasons is so that we can be financially literate and make some wise decisions about our investments in our future.

I watched in the wake of Enron and others have alluded to this. There are some real smart people who did not really know what was going on there. Some of them were folks at big accounting firms. Others were analysts at top Wall Street firms. We had some people at rating agencies who really did not know what was going on very well.

They are well trained. They know those three R's, and the fourth one as well of relevance. But they missed the signals and missed the boat for a lot of people.

I do not know that we can ever hope to work with kids and their parents in schools and communities in Delaware so that they can catch what those other folks missed. I think that is probably the triumph of man's hope over experience. But we can sure do a better job and we are trying to do it in our own small way in our little State. And I am encouraged to hear what others are doing, too.

I do not know to what extent this is one that Congress needs to focus on, to work on, but I think we all can do something and we ought to do something. And I am encouraged by your presence here and your attention to these matters that we are all going to do our share.

With that having been said, Mr. Chairman, I would like to ask that the rest of my statement be added to the record and we will hear from the folks that we really want to hear from.

Thank you.

Chairman SARBANES. It will be included in the record.

Senator Schumer.

COMMENTS OF SENATOR CHARLES E. SCHUMER

Senator SCHUMER. You mean me, Senator Carper?

[Laughter.]

Senator CARPER. No, I do not.

[Laughter.]

Senator SCHUMER. But I thank you. I know we are trying to move along here, so——

Chairman SARBANES. Senator Carper did not realize that you had arrived.

[Laughter.]

Senator CARPER. If I had, I would have acknowledged it.

Senator SCHUMER. Exactly.

[Laughter.]

Anyway, thank you. First, I want to thank you, Mr. Chairman, for having this hearing. It is such an important issue. It is not a sexy issue, but, boy, oh, boy, is it needed.

I am so glad that you have made this a major effort of the Committee this year and I am thankful that we have such distinguished people at the table for the same reason.

I guess I do not think we have assessed, at any level, what our education ought to be. I would like to know, for instance, why financial literacy should not be part of the core curriculum at all of our high schools.

Much of the work of this Committee is because people do not have financial literacy. The Chairman has been doing a great job on predatory lending. The deeper and deeper you get into predatory lending, a lot of the problem is that people just are so afraid to deal with the bank on a mortgage, that they go to some scoundrel who says, I will package the whole thing for you. And they do not even realize the higher interest rates and all the other problems that occur.

Credit card borrowing—again, same problem. People just do not realize it. And this affects their lives daily. Our financial world has gotten so complicated, not just for mathematicians or economists, but for average folks. And our school curriculum has done nothing to catch up with it.

I would like to know why this course is not required either in addition to the high school curriculum, or tell me, if they do not have room, is it more important to know trigonometry or know financial literacy? I remember side, angle, side, or cosigns and tangents. And it has not affected my life much, I do not think.

[Laughter.]

At least as best I know.

[Laughter.]

And you know, a general broad education is important for everybody. But there is such a crying need for this kind of education, that I think we ought to do a real assessment.

It seems to me that in our pantheon of values and what we want our high schools to teach, this is left out and lots of other things are put in that may be important, but seem to me not to be close to as important as this.

It is probably not the role of our Committee or even Washington, except in certain ways to prod. I am not sure of that. But I would just like to urge all of our high schools to consider making financial literacy a mandatory course.

With that, Mr. Chairman, I yield back my time.

Chairman SARBANES. Thank you very much, Senator Schumer.

Chairman Greenspan, we would be happy to hear from you.

STATEMENT OF ALAN GREENSPAN, CHAIRMAN BOARD OF GOVERNORS OF THE FEDERAL RESERVE

Chairman GREENSPAN. Thank you very much, Mr. Chairman and Members of the Committee.

I am pleased to be here this morning to discuss the importance of improving financial literacy and learning for consumers.

Chairman SARBANES. Mr. Chairman, I think if you could draw that microphone in a little closer, it would be helpful.

Chairman GREENSPAN. Throughout our banking history, we have seen significant adjustments to enable markets to respond to the demand for services. Structural changes in recent years have heightened competition, encouraging market efficiencies that continue to help drive down costs and foster the emergence of increasingly diverse and highly specialized organizations. These organizations provide consumers with increased access to a variety of credit and saving instruments.

For an increasingly complex financial system to function effectively, widespread dissemination of timely financial and other relevant information among educated market participants is essential if they are to make the type of informed judgments that promote their own well-being and foster the most efficient allocation of capital.

Indeed, surveys repeatedly demonstrate a strong link between education and the use of new financial technologies. For example, data from the Federal Reserve's Survey of Consumer Finances suggest that a higher level of education significantly increases the chances that a household will use an electronic banking product. Specifically, in 1998, the typical user of an electronic source of information for savings or borrowing decisions had a college degree, a level of education currently achieved by only about a third of American households.

Overall, the most recent data from the Survey of Consumer Finances exhibit a mixed picture of the financial status of households, providing evidence that we need to reach out to those who have not been able to participate fully. For example, while the median real net worth for all families increased 17½ percent between 1995 and 1998, this trend did not hold where the head of the household had a high school level of education or less, family earnings were less than $25,000 annually, or the ethnicity of the respondent was nonwhite or Hispanic. Through 1998, we found that families with incomes below $25,000 did increase their direct or indirect holdings of stock, and more reported that they had a transactions account. However, they were less likely to hold nonfinancial assets, particularly homes, which constitute the bulk of the assets for those below the top quintile according to income.

In considering means to improve the financial status of families, education can play a critical role by equipping consumers with the knowledge required to make wise decisions when choosing among the myriad of products. This is especially the case for populations that have traditionally been underserved by our financial system. In particular, financial literacy education may help to prevent vulnerable consumers from becoming entangled in financially devastating credit arrangements. In the quest to stem the occurrence of abusive, and at times illegal, lending practices, regulators, consumer advocates, and policymakers all agree that consumer education is essential to combating predatory lending. An informed borrower is simply less vulnerable to fraud and abuse. Financial literacy can empower consumers to be better shoppers, allowing them to obtain goods and services at lower cost. This effectively increases their household budgets, providing more opportunity to consume or save and invest. In addition, comprehensive education can help provide individuals with the financial knowledge necessary to create household budgets, initiate savings plans, manage debt, and make strategic investment decisions for their retirement or their children's education.

While data to measure the efficacy of financial education are not plentiful, the limited research is encouraging. A recent study by Freddie Mac finds that homebuyers who obtain structured homeownership education have reduced rates of loan delinquency. Similarly, an evaluation conducted by the National Endowment for Financial Education on its high-school-based programs found that participation in financial planning programs improved students' knowledge, behavior, and confidence with respect to personal finance, with nearly half of participants beginning to save more as a result of the program.

These findings underscore the importance of beginning the learning process as early as possible. Indeed, in many respects, improving basic financial education at the elementary and secondary school level is essential to providing a foundation for financial literacy that can help prevent younger people from making poor financial decisions that can take years to overcome. In particular, it has been my experience that competency in mathematics—both in numerical manipulation and in understanding its conceptual foundations—enhances a person's ability to handle the more ambiguous and qualitative relationships that dominate our day-to-day financial decisionmaking. For example, through an understanding of compounding interest, one can appreciate the cumulative benefit of routine saving.

Some school systems have introduced financial management classes as part of their high school curricula and many employers are taking up the challenge as well. At the Federal Reserve Board, for example, interest in financial education prompted an employee committee to hold a seminar on financial planning strategies, and our Consumer and Community Affairs staff hosted educational programs for Federal Reserve employees, providing information on qualifying for a mortgage, managing debt, and budgeting.

Both individually and through longstanding partnerships with a variety of local, regional, and national organizations, each of the 12 Federal Reserve Banks and the Board provide extensive information on these topics to a wide range of audiences, including school-age children, low- and moderate-income families, and minority and immigrant populations. The scope of these activities ranges from the sponsorship of competitions on economic principles for high school students and workshops on wealth-building strategies to the development of computer-based tools for understanding the underlying considerations for mortgage loans and creating household budgets and savings plans.

The Federal Reserve, thus, has a continuing interest in measuring the effectiveness of financial literacy approaches. For example, we hosted a forum highlighting best practices in credit education and we have included studies that evaluate the impact of such training initiatives in our call for papers for the Community Affairs Research Conference scheduled for the spring of 2003.

Additionally, our Community Affairs and Public Information Offices have embarked on a national initiative to highlight the importance of financial literacy and heighten the visibility of economic education programs.

In closing, Mr. Chairman, let me simply reiterate that the pace of technological change and competitive pressures can only increase. Building bridges between community organizations and our educational institutions and private business will be an essential aspect of our efforts to increase familiarity with new technological and financial tools that are fundamental to improving individual economic well-being. And the success of such efforts will have a significant bearing on how well prepared we are to meet the challenges of an increasingly knowledge-based economy.

Thank you, Mr. Chairman. I would appreciate it if my full remarks are included in the record.

Chairman SARBANES. Your full statement will be included in the record. We very much appreciate it and we appreciate your own efforts and leadership on this issue. It has been quite important.

I would point out to my colleagues, we only have a few minutes left on this vote. I am going to recess the Committee briefly, so we can go and vote and then we will hear from you, Chairman Pitt.

[Recess.]

Senator DODD [presiding]. The Committee will come to order.

Senator Sarbanes asked if we could continue to move along so we will not hold people up here. Let me ask staff, where are we at this point?

[Pause.]

Chairman Pitt, I do not know if you are in the middle of your statement or just about to give it?

Chairman PITT. I was just about to give it.

Senator DODD. Before I do that, I know my colleague from South Dakota was here—here he is, Tim Johnson. He just wanted to make a few brief comments before we turn to Chairman Pitt.

COMMENTS OF SENATOR TIM JOHNSON

Senator JOHNSON. Thank you, Mr. Chairman. I apologize for juggling several Committees simultaneously this morning, complicating things.

I have a formal statement. But rather than sharing my fabulous insights on financial literacy with you and taking up some time here, I think we are better off to return to the panel for their testimony. But I would like to submit my full statement for the record, and I look forward to the testimony here, which I think is, indeed, going to be very valuable for the Congress this year.

Senator DODD. Thank you very much, Senator.

Chairman Pitt, we welcome you to the Committee. We know you are busy. You have been on the job a couple of months. Are you having fun yet, Mr. Chairman?

[Laughter.]

Chairman PITT. Almost. We are almost there.

[Laughter.]

Senator DODD. Thank you for being here today. Obviously, your statement and all related documents that you think are worthwhile, will be included in the record. And with that, we would appreciate hearing from you.

STATEMENT OF HARVEY L. PITT, CHAIRMAN U.S. SECURITIES AND EXCHANGE COMMISSION

Chairman PITT. Thank you, Senator Dodd.

I am pleased to appear before the Committee on behalf of the Securities and Exchange Commission to testify about financial literacy and education in today's securities markets.

At the outset, I would like to commend the Chairman of the Committee, Senator Sarbanes, for his perseverance in scheduling these hearings at the beginning of this legislative session, and for his prudence in waiting to hold them until an appropriate time following the events of September 11. I am especially gratified that Chairman Sarbanes and the Committee have taken the initiative to raise the visibility of this important issue.

As the events of last September demonstrated, our capital markets are the world's strongest and most resilient. As the events of last November demonstrated, even the best system can be gamed. These events demonstrate that financial literacy is a crucial foundation for partnership in our capital markets. People need to be able to read, write, and speak basic financial concepts in order to make informed investment decisions.

The SEC's goal is to protect investors and we will pursue securities law violations and financial fraud aggressively. But an educated investor is the best defense against fraud.

There is no magic bullet that will accomplish our Nation's financial literacy goals. No one program can reach all groups. Educating people about how to manage their money effectively and achieve retirement security demands cooperation and partnership on all levels—public and private, national and grassroots. The Federal

Government can play an important role in achieving financial literacy, both by working with localities in the private sector to initiate financial education, and by creating and making freely available neutral, unbiased information on saving and investing.

The Commission partners with a number of public and private organizations. We give presentations to schools, investor clubs, and religious organizations. We host investor town meetings across the United States. We produce and distribute an extensive array of free educational material. This information is on our website—*www.sec.gov.* And our website also has interactive tools. For example, we created a mutual fund cost calculator which allows investors to compare the costs of holding different mutual funds. We also have an extensive tutorial on the uses of margin. But even the best educational materials will not do any good if people either do not know about them or fail to use them.

For example, people looking for investment tips on the Internet do not necessarily look at our website first and review our educational materials. To try to reach this audience, we recently created a fake scam website—*www.mcwhortle.com*—which was based on actual Internet scams that we have investigated and shut down. This site promises unbelievable investment returns—400 percent in 3 months.

Unfortunately, there are real scams out there that make similar promises and real people who fall for them. A visitor to this site who tries to invest receives a message explaining the warning signs of Internet fraud and links to educational materials.

I have included sample pages from the McWhortle site as an attachment to my written testimony. The McWhortle site graphically illustrates what we have been telling investors for years—if it sounds too good to be true, it probably is. Guaranteed returns are not. Check out the company before you invest. If you are being pressured to invest, especially in a once-in-a-lifetime deal “that just cannot miss,” just say no.

Understand your investments. If you do not understand an investment, do not buy it. Beauty is not everything. Do not be fooled by a pretty website. They are remarkably easy to create.

This project cost taxpayers very little. It cost us $50. But it is paying huge dividends. Already, we have had more than a million hits on the McWhortle site. The McWhortle site is an excellent example of how we partner with others for better results. Cosponsors of our site are the Federal Trade Commission, the National Association of Securities Dealers, and the North American Securities Administrators Association.

I have included in my written materials some of the hundreds of favorable e-mails we are receiving from investors who have visited our fake scam.

We have other scam sites out there as well, including one where we have partnered with the Treasury Department. Crooks figured out a long time ago how best to separate people from their money and it is about time that we used the same tactics to fight back.

Beyond educating investors, we are also looking to improve the quality of information they receive. Confidence in our markets begins with the quality of the financial information investors use to decide where to invest their hard-earned dollars. Comprehensible and reliable information is the lifeblood of strong, vibrant markets.

In his State of the Union address, the President called for more strict accounting standards and tougher disclosure requirements. He wants corporate America to be made more accountable to employees and shareholders and to be held to the highest standards of conduct. We share and embrace these principles. We are firmly committed to making disclosures more meaningful and intelligible to average investors.

To that end, this spring, we will hold our first-ever Investor Summit to solicit investor input. To the extent that we can improve the clarity and integrity of what investors read, we will succeed in improving financial literacy in America. We look forward to continuing to work closely with this Committee, as well as others, to advance financial literacy in America.

I will be happy to try to respond to any questions the Members of the Committee may have.

Chairman SARBANES. Thank you very much, Chairman Pitt. I will yield to Senator Dodd and I will do my questioning a little later.

Senator DODD. Thank you, Mr. Chairman.

Thank you both again for your participation today. I think the benefit of having some of the comments made by some of our colleagues here earlier indicate the broad-based support for the subject matter at hand and how we can deal with it.

Let me say, Chairman Pitt, to you, I think the idea of a summit this spring, this is something that your predecessor did around the country on various occasions. I know he did one in Connecticut we participated in where we had an open forum for people in the Stanford, Connecticut area, and we had, I think, 300 or 400 people who showed up for it, just a discussion on what the SEC was doing, a variety of questions. It was an open-ended forum.

I think he did those around the country, at least a number of them. So, I think those are very sound ideas for getting out and listening to people around the country.

Chairman PITT. I agree with that, sir.

Senator DODD. I commend you for it and I think it will help a great deal.

I wanted to raise, if I could, the issue of your budget. I listened to you yesterday testify for a while anyway in the House Committee. And one of the issues you raised was the pay parity issue.

I was surprised to read Mitch Daniels, the Director of the Office of Management and Budget, say that the pay parity was not warranted. You get a 4 percent increase in this budget. I know the budget was only submitted yesterday, but, obviously, news of events of the last several weeks, one might have thought that there might have been some readjusting of the numbers to put some additional resources.

I know you asked for about $500 million for the agency. This present budget is around $440, I think is the number. Correct me if I am wrong on some of these figures. So there is a modest increase. Yet, obviously, there is going to be greater demands placed on your agency and the ability to attract and keep people is going to be very important.

And I realize that you have a responsibility. There are overall budget issues. But this is just too important, in my view. We are going to be asking you, I suspect in the coming weeks, you are going to be on your own initiative through the regulatory process, I think taking some additional initiatives, if I heard you correctly yesterday.

To what extent can you comment on whether or not this 4 percent is going to be adequate, just based on what you would like to do. Forget what we may ask you to do. In addition, for instance, I was stunned to know that there are only 25 or 26 people in the Accounting Enforcement Division. Correct me if I am wrong on that number as well.

Senator Corzine and I suggested maybe doubling that number. Maybe it is not needed to go that high. But it seems to me that if you just did that alone, that is going to put additional pressures on your existing budget.

So, I realize that it is a little awkward to ask this question of you, knowing that you have been appointed by the Administration. But I do not know how in the world we are ever going to deal with these issues if your budget is so restrained, that you either lose people, cannot attract people, or cannot do what you would like to do, let alone what Congress may ask the SEC to do, in light of the Enron situation.

Chairman PITT. Well, let me say that I do not feel any awkwardness in responding to your question.

When I was before this Committee for my confirmation hearing, both you and the Chairman raised the question of whether I would be forthcoming with the Committee and tell you what my views were in terms of personnel. And I assured you that I would do that, and I intend to live up to that commitment, as well as every other.

When I first got to the SEC, and I have been there approximately 5 months, but when I first got to the SEC, my thought was that we would submit basically a no-growth budget providing for normal inflation plus an additional $76 million to fund pay parity, in the expectation that we would get it.

I thought that after I spent 2 or 3 or 4 months seeing how the agency operated, I could come back and give you an intelligent view about whether we had needs or not.

Now, in the interim, unfortunately, first we had September 11, and now Enron. And the fact is that focusing on our manpower needs has been deferred. I start from the proposition that we should use the people and monies we have efficiently before we come back and ask for more.

On the pay parity aspect of it, I will say that we were disappointed with the decision of the Office of Management and Budget. We made that known to them, that we thought that that was a mistake. I intend to work with them and try to persuade them as we go forward that, at a minimum, funding pay parity is absolutely critical to the agency. If not, the efforts of this Committee and of the Congress in adopting pay parity will in effect have created a worse problem for us. If there were no pay parity, no one would have expected to receive it. But now that we have a statute, not funding it creates a significant problem for me in retaining personnel. But I believe that we will be able to work with both the

Administration and the Congress and reach a successful resolution of this issue.

Senator DODD. I thank you for your candor and your comments on that. I think that you can count on many of us up here to assist you in that effort.

Let me ask you about the accounting enforcement area because I raised the issue with you. First of all, am I correct in my numbers? Is that about the number of people you have?

Chairman PITT. I do not have the numbers in front of me, Senator, but I believe you are right. That is the approximate number of accountants at Headquarters in the Enforcement Division. In the Regional and District offices approximately 50 accountants work on enforcement matters.

Senator DODD. That is about the size of a Congressional office, a House office. I think maybe they have more employees than 25, to put it in some context here. Can you give us some idea of what you think about that? Do you believe at this juncture there is a need for more personnel? Or do you believe it is just a question of focusing the attention of the existing personnel on the problem?

Chairman PITT. One of the issues I think that has arisen since Enron has occurred is the fact that there seems to be a great deal more focus by corporations on the validity of their accounting procedures. It is unfortunate that it took something like Enron to achieve this result. But I would say that our Enforcement Division over the last 3 or 4 months has opened up an enormous number of major investigations.

I believe that we are staffing what we have now and staffing it adequately. But as the workload increases, and assuming it does, and if we are to take on additional responsibilities in response to Enron, either by our own regulations or by legislation from this Committee, it may well be that we either have to divert manpower from other areas or we may have to suggest that we need additional manpower. We are not at that point yet, but I want to make certain that the public is confident that if there are any incidents of improper behavior, we will go after them with great vigor.

Senator DODD. I thank you. And as I said, you might want to talk to Arthur Levitt and some of the people who organized those summits or mini-summits that he had around the country, going back to the literacy issue, which I think were very, very successful. I think he enjoyed them, as well as learned a lot from the average small investor. So the summit this spring I think is a good idea, but you may want to incorporate that as a regular series of activities for you as Chairman of the SEC.

Chairman PITT. I think that the town hall meetings that former Chairman Levitt came up with were an excellent idea. It is something that we intend to continue and maintain.

The Investor Summit is a somewhat different concept because the people who invest as individuals and particularly people in middle- and lower-income levels, have no lobbying groups. They have no organized representation. They cannot even respond to our rule proposals because often they do not know about them. This is a way to give them a forum to come to us, and they can do it either on the Internet or in person, so that we hear first-hand what their concerns are.

In addition, with respect to the specific problems of Enron, we have put forth the bare bones of a suggested methodology to respond to these issues and we will be holding a series of roundtables specifically designed to deal with those issues, and those will be in locations other than Washington.

Senator DODD. Thank you, Chairman Pitt.

Mr. Chairman, I thank you.

Chairman SARBANES. Before I yield to Senator Shelby, I just want to note, the pay parity was part of a package that reduced significantly the fees that were being levied. It never occurred to me, I have to say, that we should make the reduction in the fees contingent upon giving the pay parity. But, obviously, we should have done that.

My own view is that—I went down there when the President signed that bill. But it seems to me that the OMB has, in effect, broken the spirit, obviously, of the package. The argument for doing it was very strong at the time. It is even stronger now, having been, as you noted, held out to people, and then snatched away. And I think, actually, that we, in a sense, have just been done in on it. Who would have thought that in order to get, the package implemented, that we should have linked it and established a contingency. It is not your problem. We will address it down the line.

Chairman PITT. I do want to say this, though, that we have had very encouraging conversations with OMB, and my hope is that working with them, we will be able to reach an appropriate resolution of the problem. But they have been responsive, at least, to our reaching out to them and having discussions.

Chairman SARBANES. White House Budget Director Mitchell Daniels, Jr. said in an interview Friday that the Administration does not consider the SEC's request for pay parity justified. The removal of fees was in the amounts——

Senator DODD. It is huge.

Chairman SARBANES. Yes, billions.

Senator DODD. Many of us had some real reluctance about that for the very reasons, that it was going to create this kind of a problem. I voted for it reluctantly.

Chairman SARBANES. Fourteen billion dollars over 10 years, about $1½ billion a year, $14 billion over 10 years. The pay parity was an important part of that package, at least for many of us. I think it is just breaking faith. But, nevertheless, Senator Shelby.

Senator SHELBY. Thank you.

Chairman Greenspan, isn't accurate information essential to every economic decisionmaker, from you, as Chairman of the Board of Governors of the Federal Reserve, to the consumer doing his or her grocery shopping?

Chairman GREENSPAN. It certainly is, Senator, largely because when you are dealing with an essentially voluntary system, which is what our society is, people make judgments. They exchange values amongst themselves, all based on information in some form or another. And for the system to work properly, you need a pricing system which reflects the value judgments of consumers. If you do not have that, the system will be suboptimal. This means that accurate information readily available is essential for the system to function. To be sure, it is not a sufficient condition, but it is certainly a necessary condition.

Senator SHELBY. Chairman Pitt, if consumers and investors believe that others have access to information which they do not, it is going to affect their buying and investment activities, isn't it? Couldn't this have serious consequences for the overall economy?

Chairman PITT. Absolutely.

Senator SHELBY. They will have no confidence in the market, the capital markets.

Chairman PITT. The essential factor here is confidence in our markets and the notion that nobody has an unfair advantage. One of the things in light of Enron that we are committed to doing and doing quickly is to restore confidence in our system. It is a good system. It has flaws. They need to be fixed. And we are going to fix them.

Senator SHELBY. If accurate information, honest information, matters so much, which we all agree it does, shouldn't we find ways to strongly discourage those who impede the flow of information or would disclose outright false information which you see from time to time, and we have seen a lot of lately?

Chairman PITT. The answer is yes, but there is at least a slight caveat that I would add to that.

One of the things that we are proposing is a rule that would require companies to disclose on a current basis unquestionably significant information.

Under the law, the way it is now, or the way that the Federal securities laws have been written, a company can avoid liability by telling no one significant information. In fact, that is the whole predicate of Regulation FD. You can satisfy it by telling nothing to anyone. We want to establish an affirmative disclosure requirement so that companies are required to make meaningful disclosures at the time they occur.

Senator SHELBY. Is it going to take legislation, us working with you, to do that? Or can you do that in the SEC?

Chairman PITT. I believe we need to work together because I do not want to make far-ranging changes without this Committee's concurrence. But I believe we have all the authority we need to make these changes.

Senator SHELBY. It seems to me like we are constantly hearing about restatements, audit failures, and buy-stock analysis. This is just endless.

For instance, I imagine some pretty smart and sophisticated people took the time to research companies like Waste Management, Sendit, Microstrategies, Enron, and Global Crossing, and then got taken for a big ride.

What does it take to survive in the marketplace? Does it take a PhD in finance? We are talking about education, financial education. I think it first takes honesty in the markets because if there is fraud and shark dealing or something close to that, people will have no confidence in the capital markets, will they?

Chairman PITT. Senator, I agree with you. And if it takes a PhD for people to be able to invest, we have failed. I believe that there are a number of things that need to be done in addition to making disclosure much more comprehensible.

Financial statements cause one's eyes to glaze over. We want to have plain-English financial statements. We want to have accounting principles that deal with the concepts rather than trying to create a cookbook list of things that auditors can look at and then paint a picture of the company that is not accurate.

Senator SHELBY. I know my time is gone, but how do you as Chairman of the SEC, and perhaps we in the Congress, deal with the honesty situation in the reporting of financial statements?

In other words, if things are off the balance sheet, partnerships and so forth, they are put off there to keep them off. It is intentionally off the balance sheets, debt and so forth. That is obviously to an ordinary person misleading of the financial condition of a given company. And yet, the average person would not know that.

Chairman PITT. That is absolutely correct. Part of the problem is that more than a decade ago, a request was made to the Financial Accounting Standards Board to deal with these SPE's or Special Purpose Entities. And with some modest exceptions, they are still not resolved as to how to come out on those issues.

Senator SHELBY. Can you resolve it? Obviously, they are not going to be able to resolve it. Can you resolve it as the Chairman of the SEC, to where these instruments will be part of the overall financial statement, where people can read them and know what the true liabilities of a company are?

Chairman PITT. Several weeks ago, I went up to the FASB and I met with them. We indicated that the process was not working, that we were not satisfied with it, and that we needed a response on this particular issue before the end of the year, which they have committed to do.

I believe that the SEC has authority to do it directly. But I think having a private sector standard-setter is the right way to go as long as it actually sets standards. If it does not function, that is a problem.

Senator SHELBY. It has broken and it has failed. The private accounting system has failed in all these instances that we are talking about.

Chairman PITT. Let me say, I believe that for about the last 8 to 10 years, the tardiness of the FASB has been transparent, but nothing has been done to fix the problem. We intend to fix it and we intend to fix it quickly.

My own view is, if you can have the private sector set the standards, that is ideal. But if they won't set the standards, we will either find another body that will, or we will do it ourselves.

Senator SHELBY. Why don't you do it yourself, because it has shown to everybody that they have not had the standards? They have not done it. It is the fox watching the henhouse. We have known that.

Chairman PITT. It is not supposed to be the fox watching the henhouse.

Senator SHELBY. We are talking about reality here.

Chairman PITT. Yes. It is not supposed to be the fox watching the henhouse. But you raise another important problem with respect to the FASB.

It gets all of its financing from the accounting profession. We have said that we are not satisfied with that. We do not want the accounting profession to directly finance the FASB.

But having in place a group of people who are knowledgeable, who are expert, and whose only mission is to promulgate comprehensible accounting standards is the most efficient and effective way to have better financial statements. If we cannot rely on this process, then there will be no alternative. The SEC will have to take it on. I think that is decidedly less desirable.

Senator SHELBY. Thank you, Mr. Chairman.

Chairman SARBANES. Senator Bennett.

Senator BENNETT. Thank you, Mr. Chairman.

Chairman Greenspan, I am impressed by the example you gave of education for your own employees. I think every corporation ought to think in those terms. That is, protecting your employees from the personal devastation of debt is a legitimate productivity issue because an employee who is constantly being badgered by collection calls, worried about losing mortgages, et cetera, is not as productive on the job.

Now, you are a regulator. You regulate banks. One of the most contentious issues within this Committee—I know the Chairman and the Ranking Member have very strong differing views about it—is the question of CRA and what banks do to meet their CRA requirements.

Senator Gramm and Senator Shelby have both been targets of groups that have come to their homes, demonstrated, trampled down the flowers, what have you, because they were afraid that the position that Senator Gramm and Senator Shelby would take might interfere with the flow of CRA funds to their groups. Many of them are in the education business.

Is it a legitimate activity for the Fed to think about the regulatory oversight, to say that groups or banks could fulfill their CRA requirements by doing educational outreach efforts in the field we have been talking about this morning? Or is that a total disconnect that I ought to forget, with some polite language from you because you are always polite? Is that something that might have some value to it?

Chairman GREENSPAN. First, I better ask our General Counsel whether it is in our statutory authority under CRA?

[Pause.]

This is Dolores Smith, one of our excellent staff, knowledgeable about everything.

Ms. SMITH. There are some educational initiatives that are being sponsored by banking organizations. And to my knowledge, they probably are receiving credit and probably rightly so.

Senator BENNETT. So somebody smarter than I has already thought of it. The next question is, does it make any sense to think about expanding it?

Chairman GREENSPAN. Well, my judgment about the whole question of CRA financial education and all of the relevant issues that surround it, is that we underestimate the importance of financial education in reaching the goals which CRA and the whole array of consumer regulatory structures endeavors to achieve.

Ideally, if everybody were fully rational and looked after their own self-interest, the banks would not be leaving money on the table, so to speak, in not granting loans to a number of neighborhoods from which significant profits could be achieved. And what we have found, as a number of people have begun to understand, is that lending throughout the area of a bank's community will maximize earnings.

Similarly, we find that a number of people have absolutely no insights into numbers per se, and you will get effects of that, for example, in all the areas where the Chairman has been focusing with respect to predatory lending. Predatory lending is not something which would happen if everybody knew what they were signing and knew, indeed, what they were doing.

Senator BENNETT. That is correct.

Chairman GREENSPAN. Here education is critical. So my view is that if there is one area in the whole consumer affairs lexicon that has been grossly underserved in this discussion that we have been having over the years, it is how do we get people to understand what it is that they are being confronted with?

The only way to do that is to enhance the educational capability in areas related to finance. And that is, basically, simple mathematics, whether it is, as Senator Schumer was saying, that trigonometry may not be relevant, but compound interest is, and that presupposes a fairly sophisticated knowledge of arithmetical relationships.

People may look at a 400 percent interest rate which is in the document that they are about to sign, and they sign it. And you have to ask yourself, why are they doing that? Well, the obvious answer is, they do not know what they are doing. And it is crucially important, to the extent that we can do it, to enhance the educational capability of the American people because, as this financial system becomes ever more complex, the issues are going to become far more difficult to deal with and we need education to keep up with the complexity of the system.

Senator BENNETT. Thank you. I just had a memory as you talk, I learned how to write out a check, which I had never done before and suddenly had to have a checking account, from the bank that gave me the checkbook. The bank official sat down and could tell that I really did not have a clue as to how to deal with this and he explained to me how to write out a check.

Now that is something that I could have learned in 6th grade. It is not that difficult. But it was the financial institution I was dealing with that gave me that information and how to write it out and how to keep the checkbook balanced and so on.

So, I agree with you that it is to the bank's self-interest, that is, the legitimate bank as opposed to some of the predatory institutions that we have been talking about, self-interest that their customers be as informed as possible. And CRA is something that banks are always looking for ways to qualify in, and I would just encourage you to see what you can do to expand that activity on the part of the banks you regulate.

Chairman GREENSPAN. I think that is a very thoughtful suggestion, Senator. I thank you.

Chairman SARBANES. How do we establish this financial literacy 101 that we would like everyone to go through in terms of trying to educate them?

Where should that happen? Who should do it? Should someone amongst the Government agencies put out a pamphlet that states, what you should know about credit cards that everyone would be induced to read before they took out a credit card? If you want to take it to an extreme, I guess you could say, well, you cannot get a credit card if you do not pass the credit card test. Like you cannot get a driver's license if you do not pass the driver's license test. I am just using credit cards as one example. You could take other examples as well. And you say, you have to pass this minimum standard of knowledge before you can assume these obligations.

We have figures that 78 percent of college students have at least one credit card. Many have four or more. The average credit card debt among undergraduates in 2000 was $2,748. Nine percent of students carried a balance exceeding $7,000.

The number of young Americans between the ages of 18 and 25 who declared bankruptcy in the 1990's nearly doubled from 60,000 to 118,000. Two thousand young people accounted for about 7 percent of the Nation's personal bankruptcies.

Where do we put the finger? I was interested. Senator Carper said, that he was the State Treasurer and his State has undertaken this responsibility of conducting, I gather, a full-scale financial literacy educational program. I would be interested in your thoughts on this.

Chairman GREENSPAN. Senator, we try ourselves to do a lot of it in the sense that we do have booklets on a number of different issues, including credit cards, trying to enhance the financial education.

Chairman SARBANES. If I am a parent, can I write to the Fed and get a package of those booklets and give them to my son or my daughter? I was going to say as a Christmas present, but a lot of people would not think it is much of a Christmas present.

[Laughter.]

Give it to them under some rubric.

Senator DODD. Eighteenth birthday.

Chairman SARBANES. Yes, or something, as required reading.

[Laughter.]

You cannot get your driver's license until you work through these booklets and take the test in the back, for which I have the answers, before I am going to allow you to move ahead and get your driver's license. It sounds funny, but it is really serious. We have people out there taking on these obligations and they have no idea what they are doing.

Chairman GREENSPAN. I agree with that. You do not need to get a package for Christmas. One of the great advantages of technological advance in recent years is it is all online. And people are going to our websites—I guess the regional bank's, as well as the Fed's website, have a very large quantity of such material.

But let me be more responsive, Mr. Chairman, to the substance of your question.

Financial information and financial understanding is derived from simple arithmetic and primarily one must start at the base.

If you do not understand arithmetic, if you do not understand how to multiply, divide, you are not going to understand finance, period.

So it is crucially important that at a very early age, that people understand numbers. I find that a very significant part of the problems that very well-educated people have, when they look at the type of literature we are just discussing, is that they do not understand it.

More importantly, they are embarrassed to suggest to you that they do not understand it. And the reason they do not is they are not used to dealing with numbers, per se. I learned fractions very young because I had to calculate baseball averages.

[Laughter.]

You have to have an incentive to do it, and by the time I got to fractions in school, I was a whiz, provided it had something to do with ratios, usually under point four, because I did not know anybody with batting averages over point four.

[Laughter.]

But the point is that you have to have a numerical base. And I would suggest that it is crucially important—and this probably goes back to grade school and high school—to make financial education even in the simplest form sort of the class right above arithmetic.

In other words, have people actually engage in doing interest, compound interest, know what it is. Indeed, my recollection is that they do that. And I think it develops at the high school level and is really where it has to be because by the time you get to college, if you cannot handle a credit card, it implies a state of knowledge which is really quite inferior to what one should have by that point.

Chairman SARBANES. I do not recall. Is it you or the SEC who has those kits that you send to the middle school math teachers?

Ms. BAIR. Treasury does.

Chairman SARBANES. Is it Treasury that does that?

Ms. BAIR. The Bureau of Public Debt, yes.

Chairman SARBANES. What?

Ms. BAIR. The Bureau of Public Debt.

Chairman SARBANES. What is it called?

Ms. BAIR. Money Math.

Chairman SARBANES. That is it. So it is Treasury that does that.

Ms. BAIR. It is Treasury, yes.

Chairman SARBANES. And you send them out?

Ms. BAIR. Yes, sir, I think over 100,000.

Chairman SARBANES. Why don't you describe that for us, just briefly.

Ms. BAIR. It is a math program for grades 7 to 9 that focuses on money skills. It has been very successful. We have sent out kits to over 110,000 middle schools at this point. It is very much in demand and pretty pervasively used.

Chairman SARBANES. Can we get that? Why don't we get copies of it?

Ms. BAIR. Sure. Absolutely.

Chairman SARBANES. Just so we see what you are doing with the middle school students, so we do not get embarrassed, as Chairman Greenspan says, by admitting that we do not know.

[Laughter.]

But it may be very helpful to us. So we would like to see what you are doing in that regard.

Ms. BAIR. If I could build on what Chairman Greenspan said.

I think there is a prime opportunity pursuant to implementation of the President's education program, which requires that standards be developed at the State and local level in both reading and math, and that there be measures for assessing progress in the standards.

School districts throughout the country right now are dealing with developing those standards. And what we would like to do is encourage them as part of developing the standards and building the curriculum to support the standards, to interweave financial education into that process.

It is good for separate personal finance courses to be offered. But we think, as Chairman Greenspan said, these are fairly complex skills that need to be built upon and offered year after year. And if they can be integrated into courses that are already required in reading and math, we think that that would be an immediate way that school districts can respond to this need for greater financial literacy in a process that they are required to do right now pursuant to the President's education bill.

Chairman SARBANES. Senator Dodd.

Senator DODD. Thank you, Mr. Chairman. Just a few questions.

Just picking up on that, there are some very creative ideas out there. In Lyme, Connecticut, a little town neighboring my town, they have a bank at the grade school where people actually take on responsibilities. It is a very creative, fun thing to do, a lot like what the Chairman was talking about in keeping baseball data.

I know John Henry, the new owner of the Red Sox, describes in detail, I have read stories about it, where as a kid growing up on a farm in Illinois, he would try and figure out the baseball percentages, the percentages of the players, before the papers came out in the morning. It is exactly the same thing he did that developed his interest.

So there are wonderful ways in which people become more knowledgeable about it. I think weaving it into the curriculum as well. Math is an obvious one and reading. But there are other disciplines as well in which understanding financial institutions and history and so forth, the role they played in our history as a Nation can be very, very important as well. Just the paucity of it I think contributes to what we have had.

I just wanted to make a couple of points and a question, if I could, Mr. Chairman.

One is, FASB is located in my State, in Norwalk, and I hear my friend from Alabama and I hear the Chairman. I think Ed Jenkins, for instance, has done a terrific job at FASB. I do not disagree with my colleague from Alabama, either, about the idea of possibly making it a Federal agency.

I want to point out that in a lot of circumstances, and I recall some of them here, when I watched Ed Jenkins sitting at the very table you are, getting blistered by people over pooling and purchasing practices in the accounting area. And he stood his ground, despite the fact that, as my colleague properly points out, these are paid for on a SRO status.

These are very, very good people and they work very hard and have a lot of integrity. There clearly is a need here to improve the accounting standards for how it works and operates. But I did not want this hearing to end on a note where there was the impression that these people were in the tank when it came to the accounting profession because I do not think that is the case at all. Nor do I think, Chairman Pitt, that is the impression you wanted to leave.

Chairman PITT. No, I appreciate your making that point. That is not the impression I want to leave. I actually would place the fault with our agency. I think we have a responsibility to oversee the process and I think we have not done that. That is one of the reasons that it is a high priority on my list when I came into the job.

Senator DODD. I thank you. I want to point out, the Chairman made the point on some of the education efforts that are going on. The State of Wisconsin, I am told, has a very good program and it includes personal finance instruction in the school curriculum, according to the Wisconsin Director of the Office of Financial Education for the State Department of Financial Institutions.

States that include such finance classes in their schools tend to have lower rates of bankruptcy throughout the State. So maybe there are other States that are taking the lead on an individual basis, Mr. Chairman, but I think it is worth noting.

I wanted to ask you, Chairman Greenspan, if I could, I know we are going to have hearings that the Chairman has laid out, a very thorough set of hearings on the Enron issue.

But I wanted to raise an issue for you, Chairman Greenspan, about the pension issue. There has been a lot of discussion about how this ought to be handled. There have been some suggestions. Two of our colleagues, Senators Bingaman and Collins would require employers to make available independent qualified investment advisors to provide financial advice to employees interested in investing in 401(k) plans and the like.

Would you mind just sharing with us some of your thoughts on this issue? This is a very complex issue and one that really has to be handled very carefully, in my view.

Some of the ideas are very tempting because of what you heard happened to these folks at Enron. But I want to be sure that in addressing that issue, we are not going to in some way do real damage to people's ability to invest in their own companies and their pension plans. And I would be interested just as a generic comment what your thoughts might be on the issue.

Chairman GREENSPAN. Well, first of all, Senator, the pension industry in the most general sense is really a relatively recent phenomenon. Aggregate amounts of pension funds invested 30, 40, 50 years ago, were quite small.

It has become an extraordinarily important part of the American economy in the sense that you have people making judgments as to the value of existing assets in the economy, and that is what governs what generates real new plant and equipment, and it creates the overall economic system that we have. So that financial intermediation, which is what it is, has become one of the crucial aspects of the overall American economy, which moves savings into investment.

It is crucially important that that be done efficiently and be done in a way in which not only do individuals put aside monies for their retirement and understand what they need, and this clearly is a crucial issue, but also that it is invested in a manner which optimizes the structure of the real investments which we create in this country.

And I think the issue you raise is very important. That is, to be sure, there are changes which clearly have to be made and I think the President is moving in the right direction on that. But as you make them, it is very crucial to continuously ask the question, what are the secondary unintended consequences of the actions you are taking? Because the system in general has certain obvious flaws, and I guess Chairman Pitt and I could go through a number of them that we perceive that need to be corrected, and I trust that they will be, but even granted those flaws, it is really quite an impressive system and it has carried this country to a very high standard of living. We ought to be very careful about how we approach changes.

Senator DODD. I thank you for that and it is very worthwhile. And I presume that we are going to have a chance to maybe come back and ask you to participate in this discussion with us. Obviously, Chairman Pitt will be here, but it will be very worthwhile to have your thoughts as well.

Mr. Chairman, I just have a couple other questions. Do you mind if I ask them?

Chairman SARBANES. Senator Shelby was next.

Senator DODD. I am sorry. I apologize.

Senator SHELBY. I will yield to him if he wants to finish.

Senator DODD. Well, there were two very interesting articles, going back now to the subject of literacy, that I thought was important, that relate to it, anyway.

One was in *The Wall Street Journal* on January 2. It noted that consumer debt is at record levels. We have all talked about that already. And it raised what I thought was a rather critical question. I just want to read to you very briefly from the article. It says, and I am quoting here:

> In the short- term, consumer spending stimulates the economy. But the usual growth in consumer borrowing during the current recession also poses a danger that at some point consumers will have to divert more and more of their income away from spending on goods and services and toward repaying their debts. Such a shift would slow the economy, reducing the chances of a speedy recovery. That is of course unless consumers defaulted under the weight of all their debt, packing the bankruptcy courts and spreading financial distress among their creditors. Either way, many economists argue that the current mountain of consumer debt is likely to mean trouble.

So, I would like to ask both Chairman Greenspan and Ms. Bair how we might better educate obviously about the issue of consumer debt. And then relate that, if you could, to the second article which appeared in *The New York Times* on January 13. It says here:

> When it comes to saving for retirement, Americans are not rational. They know that they do not put enough away, surveys show. Over a lifetime, people rationally save an optimal amount, mainstream economics holds. Confronted with the reality that people do not save enough, the mainstream has no solutions except to reiterate that people are rational. So whatever they save must be enough. I wonder if you

think that people are currently not saving enough for retirement and that this behavior defies economic interpretations under the rubric of rational behavior.

I wonder if you might comment on both of those and what we might do, and what ideas that we have discussed here to try and convince people that savings—why can't they see that as an attractive alternative to them right now?

Chairman SARBANES. I understand that one out of every seven dollars of disposable income now has to be committed to paying debt, and that is at a very high level historically, that that is a spike up in the debt burden that people have to service and in the amount of their current income that they have to commit, of their current disposable income that they have to commit for that purpose.

Chairman GREENSPAN. Mr. Chairman, I am planning to devote some time to that issue, hopefully, at the Committee hearing that you are going to have on monetary policy oversight because it is a very important question as a global economic issue.

But getting to the microquestion which Senator Dodd raises, economists may argue that if people act rationally, they will do such and such. But there is a premise that is missing in that relationship, that they have to know what to do. The issue of trying to make a judgment given your current level of income, what you expect it to be, what you expect your family obligations to be, and what you would like your post-retirement standard of living to be, are very complex issues to determine no matter how rational you are.

Then you begin to put into that mix, the question of what interest rates you expect, what do you expect in equity price values, and it is an extraordinarily complex calculation.

People who are in the business to do it well, if they come off even remotely forecasting what happens in the future at all, are pleased.

So it is a very complex and difficult issue and it is at the root of the notion of financial literacy. Indeed, all of the tools that we talk about with respect to financial literacy converge on the question of how one saves for retirement, in what form and in what manner.

And I should think that the general thrust of where we ought to go, if we did nothing but say how should people effectively save for retirement, what they would learn in the process of making those judgments would serve them well in virtually every other activity relative to finance that they are apt to confront in their lifetimes.

Senator DODD. I just wondered, too, in the first statement about the danger where people, instead of investing in goods and services, the debt becomes such that they are just paying off debt and economists arguing that this is, of course, the opposite effect.

Chairman GREENSPAN. Well, first of all, let me just say that you could be perfectly knowledgeable, you could be perfectly rational, and decide to build up a very large credit card debt at the age of 20, in the expectation that you are going to be earning some extraordinary amount of money and be able to pay it off within 2 years.

Now, you may be right. You may be wrong. But you can do that rationally. The issue is, people do not understand the risks that they confront. And I think part of financial education is a very healthy examination of history. History suggests that caution is often a very useful activity.

Ms. BAIR. If I could just add, I think that a lot of people, in Senator Bennett's example earlier, in the course he taught, a lot of people do not understand that it costs money to borrow money, and the longer you take to pay it back, the more it is going to cost you. Again, it goes back to fundamental lack of understanding of compound interest, how it works for you if you are saving, how it works against you if you are borrowing.

Again, the problem comes back to financial literacy. We think in the long-term, the best way—it is a problem of epidemic proportions, as those numbers indicate. In the long-term, getting more financial education in the schools we think is going to be cheated a solution because it is the best thing we can think of to reach a very broad segment of society.

In the short-term, for the adult population that currently lacks adequate financial skills, we think workplace education programs hold a lot of promise. DOL has done a lot of good work in that area.

There is a tremendous amount of resources currently available. Chairman Greenspan and the Fed have a fabulous website, but people are not using it. Or if they are trying to use it, they do not understand. They do not even have the basic skills to absorb the resources that can be provided.

I would also like to add, I think that this has been overlooked in the press accounts of the President's retirement security proposals that he unveiled last week. The financial education is a key component of that. One of the proposals is to require that all plans provide quarterly earnings statements so that there is better and more timely information about your assets values in your individual accounts. We are also going to be requiring specific disclosures about the value of diversification, the dangers if you do not have a diversified portfolio. And again, providing that kind of information through the workplace where your employee is kind of a captive audience to be able to disseminate the information, we think is going to be effective.

Senator DODD. That is a good idea. Senator Sarbanes, I recall, and Senator Shelby as well, back years now, but when we had some of the truth-in-lending proposals and the credit card legislation. Just even getting on the solicitations to let people know what annual fees would be, what interest rates would be and so forth, in clear, bold lettering, even putting examples of what would happen if you borrowed a certain amount and you only paid the minimum each month, what you are ultimately going to be paying. Just letting people know in those simple examples, I have to tell you, it wasn't easy. There were huge battles over this.

So there is a long history here, unfortunately, of financial institutions resisting things as simple as just putting people on notice as to what their obligations were in the solicitation, period. So, I just mention that as background. But, anyway, thank you very much.

Chairman SARBANES. Senator Shelby.

Senator SHELBY. I am not here to assault the accounting profession, per se, but I am here to call into question a lot of practices that have brought about the payment of billions of dollars because of accounting failures and flawed accounting and so forth. I think that is part of our obligation. I also believe that is part of the SEC's obligation, and I know he will do the job because he is well prepared for the job that he holds now.

Who is in the tank here? Obviously, it is the investors that are in the tank if they do not have accurate information, notwithstanding how educated they are on financial dealings. If they do not have accurate information, something is wrong. Who else is in the tank? Pension holders. We can go on and on. But who is really at risk? The capital markets are at risk because people will shun them because the average person will not have confidence in them.

And I think there is a lot of people in America and the world looking at our markets today. We have always been told by your predecessors and others that the SEC was on top of things. They root out the evil in it, the fraud in it. But I think we cannot have business as usual in the accounting profession that we know and have relied on for a long time. I believe that there has to be a resolution to it, a strong resolution, not just move on to the next story. I believe either the SEC will have to step in here with higher standards or something, or we will have to step in in some way. Sometimes it calls for that.

The SEC, as I understand it, is the watchdog, to use a term, over the capital markets. And you have a lot of power ultimately over the accounting profession, as we know.

I think the facts, Mr. Chairman, call for a resolution. I know you will have hearings on this and other hearings. But I think the bottom line, you will ask, is can the accounting profession police themselves? That is going to be one argument and say, gosh, these are great people and a lot of them are. But can they police themselves, or will they have to be policed? I do not think today it has shown that they can police themselves. I will have to be shown.

So, we know something is wrong. I also believe you cannot mandate honesty. You cannot legislate honesty. But you can set the standard so high at the SEC and the accounting, legal profession, medical profession, that when people really try to game the system, beat the system, or bordering on fraud, if not perpetrating fraud, that if they are made examples of, it sends a notice to everybody else. I believe, to say the least, the accounting profession is on trial in a big way right now.

Thank you, Mr. Chairman.

Chairman SARBANES. Thank you very much, Senator Shelby.

In drawing to a close, let me note that the Committee will continue examining this subject tomorrow with a panel of witnesses, including representatives from the Americans for Consumer Education and Competition, from the Consumer Federation of America, from the American Savings Education Council, from the American Association of Retired Persons, and from the National Council of La Raza and additional witnesses.

On Thursday, we will look at the Superior Bank failure. We asked at the time for the Treasury Inspector General, the FDIC Inspector General, and the GAO to examine that situation. They have prepared a report. So, we will receive their reports on Thursday of this week.

Beginning next Tuesday, the Committee will start a series of hearings on the various issues that have arisen out of Enron and similar situations that have occurred, which will continue on through the rest of the month and into the month of March. And we hope or intend through those hearings to lay a comprehensive basis to examine the situation with an eye toward what systemic or structural changes are necessary in order to either prevent or at least substantially minimize the chances of similar reoccurrences in the future.

Now lots of people are running around pointing fingers at lots of other people. It is interesting to watch. But we hope through this set of hearings, a really very thorough and careful set of hearings, to develop the substantive basis for making these judgments in terms of what ought to be done about the future to give the public some confidence and assurance about the workings of our financial markets.

It is an important strength of the American economy and if that confidence erodes, it has not only the consequences, the very tragic, human consequences that we are seeing every day, but in my opinion, it also has severe implications for the overall workings of the economic system. So, we need to obviously move on this matter and move in a way that really puts in place important remedies.

I want to thank the panel very much for coming. It has been very helpful.

The hearing stands adjourned.

[Whereupon, at 12:00 noon, the hearing was adjourned.]

[Prepared statements, response to written questions, and additional material supplied for the record follow:]

PREPARED STATEMENT OF SENATOR PAUL S. SARBANES

Today, we hold the first of two hearings on the state of financial literacy and education in the United States. We are especially pleased to have as our distinguished witnesses Secretary of the Treasury O'Neill, Chairman of the Federal Reserve Greenspan and Securities and Exchange Commission Chairman Pitt, all with significant expertise on this subject.

This is the first time that our three witnesses have joined in testifying before the Committee since September 20. As many of you may remember, the Committee had scheduled a first hearing on financial literacy for that day, but in the wake of the terrible assaults of September 11 we asked our witnesses instead to discuss with us the state of our financial markets and the measures taken to assure the timely reopening and normal functioning of the markets. That market operations resumed after only the briefest interruption, and that on the day trading resumed the New York Stock Exchange handled the largest volume of transactions in its history reflect the highest levels of commitment and expert coordination on the part of dedicated public servants, and we are all grateful for their efforts.

I do not want to suggest that financial literacy is a magic solution that will solve all the problems consumers face in making financial decisions. It will mean little without a framework that also includes strong legal protections, vigorous enforcement, and best industry practices with responsible credit availability. Here I agree with the three-pronged approach outlined to the Committee last year by Roger Ferguson, the Vice Chairman of the Federal Reserve Board: "Legislation, careful regulation, and education are all components of the response to these emerging consumer concerns."

Indeed, there is substantial evidence that Americans do not have an adequate basis for making sound decisions about their personal and household finances, especially given the myriad choices they face. A number of organizations have sought to assess the level of Americans' grasp of financial matters, and their survey evidence consistently shows gaps.

We know what some of the costly consequences of financial illiteracy are:

- Increasing reliance on the high-cost fringe-banking sector by men, women, and families.
- Accumulation of dangerous amounts of credit-card and household debt.
- Inability to save, to build a nest egg.
- Inability to plan for a secure retirement.

I am particularly concerned about the consequences for American consumers of inadequate financial education. These include:

- Millions of people in this country without bank accounts. These people are, in effect, "unbanked," a status which carries with it a heavy financial penalty. To conduct even the most essential transactions, like paying bills or cashing paychecks, unbanked Americans must rely on financial operations which have large and often hidden fees. Furthermore, without access to banking facilities they face serious obstacles to saving and accumulating assets, and to building credit.
- The growth of various predatory lending practices such as yield spread premiums, single premium credit insurance, and payday lending. Financial under-education contributes to an environment in which consumers are vulnerable to unscrupulous lenders who overcharge and hide the costs.
- The exploitation of remittances. Millions of Hispanic and other workers support families in their home countries by sending a portion of their earnings home in the form of remittances. This has long been a common practice among newly-arrived Americans. Today's workers must pay high fees for the service, as much as 20 percent in some cases, and they are given an exchange rate which is both highly disadvantageous and often not disclosed.

If financial literacy is important in the short-term, as we go about the business of our daily lives, it is critical to our future. It is constantly asserted that Americans are too often spending for consumption now, with little thought to the years ahead. America's personal savings rate has averaged an anemic 1.6 percent for the last year, while consumer debt has grown at a much faster rate.

While some may note that asset growth, particularly in the stock market, has made up the difference, recent events demonstrate that constant growth is by no means certain. Increasingly Americans are highly leveraged, borrowing to spend beyond their incomes, without a cushion to fall back upon. In uncertain economic times or a downturn, like the present, the problem becomes especially acute.

We also know that the largest generation in this Nation's history is approaching retirement. One example of the challenges facing us with respect to retirement is the status of women who face particular financial challenges as they grow older. Millions of women through widowhood or divorce find themselves in charge of their household's finances at or near retirement age, without having received any financial education. These women are then expected to make complex financial choices which will affect them throughout their retirement.

These hearings, which have long been in the planning stage, take on a special urgency in the context of our present circumstances. The economy is in recession, and its future course remains unclear. Recent events in the markets threaten to undermine the confidence on which the functioning of the markets depends.

Higher levels of financial literacy will help Americans approach the decisions they must make in a responsible and productive manner; they will also reinforce the efficiency of the economy. The time has come to bring the public and private sectors together in a national strategy to raise the level of financial education in the Nation. Our hearing is a first step in that direction.

We are fortunate that a number of organizations have been working toward this end, and we will hear from many of them tomorrow. We begin, however, with our three public-sector witnesses who are uniquely qualified to assist us in examining the question of financial literacy. We will hear from Secretary O'Neill, whose testimony reflects his strong commitment to improving the level of financial education in America. Next, we will turn to Chairman Greenspan, who has highlighted the importance of this issue on many occasions. For example, in an address to the Fed's Consumer Affairs Research Conference last year he stated that:

> Efforts to increase awareness of, and access to, information that promotes financial literacy are increasingly seen as necessary to ensure that consumers can meet their immediate obligations, as well as achieve their broader goals of buying a home, funding higher education for themselves or their children, and preparing for retirement.

Finally, we will hear from Chairman Pitt, whose agency oversees transactions in our capital markets. The SEC bears a unique responsibility now, when, for the first time in our history, more than half of our population qualify as investors, either directly or indirectly. Many of these Americans have had little preparation for the weighty responsibilities that have been placed before them.

I thank them for their willingness to appear this morning, and I look forward to their testimony.

PREPARED STATEMENT OF SENATOR JON S. CORZINE

Mr. Chairman, I want to thank you for holding this important hearing on the issue of financial literacy. It is an issue that was a concern of mine long before I became a Member of the Senate, and I applaud you for making this issue a priority.

I would be remiss if I did not take this opportunity to thank my colleagues, Senators Akaka and Enzi—who cosponsored a financial literacy amendment I authored that was included in ESEA ("The Elementary and Secondary Education Act"), the education reform bill that the President recently signed into law.

Providing financial education to our Nation's young people must be a priority. Indeed, it is time for our schools to make a more concerted effort to prepare our children for success in new ways—including their future financial decisionmaking.

Today, it is as important for young people to learn about staying out of debt, maintaining good credit and building up their savings as it is for them to learn about geography, science, and history. I might add that I personally was never too good at the latter.

While we have taken an important step in getting financial literacy included in ESEA, we still have a long way to go. Despite our best efforts, the divide between those who lack basic financial literacy skills and the "financially savvy" continues to grow. We can, and must, do more.

A recent nationwide survey by the Jump$tart Coalition for Personal Financial Literacy found that a mere 36 percent of surveyed high school students could correctly answer basic personal finance questions—and only 33 percent of these students viewed financial issues as strongly affecting their lives. These responses demonstrate the need for us to continue to encourage financial education in both the elementary and secondary schools.

The amendment we included in the ESEA bill will help toward that end by allowing elementary and secondary schools to apply for Federal funds to promote financial education as part of the basic educational curriculum. But Mr. Chairman, as you seek to make clear through these hearings, financial literacy is not just an issue for our youth. Financial literacy should be a lifelong goal.

It is essential for families, and it is crucial to the success of families moving off of welfare and into work. If we truly expect to move these families to financial independence, we must give them the tools they will need to make that transition. We must address financial education on a national level, but help to make it a priority locally.

While our Federal welfare Temporary Aid to Needy Families (TANF) focuses on moving families off cash assistance and into work, it fails to provide recipients with the tools they need to maximize their earnings and manage their expenses in order to achieve financial stability.

I plan to introduce legislation that would do just that, by requiring States to provide financial education as part of their welfare programs. In fact, I would echo remarks recently made by Chairman Greenspan, who said:

> Educational and training programs may be the most critical service offered by community-based organizations to enhance the ability of lower-income households to accumulate assets.

In addition to the needs I have previously outlined, we must also seek to expand on programs like the First Accounts Initiative, a program established by Former President Clinton that is geared toward reducing the number of unbanked families in America. Today, approximately 12 million households remain outside the financial mainstream.

We need to emphasize financial education, and more specifically consumer education, for our seniors, who are often targeted by scam artists and others who seek to profiteer from their life's work. It is unconscionable that financial exploitation is the largest single category of abuse against older Americans. Education can help reverse this alarming trend.

And I hope that my colleagues will join me in support of legislation I am developing that will focus on consumer and retirement education for our seniors. This will particularly help senior women, who have substantially lower Social Security and pension benefits than men do because of the work years they lose serving as primary caregivers, according to the Older Women's League (OWL). And there is more to do.

We must seek to provide financial education for those who are the targets of unscrupulous predatory lenders. These individuals seek to strip the equity from the unsuspecting homeowner and also seek to take advantage of many first-time homebuyers.

Finally, Mr. Chairman, one of the things that the Enron debacle has crystallized is the need for better investment education for our workers. The freefall of the company's stock hurt thousands of the company's employees by financially devastating their 401(k) accounts. Many of these individuals lost their entire life savings. If Congress is to address the issue of pension reform, we must ensure that these accounts are properly diversified, and provide investment education for workers where the adviser does is independent and free of conflict.

As I said earlier Mr. Chairman, we have done a great deal. But a great deal more needs to be done. I want to thank you again for holding these hearings and for your commitment to ensuring that financial literacy becomes a national priority.

PREPARED STATEMENT OF SENATOR MICHAEL B. ENZI

Thank you, Mr. Chairman, for holding this hearing. I would also like to thank our very distinguished panel. I know you all have very busy schedules, and I appreciate your taking the time to offer your insights on this subject. I think the fact that you have taken the time to come here today highlights the importance of this issue.

It is imperative that we focus on financial literacy. While we continue to provide incentives for additional education, I believe financial education is an area where we lack focus.

However, we have seen improvements. I am encouraged to see the increase in public-private partnerships. For instance in my home State the Wyoming Community Development Authority and Fannie Mae have joined to educate on first-time homebuying. In fact, they are about to service their 1,000th customer in Wyoming. In addition, UNIWYO, a credit union in Laramie, Wyoming, has begun a program through the National Endowment for Financial Education to educate their membership. These types of programs have proven very effective in educating the public in the areas of finance. I applaud all of the financial institutions who have taken it upon themselves to reach out in their communities to provide financial literacy programs.

I am proud that Wyoming acknowledges the need for financial literacy. Wyoming has requirements that students must demonstrate proficiency in financial management skills before graduating from high school. This is compared to a national survey in which 82 percent of high school seniors failed a personal finance quiz.

The Enron situation has raised the profile of financial literacy. With so many employees losing their retirements through their 401(k) plans, we need to remind employees and emphasize to them not to put all of their eggs in one basket. Those employees needed to diversify their retirements, but unfortunately they trusted the same executives who were over-inflating the company's profits while paying themselves millions of dollars in compensation. These employees would be in much better financial condition had they moved some of their stock into safer, long-term investments.

I do believe that the Federal, State, and local governments can and should do more to assist in this endeavor. Last year, during the Elementary and Secondary Education Authorization legislation, Senator Corzine and I offered legislation that allowed financial literacy programs an allowable expense under the Local Innovative Education Programs. I am happy to say that this amendment was accepted and was signed into law last year by President Bush.

Financial literacy is something that is needed over a broad range of income levels. No matter how much one earns, money management is a necessity. It is something we need to begin emphasizing in grade school and continue all of the way through high school. It should not stop there. Financial education should be something we continue to concentrate on for our entire lives.

Again, Mr. Chairman, I want to thank you for holding a hearing on this most important topic. I look forward to hearing from our distinguished panel, and I look forward to working with you on this in the future.

PREPARED STATEMENT OF SENATOR DEBBIE STABENOW

Thank you, Mr. Chairman. I am glad that you have called this hearing. As you have pointed out, financial literacy is so critical. It is as necessary in today's world as basic reading and math skills. Unfortunately, it often does not get the attention it deserves.

Last December, back in my home State of Michigan, I attended an event at Eastern High School in Lansing where the Michigan Jump$tart Coalition for Personal Financial Literacy released the findings of a statewide survey in conjunction with the National Institute for Consumer Education.

What we learned was disturbing. Michigan's high school seniors generally did not have a strong grasp on basic personal finance concepts related to saving and investing, money management, and credit.

I doubt our students are much different from students around the country.

One interesting finding in the study was that students who participated in the Stock Market Game, a national investment game, did better in the survey than students who completed an entire course in money management or even an entire course in economics. This seems to indicate that reality-based, interactive learning curriculum is critical to instilling basic financial literacy concepts in our students. This finding is a lesson that I hope that educators and other policymakers will explore more thoroughly.

Mr. Chairman, if we are to improve financial literacy, then we must make it a priority in our schools. The education bill that we passed not too long ago establishes a national financial literacy clearinghouse and I hope that will help us to streamline our education efforts.

In addition, I am happy to note that, in my State, the legislature is moving forward, in a bipartisan way, to make financial literacy a priority. The State House of Representatives, last month, overwhelmingly passed a bill to ensure that the State Department of Education establishes model programs in financial education. The bill also makes it clear that Michigan schools should set aside Federal education funds specifically for financial education programs. I hope the State Senate will act quickly on this proposal.

Consistent with this emphasis on financial literacy, in Michigan, we test our students on economic concepts in the 5th, 8th, and 11th grade as part of the Michigan Educational Assessment Program. It is so important that we continue to do this throughout elementary and secondary school. Economics should be an integral part of the curriculum at every age level in every part of our country.

Mr. Chairman, while the kindergarten through 12th grade period is an important time to educate the public, we in Michigan and around the country need to look at improving financial literacy among adults as well. The financial illiteracy of adults in this country is both startling and troubling. And it makes too many in our society vulnerable to predatory lending practices. That is why I was so pleased to join with Freddie Mac last year in launching the antipredatory lending campaign "Don't Borrow Trouble" in Southeast Michigan. Freddie Mac is a real leader in educating our public about their rights and responsibilities when buying a home.

I hope that Freddie Mac, and its counterpart, Fannie Mae, will continue to be leaders in tackling abusive lending—especially as the two companies move increasingly into the subprime market.

Mr. Chairman, I look forward to hearing from our witnesses today. I hope that this set of hearings is just the beginning. I want to work with my colleagues, community groups, financial services companies, and consumer groups to make financial education an on-going effort.

We need more campaigns like "Don't Borrow Trouble."

Campaigns for managing credit card debt and for keeping a good credit rating. And it must be done in a sustained and coordinated way. That is the way we did it in Detroit. We brought everyone to the table, assessed the community's needs, and implemented a program.

Furthermore, we need the financial services community to step up and reach out to the "unbanked" and "underbanked" even when it is not their most profitable demographic group.

We need to improve financial literacy to help my generation, as well as our children and their children better understand saving and investment needs and to help plan appropriately so that retirement years are comfortable times—not a time when people have to choose between necessities like food and prescription drugs.

All of this is possible and I hope today will be an important step forward.

Thank you, Mr. Chairman.

PREPARED STATEMENT OF SENATOR DANIEL K. AKAKA

Thank you, Mr. Chairman, for convening this first hearing on the state of financial literacy and education. I welcome Secretary O'Neill, Chairman Greenspan, and Chairman Pitt to this morning's hearing. I look forward to your views on this important subject. I also eagerly anticipate tomorrow's hearing where we will hear from seven witnesses from organizations working in the field of financial literacy and education.

Mr. Chairman, I became actively involved in this issue in 1999, after reading an article in *Parade Magazine* featuring the study on financial literacy conducted by the National Council on Economic Education. The disturbing results of that study caught my attention. In a basic economics test, half of the adults and two-thirds of the high school students received failing scores. More than half of the students and adults did not have a basic understanding of economic concepts such as money, interest rates, and inflation. Also, a majority of the adults and students did not know that a budget deficit occurs when the Federal Government's expenditures exceed its revenue for the year. After reviewing these test results, I investigated further the lack of financial literacy in our society.

Americans of all ages and backgrounds face increasingly complex financial decisions as members of the Nation's workforce, managers of their families' resources, and voting citizens. Many find these decisions confusing and frustrating because they lack the tools necessary that would enable them to make wise, personal choices about their finances.

Increased education about basic economic concepts will help people to make better financial decisions and increase opportunities for participation in today's global economy. All citizens need to be prepared, starting from youth, to make informed decisions regarding fundamental undertakings such as purchasing a first home, financing a college education, and saving for a comfortable retirement. Arming citizens with basic economic knowledge and the ability to find the specialized information they need has the potential to increase the chance that citizens can realize their financial goals. According to Mr. Lewis Mandell, Dean of the State University of New York at Buffalo, if we fail to provide children with a sound understanding of personal finance, we can expect them as adults to make financial missteps, misjudgments, and errors which can lead to poor retirement planning, clumsy investing, debilitating debt, and even bankruptcy.

Increasing the financial literacy of citizens can provide numerous benefits. For example, a greater understanding and familiarity with financial markets and institutions will lead to increased economic activity and growth. A greater citizen awareness of economic issues will lead to expanded participation in our political system. Most importantly, financial literacy empowers individuals to make wise financial decisions and reduce the confusion of an increasingly complex economic society.

The reauthorization of the Elementary and Secondary Education Act included the Excellence in Economic Education Act as an amendment, which I introduced along with my colleagues Senator Corzine and Senator Enzi. This legislation will significantly improve the knowledge of fundamental, yet critical, economic principles among our country's young people. The measure aims to increase student knowledge of, and achievement in economics by providing our Nation's teachers with the tools to enhance teaching methods of economics. The legislation authorizes funding for teacher training programs and increased resources to States for the purpose of incorporating economics into the K–12 curricula. This legislation encourages economics-related research and development, dissemination of instructional materials, and replication of best practices and programs. It also increases private and public support for economic education partnerships between schools and local businesses and private industry.

I was also pleased to support another financial literacy amendment sponsored by Senator Corzine that was also included in the legislation. Today's hearing is the beginning of a national dialogue on financial literacy and education. I applaud the efforts of Secretary O'Neill, Chairman Greenspan, and Chairman Pitt to bring attention to this issue, and I look forward to your recommendations on how to increase financial literacy.

Thank you, Mr. Chairman, for convening these hearings on financial literacy.

PREPARED STATEMENT OF SENATOR THOMAS R. CARPER

I would like to thank Chairman Sarbanes for scheduling this hearing on this important topic. I believe that financial literacy is essential for consumers in the new economy.

I would like to commend Delaware's State Treasurer Jack Markell for the remarkable job he has done in our State to promote financial literacy. He has created the Delaware Money School, which provides community-based financial education. Financial professionals volunteer to teach classes on subjects that include money management and debt reduction, investing, retirement planning, and managing life changes. This winter alone the Delaware Money School will offer over 80 classes throughout the State, most of which are free. The Money School also has a website, *www.delawaremoneyschool.com,* which offers online registration for the Money School, and useful financial literacy links to governmental, educational, and private organizations.

Last November, State Treasurer Markell hosted a free money conference for kids and their parents at the University of Delaware. On a Saturday morning, approximately 500 people, including children in grades 4–7 and their parents, attended the conference. Treasurer Markell is committed to teaching the children of Delaware the three S's (saving, spending, and sharing or giving to charity).

Also in Delaware, local banks have partnered with 21 elementary schools to promote and teach the importance of saving. The program, called Bank at School, is sponsored by the University of Delaware's Center for Economic Education and Entrepreneurship and the Delaware Chamber of Commerce. It allows students to open and manage savings accounts while at school, and includes a teaching program developed by the University of Delaware. The program is very successful with over 2,500 children participating.

It is clear that financial literacy is important. However, recent events have shown that literacy is not enough. Even the most sophisticated investor cannot be expected to divine the truth from false financial statements and disclosures, nor can the ordinary investor be expected to know that some analysts recommendations are based not on objective analysis, but on a willingness to bend the truth to attract investment banking business. These issues are not new, and recent events merely bring them front and center. I know that the Committee will be holding hearings on the issues raised by the collapse of Enron, and I look forward to exploring these issues at those hearings.

Thank you, again, Mr. Chairman, for holding today's hearing.

PREPARED STATEMENT OF SENATOR TIM JOHNSON

Mr. Chairman, thank you for holding this hearing into the importance of financial literacy. It is clear from the distinguished panel before us today, including Secretary O'Neill, Chairman Greenspan, and Chairman Pitt, that you have identified an issue that merits the attention of our Nation's top policymakers. Thank you all for joining us today.

Mr. Chairman, America is a great country. And part of what makes our Nation great is the opportunity that we all have to make something of ourselves. Americans love rags-to-riches stories, because they represent the best of what this country has to offer—opportunity for all.

But opportunities are limited for those who have not had access to education. Just as basic illiteracy limits the professional and personal opportunities for far too many Americans, financial illiteracy has limited the economic success of an even larger group. In fact, financial illiteracy of a surprisingly large segment of our population has in all likelihood impaired the success of our marketplace, and not just of those individuals. That is why we should all be concerned, and so many players in the industry have stepped forward with valuable educational programs. Yet clearly, more needs to be done.

As the terrorists responsible for September 11 recognized, America's free markets are a central driver of this Nation's economic prosperity. Yet as a student in a first year economics classroom will tell you, markets function smoothly if, and only if, full information is both freely available and able processed correctly.

On the consumer side, if a person lacks basic financial literacy, no amount of information will help him or her make a good financial decision, whether it be the choice between a fixed-rate or adjustable-rate mortgage, or whether to buy or lease a new car, if that person lacks the basic skills to analyze the information. Of course, we need to be ever-vigilant to make sure that information is conveyed in plain English. But we face a great challenge to make sure that all Americans, starting with our children, are taught how to make sound financial decisions.

Of course, for information to be useful even to the most sophisticated consumer, it must be accurate. And as we are all very much aware, recent events have called into question the accuracy of publicly-available information. Without moving too far afield from today's subject, I would urge that we in Government put our heads together to figure out a way to ensure that our public companies and accounting firms, most of which are upstanding corporate citizens, comply with our laws.

As Chairman Pitt knows better than any of us, the SEC plays a critical role in overseeing the information that keeps our markets functioning smoothly. And I am sure he shares my disappointment that, despite the Senate's action in passing H.R. 1088 in late December, President Bush chose not to set aside money in this year's budget to bring SEC salaries to parity with the other Federal banking agencies.

We passed that bill in large measure because we were concerned that in the past 3 years, more than one third of all SEC employees have left the agency. There is simply no question that without qualified employees, who have experience and institutional knowledge, the SEC will falter. In fact, it is not an overstatement to say that a strong SEC is an integral part of our Homeland Security. And money should be made available to ensure that the guardians of our markets are not paid less than those minding our banks.

Mr. Chairman, we are here today because we recognize that America's economic well-being is a topic that should command the attention of our top policymakers. I thank you for calling attention to the role that financial literacy plays in our economic and social success. I look forward to hearing from our very distinguished witnesses.

PREPARED STATEMENT OF PAUL H. O'NEILL

SECRETARY, U.S. DEPARTMENT OF THE TREASURY

FEBRUARY 5, 2002

Introduction

Chairman Sarbanes, Senator Gramm, distinguished Members of the Committee. Thank you for the opportunity to appear before you this morning to talk about the vital importance of financial education. I am especially pleased to do so in the company of Chairman Greenspan and Chairman Pitt. Mr. Chairman, I commend you for focusing a national spotlight on this critical topic, which is so closely linked to our economic future. It is one, I might add, in which I have a deep and longstanding personal interest.

In his inaugural address, the President stated "[t]he ambitions of some Americans are limited by failing schools and hidden prejudice and the circumstances of their birth. We do not accept this, and we will not allow it." Ownership, independence, and access to wealth should not be the privilege of a few. They should be the hope of every American. Financial literacy is an essential tool to make that hope a reality.

Need for Improved Financial Education

The U.S. financial system commands the respect and admiration of the world in large part because of the widespread availability of low-cost, high-quality financial services. Technology and innovation have made possible a rich diversity of financial products to meet the individual needs of millions of American households and businesses.

Today's expansive menu of financial product offerings, however, has added complexity to the decisions Americans must make in choosing the financial products that best serve their needs. I recall a time not so long ago when, for a large number of Americans, mortgage rates were fixed, savings went into a bank passbook account, consumer goods were bought on a cash-only basis, and pensions all had defined benefits for retirement. Today, mortgage financing comes in a variety of packages, credit card use is universal, and savings investment vehicles range from CD's to mutual funds to individual stocks to annuities. Moreover, the importance of knowing how to invest savings wisely has risen exponentially with the decline in popularity of defined benefit retirement plans.

To be sure, the evolution of our Nation's financial system has created wonderful new opportunities for Americans to meet their needs as consumers, while at the same time, building wealth and security for their and their families' economic futures. However, Americans need to be fully prepared and financially educated to take advantage of these opportunities. If we do not understand the most important concepts of personal finance, such as how to budget, save, invest, and use credit wisely, then we are missing our full potential as individuals, as well as our potential as a country.

We have significant room for improvement in the area of financial education. Recent studies illuminate this fact. In one test of financial basics given to high school students, the average score was a disappointing 51 percent, with only one-tenth of students scoring above 70 percent on the exam. Remarkably, only 50 percent of high school students understood the concept of compound interest. Results were similarly disappointing when adults were tested: their average score was only 57 percent.

There is a tragic human and personal cost that our society pays for this lack of financial knowledge. All of us know family or friends who have had money problems at some stage in their life. We all know the terrible price in suffering, stress, and humiliation that is faced by those in financial trouble. Four in ten Americans admit they are living beyond their means, primarily because of the misuse and misunderstanding of credit. Between 1990 and 2000, personal bankruptcies rose by 69 percent, again stemming primarily from credit misuse.

A lack of financial knowledge is especially problematic for the most vulnerable members of our society. The poor, the elderly, and minority groups can be victims of fraud and deception, predatory lending, and other such abuses. Financial education is a crucial weapon in our arsenal to protect our citizens from these types of attack. Understanding personal finance is a consumer's first line of defense against financial rip-offs and scams. Those most vulnerable to these attacks are precisely the people who have the most to gain by a concerted nationwide effort to raise Americans' level of financial knowledge.

Current Efforts to Address the Problem

Considerable efforts are being made in the private and public sector to promote financial education. Our staff has completed a list of financial educational resources offered by the various Federal departments and agencies that is attached to my testimony for inclusion in the record.

As the attached document shows, no fewer than 10 Federal departments and agencies, including the Treasury Department, offer a wide variety of financial education programs and resources. In addition, many States, Wisconsin, Maryland, and California, to name a few, have taken initiatives to raise the level of their residents' financial knowledge. Similarly, financial service providers have made extensive efforts in the banking, securities, and insurance industries to teach the public how to properly use their products.

Faith-based organizations and community groups have also promoted financial education. As we all know, talking about money, and especially about the state of one's own finances, can be difficult. Faith-based and community organizations tend to foster the trust necessary for their members to discuss these personal matters with them. Such groups can encourage people who have never saved before to begin saving; to think twice about making an impulse purchase; or to consider more deeply the need to focus not only on short-term consumption, but also on long-term investment.

A Focus on the Schools

These current efforts are important, yet much more needs to be done if we are to significantly raise the ability of Americans to more effectively master their financial lives. To be sure, our national strategy must address the financial educational needs of Americans in all walks of life. This morning, however, I would like to focus in particular on the need for more financial education in our Nation's schools.

No better venue exists for us to reach such a large segment of the population than through our schools. No better mechanism exists for providing our Nation's youth with the educational building blocks they will need to become competent consumers and managers of household wealth. By beginning the financial education process early, we can equip our youth with a foundation for making sound financial decisions throughout their lives. Indeed, in those States that have begun requiring personal financial education in high school, research shows that high school graduates have higher savings rates and higher levels of net-worth.

Of course, financial education must begin with basic literacy. A child with insufficient reading skills will never be able to comprehend a credit card application or a Truth in Lending disclosure. A child lacking basic math skills will never be able to balance a checkbook or compare credit card interest rates. Financial education programs will be successful only for those children who have mastered basic academic skills. This is one of the reasons why it was so important for the Congress to pass the President's education bill—the No Child Left Behind Act of 2001—signed into law on January 8.

This landmark legislation provides the most sweeping reforms of the Elementary and Secondary Education Act since it first became law in 1965. Included among the bill's provisions are requirements that States set high standards for achievement in reading and math and that they test every child in grades 3 through 8 to ensure that students are making progress in achieving those standards. The bill also includes specific language recognizing the importance of financial education efforts by local schools.

State and local educators are now undertaking the process of developing standards in math and reading, and the educational curricula that will help their students achieve those standards. In collaboration with Secretary Paige, I would like to take the opportunity of this hearing to call upon schools to integrate financial education into those standards and curricula—not as a separate discipline, but as a means of exposing children to basic financial and economic principles at the same time they acquire core reading and mathematical skills.

Teaching a child how to balance a checkbook reinforces basic addition and subtraction. Learning how to calculate compound interest provides an excellent way to exercise knowledge of percentages. Reading lessons can include stories about children saving money to buy something special, or getting their first after-school job. For older children, assignments in English literature can easily be structured to include novels that not only build reading comprehension, but also help students explore and analyze principles of economic behavior.

Successfully interweaving financial education into math and reading standards required by the President's education program would be a giant leap forward in helping prepare our Nation's youth to become financially literate adults. In the short run, building financial education into courses that are already required by all schools may be the most expeditious and least expensive way to make our educational system more responsive to students' financial educational needs.

At the same time, such efforts would complement initiatives already underway in several States to incorporate personal finance courses into school curriculums. Mississippi, Illinois, Idaho, and New York have been leaders in assuring that personal finance is at least offered to all students before they graduate from high school. I would also note that legislation or resolutions have now been passed in Tennessee, Delaware, Louisiana, Michigan, and Wisconsin to provide personal finance education courses. And Delaware and Wisconsin have established task forces to review the issue and make recommendations.

A Financial/Educational Alliance

In 1996, I had the privilege of cochairing the Pennsylvania Advisory Commission on Academic Standards. This was a 17 member panel of noneducators, charged by then Governor Tom Ridge with the job of reviewing education standards being developed for Pennsylvania. Our goal was two-fold: to ensure that the concerns of students, parents, and local businesses were considered in developing the standards; and to serve as a reality check, if you will, so that the standards reflected the real-world needs of students once they graduated and entered the workforce. The effort was highly successful and today Pennsylvania is recognized as having one of the highest quality education standards for its children.

Just as Governor Ridge called upon noneducators in Pennsylvania to partner with educators in the successful development of "real world" education standards, I believe the financial services sector can just as effectively partner with State and local educators in the development of financial education standards. For instance State banking superintendents, insurance commissioners, and securities administrators all possess a wealth of expertise and experience to contribute to the development of financial education guidelines. Private financial institutions also have much to offer in terms of expertise, as well as providing a source of additional resources to support teacher training and the establishment of financial education curricula and programs.

At the national level, the Treasury Department is focusing much of its existing financial education programs on youth. Just last year, we launched the *Money Math* program, a personal finance education kit for young people in grades 7 through 9. More than 110,000 middle school math teachers in 16,000 school districts nationwide received the kits free of charge.

In terms of new initiatives, I am pleased to announce that our Treasurer, Rosario Marin, has agreed to organize an effort to recruit the support of State Treasurers in pressing for more financial education in the schools.

In addition, we are working to find a suitable way in which we can recognize, in conjunction with the U.S. Department of Education, local schools that have exhibited high distinction in the area of financial education. By providing a national spotlight for innovative educators who have developed successful programs for teaching personal finance, we hope to motivate their colleagues in other schools to follow suit.

In partnership with the Department of Education, I am willing to do whatever I can to promote financial education in the schools. As all of us know, education forms one of the most important bases of our free and prosperous society, and financial education skills figure prominently in the success with which we exercise our economic freedoms. As a grandfather of twelve wonderful grandchildren, I know well that children are America's future, and I would like to see an educational system that provides all American children with these vital life skills.

Other Areas of Focus

Youth education will not, of course, help the legions of adult Americans whose financial education skills fall short. Let me mention some of the policy issues where we have identified financial education as key to protecting and promoting the financial health of the adult population.

We should extend our efforts on financial education to retirement security. As you know, the President requested that I, along with Labor Secretary Chao and Commerce Secretary Evans examine retirement savings laws to determine whether any reforms are necessary to promote the ability of all Americans to plan for a secure retirement. Last week, the President announced our recommendations, which include proposals to increase the freedom of American workers to choose how they wish to invest their 401(k) assets, as well as to prevent corporate officers from selling company stock during a so-called "blackout" when workers are prohibited from trading in their 401(k) plans. A key feature of our recommendations is to expand workers' access to financial educational resources and professional investment advice, so that they can have the tools they need to make informed investment decisions.

Moreover, investors cannot learn what companies do not disclose. Recognizing that the Nation's corporate disclosure system is not working as well as it should, the President has asked his Working Group on Financial Markets to take a hard look at what we can do to fix it. Chairman Greenspan, Chairman Pitt, CFTC Chairman James Newsome, and I are looking for ways to realign our corporate disclosure and accounting system with its basic purpose—to provide investors with the information they need to make informed decisions about public corporations' financial positions and prospects. Clear, accurate, and comprehensive disclosures are essential to all Americans' ability to invest and save. The key is accountability and responsibility for corporate officers and directors, accountants and auditors. We are committed to the President's call to hold corporate America to "the highest standards of conduct." I am confident that the Working Group's recommendations to the President will point the way to strengthening our disclosure regime.

Financial education is also a centerpiece of First Accounts, a program in which Senator Sarbanes has a major interest. First Accounts is a grant program administered by the Treasury Department and designed to move a maximum number of "unbanked" low- and moderate-income individuals to "banked" status with insured depository institutions. Without basic financial services, low- and moderate-income individuals may have a reduced ability to manage their finances and may be limited in planning and saving for the future.

We issued a Notice of Funding Availability on December 27, 2001, and are providing applicants until March 20, 2002 to respond. In addition, we sent hundreds of copies of this Notice to community groups, faith-based organizations, labor unions in all 50 States, and dozens of financial institutions and their trade associations. We expect to use the First Accounts program to fund replicable model projects that develop financial products and services for these individuals without the need for ongoing public subsidies. In seeking applications, we have recognized that financial education can be a key component in persuading more Americans to open bank accounts. We will also undertake research to evaluate the success of the funded projects and to understand what products, services, educational initiatives, marketing techniques, or incentives are needed.

Finally, I think it is important to make this observation: unwise financial decisions do not always stem from a lack of financial education. All too often, bad choices stem from economic despair. No amount of financial education will help individuals build their retirement nest eggs if their incomes barely cover their families' living expenses. No amount of financial education will help individuals escape the high fees charged on short-term, unsecured loans if their families are in need of food or medicine, and there is no other place to go for the funds. With more money in their pockets, people will be better positioned to make sound economic choices and provide for their and their families' economic futures. As we aggressively promote financial education, we must not lose sight of the larger goal to promote economic prosperity through the President's economic program.

Conclusion

The importance of high quality education to the future of our society and to our Nation's economy can never be underestimated. I am reminded of a saying from the gentleman who graces the one hundred dollar bill—Benjamin Franklin, "If a man empties his purse into his head, no man can take it away from him." Those words written at the dawn of this great Nation's history are as true today.

Financial education can be compared to a road map to the American Dream. I believe that we need to teach all Americans the necessary tools to read that map, so that they can reach the Dream.

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WHAT THE FEDERAL GOVERNMENT IS DOING TO IMPROVE FINANCIAL EDUCATION

U.S. Treasury Efforts

Bureau of Public Debt (BPD)

- *MoneyMath:* BPD launched the *MoneyMath* program to teach the importance of savings and financial literacy. *MoneyMath* is an education kit for grades 7 through 9, which includes lesson plans and supplemental learning activities focused on savings and investing, money management, and spending and credit. The kits were provided, free of charge, to over 110,000 middle school math teachers in 16,000 school districts nationwide. *MoneyMath* was kicked off at the Nasdaq Market Site in New York City on May 7, 2001. The Securities Industry Foundation for Economic Education, sponsor of the Stock Market Game, agreed to incorporate the *MoneyMath* kit into their distribution system. Partners for the *MoneyMath* program include the Jump$tart Coalition, the Center for Economic Education, Merrill Lynch, the Fannie Mae Foundation, the MetLife Foundation, the Nasdaq Stock Market, and many others.

Office of the Comptroller of the Currency

- In its Advisory Letter on Financial Literacy (AL 2001–1) published in January 2001, the OCC encourages national banks to develop and refine their financial education activities. The advisory described characteristics of successful financial literacy programs and noted that involvement in these programs has helped national banks develop new customers while enhancing their visibility in the communities they serve.

- In conjunction with the Advisory Letter, the OCC published an online Financial Literacy Resource Directory. This Directory provides an online listing of financial literacy resources, including national and local organizations that offer financial literacy programs. The OCC updates this directory on a regular basis.
- OCC staff participate in the National Forum to promote Low-Income Savings, an effort directed by the Consumer Federation of America to increase the savings rate in local communities. An OCC staff member chairs the forum's Hispanic Advisory Committee, an advisory group that helps the larger forum incorporate strategies for reaching the Hispanic community.
- Through *Community Developments,* a quarterly newsletter produced by the Community Affairs Division, the OCC provides ongoing education about financial literacy programs, through articles that highlight financial literacy programs in which banks are involved. The newsletter is widely distributed to banks and community and consumer organizations, and is available on the OCC website.
- OCC has been a national partner of the National Academy Foundation since 1997. The National Academy Foundation sponsors the Academy of Finance, a school-to-career curriculum operating in 40 States and 300 high schools. The OCC is now partnering with schools or school districts in 28 locations across the country to support academies of finance and provides summer internships for Academy of Finance students.
- Under regulations promulgated by the OCC and the other Federal banking regulators, bank participation in financial literacy programs targeted to low- and moderate-income individuals may be eligible for consideration under the Community Reinvestment Act.

Office of Thrift Supervision

- Since 1998, Office of Thrift Supervision (OTS) employees have participated as tutors in financial education programs in local schools and in the community as part of the agency's Community Service Program. Examples of financial education programs that the agency has participated in over the past 3 years include Operation Hope's Banking on the Future Day in Los Angeles and New York, the NHS of New York Financial Life Skills Course, Junior Achievement, American Bankers Association's National Teach Children to Save Day, Seahawks Academy Financial Literacy Training and the Central City Lutheran Mission Financial Literacy Training.
- OTS has produced several articles dealing with financial literacy issues. Primarily through the *Community Liaison,* a quarterly newsletter edited and produced by the Community Affairs staff, OTS works to inform and educate the thrift industry and others about financial literacy issues and to highlight best practices and financial education programs that the thrift industry is involved in.
- The OTS plays a role in financial literacy initiatives through a number of regional activities. For example, OTS is a partner in a campaign targeted to the primarily Latino neighborhood called Back of the Yards in West Chicago to get more people who qualify for the "Earned Income Tax Credit" (EITC) to file and deposit these refunds in a bank account. Local financial institutions open these new bank accounts and provide basic financial education to these individuals as well. The staff in each regional office participates in a number of antipredatory lending activities designed to educate consumers about predatory lending and avoid abusive lending practices.
- OTS is currently working on the development of an industry bulletin on the issue of financial abuse of the elderly. They are also working with the Federal Reserve Bank of San Francisco to produce an educational video addressing the financial abuse of the elderly and dependent adults and will take part in a public service campaign.

Bureau of the Mint

- The mission of the Mint includes providing marketing, education, and advertising for U.S. coinage. The Mint, while not directly engaged in financial literacy efforts, supports a Treasury-led financial literacy initiative, and will use its resources to promote a national financial literacy initiative. The Mint has worked with the National Education Association (NEA) to educate young people about U.S. currency. The Mint also uses its website, *www.usmint.gov* and other media to educate the public on coinage and to promote its 50 State Quarters and H.I.P. Pocket Change programs—both of which leverage our youth's interest in American coinage to promote their knowledge of money's role in financial transactions. Additionally, the

Mint is working with Congress to obtain final approvals necessary to move forward on its plans to open a Mint Museum at its Washington, DC, Headquarters, which will serve as an interactive forum to better educate the public on the heritage of our Nation's coinage.

Office of the Treasurer

- The Treasurer serves as an effective venue to communicate the importance of financial literacy.

Other Federal Efforts

- *Social Security Administration:* The Social Security Administration (SSA) is engaged in a number of initiatives to educate people about the importance of planning for their financial future. SSA produces nationally broadcast public service announcements that explain the importance of saving for retirement. In addition, by law, SSA mails all workers copies of their Social Security Statement that includes customized benefit estimates. SSA mails statements to half a million Americans each day. The purpose is to allow workers to ensure that their earnings are credited for benefit purposes and to convey to the public the need for financial resources in addition to Social Security for retirement.
- *Housing and Urban Development:* In conjunction with the Treasury Department, the Department of Housing and Urban Development (HUD) published a 2000 report on predatory lending, which listed the need for greater financial literacy as a tool to curb predatory lending practices. Financial education is an eligible activity in a number of HUD programs, including Youthbuild; Resident Opportunity and Self-Sufficiency and Housing Counseling. The President's 2003 Budget proposes to increase funding for the housing counseling program by 75 percent. The HUD website provides the names of local financial education and housing counselors throughout the country.
- *Department of Labor:* For over 6 years, the Department of Labor's Pension and Welfare Benefits Administration has maintained a retirement savings education and outreach program through its *Savings Matters Campaign.* The Campaign is designed to promote retirement savings and security for the 21st century workforce. DOL's efforts are mandated under the Savings Are Vital to Everyone's Retirement Act (SAVER) of 1997. DOL has developed a variety of free informational tools, which are distributed through a toll-free telephone line and on the Internet and highlighted through radio, television, and print public services announcements. These tools include a publication, "Savings Fitness: A Guide to Your Financial Future," developed jointly with the Certified Financial Planner Board of Standards and an interactive website for small employers, *selectaretirementplan.org*, developed in partnership with the U.S. Chamber of Commerce and the Small Business Administration. In addition, the Department, in conjunction with the Federal Deposit Insurance Corporation, credited Money Smart, a financial literacy curriculum that is available through more than 600 One-Stop Career Centers across the country.[1] The second National Summit on Retirement Savings, cohosted by President Bush and the Congressional leadership and planned by Secretary of Labor Elaine L. Chao, is scheduled for February 27–March 1, 2002.
- *Department of Agriculture:* The U.S. Department of Agriculture (USDA), through its Cooperative State Research, Education, and Extension Service makes financial literacy materials available throughout rural and agricultural areas. USDA is also launching a significant financial literacy initiative entitled "Financial Security in Later Life." The initiative's goal is to provide senior Americans with financial literacy information most relevant for them. In addition, the USDA is able to draw on the resources of academic professionals found throughout the United States in the Land Grant University System. Financial literacy courses are taught at many land grant universities, which pool together teaching plans and other educational materials intended for adults.
- *General Services Administration:* The General Services Administration places financial literacy information from various governmental sources on its website. For example, the DOL's "Savings Fitness: A Guide to Your Money and Your Financial Future" can be found there.
- *Federal Trade Commission:* In 1998, the Federal Trade Commission (FTC) joined with the Securities and Exchange Commission, the North American Securities Administrators Association, and a number of public and private organizations in-

[1] The Workforce Investment Act established a State and local administered system of "One-Stop Career Centers," throughout the country that provide access to labor market information, job training courses, financial education, child care, and other services.

cluding Government, industry associations, and consumer organizations to launch a campaign to educate consumers about investing and saving. The FTC has an entire webpage dedicated to consumer credit issues, investments, and abusive lending. In addition, the FTC continues to publish reports on personal finance issues such as "Avoiding Home Equity Scams," "Cancellation of Private Mortgage Insurance: Federal Law May Save You Hundreds of Dollars Each Year," and "Credit Repair, Help Yourself First."

- *Federal Reserve Board:* The Federal Reserve Board (FRB) provides consumer and financial information through such means as the Federal Reserve website, and a number of publications. The website features informational pages such as "Building Wealth, A Beginner's Guide to Securing Your Financial Future." Many of the FRB's publications are provided in Spanish, as well as English. Publications include "Understanding the Process and Your Right to Fair Lending," "Looking for the Best Mortgage: Shop, Compare, Negotiate," and "Keys to Vehicle Leasing: A Consumer Guide." Chairman Greenspan has publicly expressed his support for financial education. In January 2002, he gave an address that focused on the need for increased personal financial education at the Ninth Annual Economic Development Summit held by the Greenlining Institute.
- *Federal Deposit Insurance Corporation:* In September 2000, the Federal Deposit Insurance Corporation (FDIC) initiated a national financial education campaign by developing *Money Smart,* a comprehensive financial education curriculum designed to help adults outside the financial mainstream develop financial skills and positive banking relationships. The curriculum, which is built on the foundation of delivering quality education at the local level, is available free to banks and others interested in sponsoring financial education workshops. *Money Smart* contains everything necessary to begin teaching the program right away and includes take-home booklets and other resources for participants. FDIC has worked with the Department of Labor (DOL) to connect financial institutions with locally-based employment service centers (One Stop Centers) around the country and encourage joint efforts establishing financial education as a service regularly available to the public. FDIC began providing the *Money Smart* curriculum to banks, One Stop Centers and other interested parties in July 2001. By the end of 2001, the FDIC had received nearly 5,000 orders for *Money Smart,* including nearly 2,000 from banks and over 400 from credit unions.

  The FDIC *Consumer News,* which is published quarterly, features a range of articles on personal finance topics, such as credit card use and identity theft. This publication is disseminated widely to approximately 60,000 subscribers. In addition, the FDIC has arranged to make copies of articles of interest that may have broad national appeal available through the Consumer Information Center in Pueblo, Colorado.

  As part of the Financial Services Education Coalition, the FDIC helped write and publish "A Comprehensive Guide for Community Educators." The guide, which was issued in 1999, is used by community educators with a variety of audiences who do not have accounts with financial institutions or who need basic information about how to use accounts.
- *The Securities and Exchange Commission:* The Securities and Exchange Commission (SEC) provides public information on the fundamentals of investing and investment products. The SEC provides information that is balanced and neutral regarding securities markets and the types of investment products available to average investors. In addition, the SEC works to ensure that its documents and the documents of the companies that it regulates are easily readable by typical investors.
- *Department of Defense:* Many military credit unions work with local commanders to provide personal financial education for military personnel.
- *Neighborhood Reinvestment Corporation:* Neighborhood Reinvestment has developed a financial education program that is implemented around the country by a network of local nonprofit organizations as part of their community education efforts. The program consists of 10 hours of workshops followed by individual counseling to help participants learn and practice money management skills; the program also includes a component for training trainers. Six private sector partners have been recruited to support the program. In the 12 months ending on December 31, 2001, more than 1,600 participants graduated from the program. Neighborhood Reinvestment and the FDIC are negotiating a partnership to use their *Money Smart* curriculum.

PREPARED STATEMENT OF ALAN GREENSPAN

CHAIRMAN, BOARD OF GOVERNORS OF THE FEDERAL RESERVE

FEBRUARY 5, 2002

I am pleased to be here this morning to discuss the importance of improving financial literacy and learning for consumers.

Given the importance of accurate and timely information in the financial services industry, it is not surprising that this sector has benefited enormously from the innovative application of new technologies that have facilitated the development of a wide range of new financial providers and products. For consumers of household and business credit, computer and telecommunications technologies have lowered the cost and broadened the scope of financial services. As a consequence, we have seen a proliferation of specialized lenders and new financial products that are tailored to meet very specific market needs. At the same time, the development of credit-scoring tools and the securitization of loan pools holds the potential for opening doors to national credit markets for both consumers and businesses. In addition to technological advancement, deregulation has created important structural changes in the financial services industry and contributed significantly to creating a marketplace that is increasingly competitive and highly innovative as a result of the entry or expansion of new players.

Throughout our banking history, we have seen significant adjustments made to existing policies to enable markets to respond to the demand for services. These structural changes have heightened competition, resulting in market efficiencies that continue to help drive down costs and foster the emergence of increasingly diverse and highly specialized organizations. Through these entities, which range from banks and brokerage firms that offer their services exclusively through electronically-based delivery mechanisms to locally-based public-private partnerships that provide counseling and financing arrangements to facilitate access to mortgage credit for low- and moderate-income families, consumers have increased access to a variety of credit and savings instruments. Corporations, for example, often allow employees to self-direct their investments in pension and other benefit plans, whereas employers dictated such decisions 20 years ago, and the advent of online brokerage firms has enabled individual investors to directly conduct stock transactions.

For an increasingly complex financial system to function effectively, widespread dissemination of timely financial and other relevant information among educated market participants is essential if they are to make the type of informed judgments that promote their own well-being and foster the most efficient allocation of capital.

However beneficial, constant change, of course, can be unsettling, and one challenge we face is overcoming such anxieties. But just as the rapid adoption of new information technologies has expanded the scope and utility of our financial products, so has it increased our means for addressing some of the challenges these changes pose. For example, just as universities provide remote learning options to allow students to pursue continuing education via the Internet, consumers can utilize software to create customized budgets to develop long-term savings strategies for retirement or their children's college education. In both scenarios, technological advances represent the opportunity for achieving efficiencies and exercising preferences, but only when the end users possess the knowledge of how to access pertinent information and how to capitalize on those choices.

As in the workplace, fostering education that will enable individuals to overcome their reluctance or inability to take full advantage of technological advances and product innovation in the financial sector can be a means of increasing economic opportunity. As market forces continue to expand the range of providers of financial services, consumers will have more choice and flexibility in how they manage their financial matters. They will also need to accumulate the appropriate knowledge about how to use new technologies and how to make financial decisions in an informed manner.

Indeed, surveys repeatedly demonstrate a strong link between education and the use of new financial technologies. For example, data from the Federal Reserve's Survey of Consumer Finances (SCF) suggest that a higher level of education significantly increases the chances that a household will use an electronic banking product. In particular, in 1998, the typical user of an electronic source of information for savings or borrowing decisions had a college degree—a level of education currently achieved by only about one-third of U.S. households.

These most recent data from the SCF exhibit a mixed picture of the financial status of households, providing evidence that we need to reach out to those who have not been able to participate fully. For example, while the median real net worth for all families increased 17½ percent between 1995 and 1998, this trend did not hold where the head of the household had a high school level of education or less, family earnings were less than $25,000 annually, or the ethnicity of the respondent was nonwhite or Hispanic. That families with low-to-moderate incomes and minorities did not appear to fully benefit from the highly favorable economic developments of the mid-1990's is, of course, troubling, and the data from the 2001 survey that will be available later this year will warrant a detailed look. Through 1998 we found that families with incomes below $25,000 did increase their direct or indirect holdings of stock, and more reported that they had a transactions account. However, they were less likely to hold nonfinancial assets—particularly homes, which constitute the bulk of the value of assets for those below the top quintile according to income. At the same time, one encouraging finding from the survey is that the homeownership rate among minorities rose from 44 percent to 47 percent between 1995 and 1998, and according to the Census surveys, the rate edged above 48 percent as of the fourth quarter of 2001. This trend may be a sign of improved access to credit for minorities.

Other findings of the SCF through 1998 include the rise in families' median level of debt burden, financial stress (defined as debt payments that represent more than 40 percent of income), and incidence of late debt repayment. The findings showed increases in each of these categories across all income and age groups, with the highest levels of financial stress among households headed by people 65 and older and earning less than $25,000 annually. The recent evident rise in subprime loan delinquencies is of some concern in this regard.

In considering means to improve the financial status of families, education can play a critical role by equipping consumers with the knowledge required to make wise decisions when choosing among the myriad of financial products and providers. This is especially the case for populations that have traditionally been underserved by our financial system. In particular, financial literacy education may help to prevent vulnerable consumers from becoming entangled in financially devastating credit arrangements. In the quest to stem the occurrence of abusive, and at times illegal, lending practices, regulators, consumer advocates, and policymakers all agree that consumer education is essential to combating predatory lending. An informed borrower is simply less vulnerable to fraud and abuse. Financial literacy can empower consumers to be better shoppers, allowing them to obtain goods and services at lower cost. This effectively increases their household budgets, providing more opportunity to consume and save or invest. In addition, comprehensive education can help provide individuals with the financial knowledge necessary to create household budgets, initiate savings plans, manage debt, and make strategic investment decisions for their retirement or their children's education. Having these basic financial planning skills can help families to meet their near-term obligations and to maximize their longer-term financial well-being.

While data to measure the efficacy of financial education are not plentiful, the limited research is encouraging. For example, a recent study by Freddie Mac, one of the Nation's largest purchasers of home mortgages, finds that homebuyers who obtain structured homeownership education have reduced rates of loan delinquency. Similarly, an evaluation conducted by the National Endowment for Financial Education on its high school-based programs found that participation in financial planning programs improved students' knowledge, behavior, and confidence with respect to personal finance, with nearly half of participants beginning to save more as a result of the program. Another Freddie Mac study of the relationship between financial behavior and financial outcomes revealed that comprehension of the general principles of sound financial behavior, such as budgeting and saving, is actually more beneficial in producing successful financial results over time than specific and detailed information on financial transactions.

These findings underscore the importance of beginning the learning process as early as possible. Indeed, in many respects, improving basic financial education at the elementary and secondary school level is essential to providing a foundation for financial literacy that can help prevent younger people from making poor financial decisions that can take years to overcome. In particular, it has been my experience that competency in mathematics—both in numerical manipulation and in understanding its conceptual foundations—enhances a person's ability to handle the more ambiguous and qualitative relationships that dominate our day-to-day financial decisionmaking. For example, through an understanding of compounding interest, one can appreciate the cumulative benefit of routine saving. Similarly, learning how to conduct research in a library or on the Internet helps one find information to evaluate decisions. Focusing on improving fundamental mathematics and problem-solving skills can develop knowledgeable consumers who can take full advantage of the sophisticated financial services offered in an ever-changing marketplace.

As I noted earlier, we have seen the marketplace respond to an increased demand for conceptual job skills by increasing the range of educational options available to individuals. We are also beginning to see similar efforts to provide consumers with information and training that will improve their knowledge about financial matters throughout their lives. For example, the U.S. military, in response to surveys that revealed that nearly one-third of enlisted service members reported moderate-to-severe difficulty in paying bills, has mandated that all incoming enlisted personnel receive financial education.

Some school systems have introduced financial management classes as part of their high school curricula and many employers are taking up the challenge as well. At the Federal Reserve Board, for example, interest in financial education prompted an employee committee to host a seminar on financial planning strategies, and our Consumer and Community Affairs staff recently hosted several well-attended educational programs for Federal Reserve employees, providing information on qualifying for a mortgage and managing debt. In fact, in conjunction with National Consumers' Week, today an additional employee seminar on budgeting is underway.

Despite the existence and proliferation of numerous training programs offered by a wide variety of public, private, and nonprofit organizations, evaluation of the efficacy of such programs has just recently begun. A study commissioned and published by the Fannie Mae Foundation recommended that financial education programs equip consumers of all ages and across all socioeconomic groups with the ability to know when they need information, where they can find it, and how to apply it.

The Federal Reserve also has a keen interest in measuring the effectiveness of financial literacy programs. For example, we hosted a forum highlighting best practices in credit education focusing on effective tools and techniques and identifying programmatic challenges and issues. More recently, we have included studies that evaluate the impact of such training initiatives in our call for papers for the Community Affairs Research Conference scheduled for the spring of 2003. Additionally, our Community Affairs and Public Information Offices have embarked on a national initiative to highlight the importance of financial literacy and heighten the visibility of economic education programs. Quantitative study of the quality and long-term success of education and training will be of particular interest to the Federal Reserve System, as we develop and distribute a wide variety of financial and economic literacy products.

Both individually and through longstanding partnerships with a variety of local, regional, and national organizations, each of the 12 Federal Reserve Banks and the Board provide extensive information on these topics to a wide range of audiences, including school-age children, low- and moderate-income families, and minority and immigrant populations. The scope of these activities ranges from the sponsorship of competitions on economic principles for high school students and workshops on homeownership and wealth-building strategies to the development of computer-based tools for understanding mortgage borrowing and creating household budgets and savings plans. The economic educators of the Federal Reserve System launched an interactive website offering students, educators, and the general public an introduction to the workings of the Fed and the Nation's banking system. The goal is to offer consumers a clearer picture of, for example, how the Federal Reserve's decisions influence the economy and consequently affect their monetary choices.

In closing, let me simply reiterate that the pace of technological change and competitive pressures can only increase. These changes are affecting both financial and nonfinancial institutions around the world. We cannot know the precise directions in which technological change will take us, but as in recent years, the role of banks and other providers of financial services will surely be significantly affected by the same basic forces that guide the real economy. Building bridges between community organizations, our educational institutions, and private business will be an essential aspect of our efforts to increase familiarity with new technological and financial tools that are fundamental to improving individual economic well-being. And the success of such efforts will have a significant bearing on how well prepared we are to meet the challenges of an increasingly knowledge-based economy.

PREPARED STATEMENT OF HARVEY L. PITT

CHAIRMAN, U.S. SECURITIES AND EXCHANGE COMMISSION

FEBRUARY 5, 2002

Chairman Sarbanes, Senator Gramm, and Members of the Committee, I am pleased to be here this morning to offer the Securities and Exchange Commission's perspective on financial literacy and education in today's securities markets. I am especially gratified, Chairman Sarbanes, that you and the Committee have taken the initiative to raise the visibility of this important issue that has only become more significant in light of recent events.

Achieving financial literacy for all Americans has always been an important goal. With so many individuals and employees invested in our securities markets today, financial literacy is now not only important but also an essential goal. In my testimony today, I would like to offer some observations on the landscape of financial literacy and education from the SEC's perspective.

As the events of last September demonstrated, our capital markets are the world's strongest and most resilient. Our markets are not located in any one building or city or place. Rather, they are networks of people and ideas and freedom. Thus, they are emblematic of our great Nation. Precisely for these reasons, all Americans should have the opportunity to participate in our markets. Financial literacy is a crucial foundation for participation. People need to be able to "read, write, and speak" basic financial concepts in order to make informed investment decisions.

Beyond basic fairness issues, there are significant economic and social benefits of financial education. People of even modest means can realize financial security and all that it promises—such as buying a home and pursuing educational opportunities. As a society, we should want all Americans to have the opportunity and the ability to invest in our markets. Historically, investing in the market has resulted in returns superior to other savings strategies. Investment dollars help our Nation's businesses and economy grow stronger, and ensure that new and creative technologies have a chance to develop and flourish. Saving and investing enrich and bring stability to individuals and families. With the decline in defined benefit retirement plans and the concurrent rise in defined contribution plans, workers increasingly need to be able to evaluate investment options thoughtfully, in order to provide for their retirement security.

We learned, in the wake of the Great Depression, when world economic forces caused precipitous and calamitous declines in equity market values, that investors are willing to commit their capital to our markets only if they have confidence that those markets are fairly and honestly run, are fully transparent, and affirmatively minimize the risk of loss from selective disclosure, fraud, and manipulation. The trust and faith investors place in our capital markets have fueled incredible economic growth, improved our collective standard of living, and made it possible for innovators to see their ideas come to fruition. The success of our markets has been due not just to their depth and breadth, but also to their quality and integrity.

Our markets must be transparent and hospitable to all investors. Ours is a disclosure-based system. And it is our job to promote clear, accurate, and timely disclosures—proactively. Once investors are fully informed, we leave it to them to evaluate the merits of an investment. Of course, when investors are not fully informed—when they are misled—it is our job to prosecute the wrongdoers. The Federal securities laws police fraudulent, deceptive, and manipulative conduct. Vigorous and timely enforcement of these provisions plays a critical role in ensuring market transparency. Where investor interests are being disserved or abused, we seek to take immediate action to halt violative conduct and then undo its effects. Aggressive enforcement helps prevent continued fleecing of the investing public. It publicly identifies wrongdoing, which helps educate investors about that particular fraud, as well as raise public awareness of the kinds of schemes and pitfalls out there. Vigorous enforcement punishes wrongdoers, stamps out recidivism, and deters future misconduct. It also prevents the dissipation of investor assets. Our goal is to protect investors and we will pursue securities law violations and financial fraud aggressively. But an educated investor is the first defense against fraud.

Educating people about how to manage their money effectively and achieve retirement security demands participation on all levels: local, State, and national. Public-private partnership is essential. This is the same approach that our country has taken to promote literacy, itself the first step toward achieving financial literacy. The Federal Government can play an important role in achieving financial literacy. First, it can stimulate localities and the private sector to initiate financial education. People learn locally—through schools, workplaces, newspapers and other media, and religious organizations.

The Commission works with numerous public and private organizations to foster educational programs. For example, we have provided curriculum material for the Department of Agriculture's Cooperative Extensive Service to include in their financial education course—which is widely distributed. We are an active member of the "Jump$tart Coalition," a public-private partnership that seeks to foster youth financial literacy education. We also partner with the American Savings Education Council (ASEC), a public-private partnership devoted to increasing investor education. Our staff has given presentations to countless schools, religious organizations, and investor clubs, explaining basic investing concepts and answering questions. Our staff also hosts "Investor Town Meetings" across the United States, bringing together industry, Federal and local government officials to educate investors on basic financial concepts.

Government can play a second critical role in the national initiative of financial literacy by providing investors and potential investors with neutral, unbiased information on saving and investing. We have worked with industry trade groups and other Federal and State regulators to produce an extensive array of educational material directed at helping people make wise investment choices and avoid fraud. We hand out and mail brochures on how to interact with financial professionals, on Internet investing, and many other topics. We do not copyright our materials. In fact, we encourage the private sector and other Federal and State regulators to copy and use them. Private entities frequently ask us for bulk shipments to hand out to customers. Many foreign regulators have, with our active encouragement, taken our material and adapted it for their investing audiences.

One example of the many informational brochures we compile to educate investors is called "Analyzing Analyst Recommendations." Our alert discusses the potential conflicts of interest analysts face and provides tips for researching investments. Analysts often use a variety of terms—buy, strong buy, near-term or long-term accumulate, near-term or long-term over-perform or under-perform, neutral, hold—to describe their recommendations. But they rarely urge investors directly to sell the stocks they cover. Working with the Congress and the securities industry, we are on the threshold of new rules that will create more transparency for analyst recommendations. As a general matter, investors should not rely solely on an analyst's recommendation when deciding whether to buy, hold, or sell a stock. Instead, they should also do their own research—such as reading the prospectus for new companies or for public companies, the quarterly and annual reports filed with the SEC—to confirm whether a particular investment is appropriate for them in light of their individual financial circumstances.

We post all of our educational material on our website, and we have taken advantage of the Internet to create interactive tools to help inform people's investment decisions. For example, we created a mutual fund cost calculator, which allows investors to compare the costs of holding different mutual funds over a period of time that they specify. We also have an extensive tutorial on the use of margin, which includes a calculator for assessing the true costs associated with a margin account. We have an interactive quiz to "test your money smarts," and an interactive question-and-answer database, through which investors e-mail us questions. We generally reply to these e-mails within two business days.

The Internet has emerged as a major source of investment leads for many Americans, rivaling the old "water cooler" chats of a different era. We have all witnessed the willingness of otherwise thoughtful people to believe what they read on unverified websites, in unregulated chat rooms, and through claims of sure things by individuals who probably were (or could have been) snake oil salesmen in prior lives. Investors become easy prey for cyberspace sharpshooters who spread disinformation, or use their virtual pulpits to promote their ability to sell their own holdings at a profit. Unfortunately, there always will be people who allow dreams of untold wealth to distort their better judgment. So, we have redoubled our efforts to arm investors with the information they need to invest wisely.

Recently, we began a major new initiative to post fake scams on the Internet similar to those that fraudsters successfully use to separate investors from their hard-earned money. We took this step in order to bring our educational information to the screens of Internet users who have not tapped the wealth of educational material located on our website. The fake scams are all modeled on "real" scams from cases we have brought. In this initiative we are working with State securities regulators, foreign regulators, other U.S. Government agencies such as the Treasury and the Federal Trade Commission, the National Association of Securities Dealers and trade associations to bring educational messages to those investors who click on our sites in search of unrealistically high returns.

Last week, we announced that we had created the fake scam site, *www.mcwhortle.com.* The McWhortle site graphically illustrates what we have been telling investors for years:

- *If it sounds too good to be true, it is.*
- *"Guaranteed returns" aren't.* Most fraudsters spend a lot of time trying to convince investors that extremely high returns are "guaranteed" or "cannot miss."
- *Check out the company before you invest.* Look at financial statements. Find out if the company has ever made any money. And by the way—if a supposedly upright firm only lists a P.O. box, as McWhortle did, you will want to do a *lot* of work before sending your money!

- *If it is that good, it will wait.* Scam artists usually try to create a sense of urgency—implying that if you do not act *now,* you will miss out on a fabulous opportunity. But if you are being pressured to invest, especially if it is a once-in-a-lifetime, too-good-to-be-true opportunity that "just cannot miss," just say "no."
- *Understand your investments.* Fraudsters frequently use a lot of big words and technical-sounding phrases to impress you. But have faith in yourself! If you do not understand an investment, do not buy it.
- *Beauty is not everything.* Do not be fooled by a pretty website—they are remarkably easy to create.

The sole out-of-pocket cost of this educational project was $50 we spent to register the McWhortle domain name. We have had more than a million hits on the site thus far. We think this is a low-cost, high-impact way to reach potential investors. Crooks figured out a long time ago how to best separate people from their money. Our website graphically illustrates fraud to investors, so that the next time they encounter a "real" scam, they will know what it is they are dealing with. We have always thought that an educated investor is our best defense against fraud. This initiative is helping educate investors.

The response from the public has been overwhelming. These are representative responses that we have received about the site:

Fantastic!!! This is an excellent idea for reaching exactly the audience that needs this warning. Congratulations are in order for the individuals responsible for this imaginative communications concept.

WELL DONE!
VERY NECESSARY AND VERY WELL DONE!
Thank you for your efforts, I have forwarded the initial link to all of my e-mail friends.
NICE TO SEE TAX DOLLARS WELL SPENT!!!
YOU SHOULD CONTINUE WITH OTHER TYPES/VERSIONS OF THE SAME UNTIL YOUR MESSAGE IS RECEIVED BY ALL

This is an excellent idea. Kudos for creative thinking.

Dear SEC,

Thank you for this clever exercise in public education. I was alerted to your site from an author on *Realmoney.com* . . . just wanted to see how effective it might be in attracting gullible investors.

Good luck with all that confronts you; I appreciate your efforts in attempting to protect the public from unscrupulous scoundrels.

Very clever and helpful—I know there are a ton of people whose eyes will be opened by this.

Great site, great lesson—I saw the story on Reuters about how the site was created to educate investors. I hope you keep the site up as I would like to point to it in a business class I talk at each quarter.

The McWhortle site was launched with the assistance and support of the Federal Trade Commission, the National Association of Securities Dealers, and the North American Securities Administrators Association. We have other fake scams out there as well. The Treasury Department has partnered with us on one of them, a "Prime Bank" fraud. Scotland Yard has also joined forces with us.

Beyond educating investors, we are also looking to improve the quality of information they receive. Confidence in our markets begins with the quality of the financial information investors use to decide where to invest their hard-earned dollars. Comprehensible information is the lifeblood of strong, vibrant markets. Our current disclosure system is the best in the world. However, as more and more Americans are entering our markets and making increasingly difficult investment decisions that affect their lives, savings goals, and retirement security, we need to ask whether we have done the best job possible in making financial statements and other disclosures timely and understandable to all investors. Are we meeting investors' needs?

In his State of the Union Address, the President appropriately demanded "stricter accounting standards and tougher disclosure requirements." He wants corporate America to "be made more accountable to employees and shareholders and held to the highest standard of conduct." The SEC shares and embraces these principles, and we are firmly committed to making them a reality. As part of the President's Working Group on Financial Markets, we are working with Secretary O'Neill and Chairman Greenspan, as well as Chairman Newsome of the Commodity Futures Trading Commission, to conduct a full review of corporate disclosure rules. The SEC is ready to develop and implement reforms. We are firmly committed to improving corporate disclosure and assuring that the accounting profession functions properly, fairly, and in the public interest.

In all of our investor education materials, we advise people to "do their homework," by which we mean primarily looking at the SEC filings of a company in order to evaluate whether it is a good investment. It is tremendously important for investors to be able to understand and evaluate the information that the SEC requires issuers to make available. A critical step toward enhancing national financial literacy is to make more intelligible and more timely the financial data we require issuers to file. We need to rethink our financial disclosure model, with an eye toward simplifying it so that everyone can understand the fundamentals of every company and find absolute comparability from firm to firm. This task has become increasingly critical as more and more individuals become direct participants in our markets and face increasingly difficult investment decisions that affect their lives, savings goals, and retirement security.

Our existing disclosure system must be strengthened, and supplemented, in order to put information into investors' hands more promptly, and help investors. Several attributes are clearly required if we are to enable all of our citizens to identify the opportunities that abound in our marketplace, and to avoid the pitfalls that lurk behind every opportunity.

- Supplementing periodic disclosure with "current disclosure." In the system we envision, public companies will be required affirmatively to disclose unquestionably significant information when it arises and becomes available, even if the information is learned between scheduled periodic reports.
- Making use of technology to simplify disclosure documents without sacrificing the wealth of information companies are accustomed to supplying, and without unduly disadvantaging those investors who lack Internet access.
- Encouraging the use of so-called "trend" information, to give investors the same kind of view of the companies in which they invest as is available to the managers of those companies.
- Making financial information comprehensible to the average investor.

We are committed to making disclosures more meaningful, and intelligible, to average investors. We are soliciting broad input. This May, the Commission will hold its first ever "Investor Summit" to solicit investor input on the policy issues that confront us as we begin reforming our disclosure and financial reporting process.

The SEC in essence has a two-fold task ahead of us: first, improving corporate disclosure and strengthening financial accounting and reporting standards; and, second, raising our national consciousness so that investors fully understand the importance of researching investments before buying. Firefighters drill into school children the mantra of "stop, drop, and roll." We need to convince people to "stop, read, and think." To the extent that we can improve the clarity of what investors read, we will succeed in improving financial literacy in America.

There is no magic "bullet" that will accomplish our financial literacy goals. No one program will reach all groups. No one organization can do it all. Financial literacy for all can be accomplished only with enthusiastic cooperation by all. We look forward to continuing to work closely with this Committee and others to advance financial literacy in America.

I am happy to try to respond to any questions the Committee may have.

mcwhortle

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McWhortle Enterprises, Inc.

McWhortle Enterprises is an established and well-known manufacturer of biological defense mechanisms. Fortune 500 companies routinely use McWhortle Defense systems to protect their far-flung executives living in dangerous areas. These discreet, confidential safeguards have for years given employees and their families peace of mind.

Now, for the first time, McWhortle Enterprises is offering a product to the general public: the new **Bio-Hazard Alert Detector**. Running quietly on two double-A batteries, the Bio-Hazard Alert Detector emits an audible beep and flashes when in the presence of all known bio-hazards. The Bio-Hazard Alert Detector, measuring only 3 by 7 inches, is small enough to slip into a man's jacket pocket, a woman's purse or a child's backpack.

The Bio-Hazard Alert Detector works by detecting microscopic levels of hazardous bio-organisms. It can detect even the finest-milled, weapons-grade biohazards from 50 feet, long before the risk of inhalation or cutaneous infection, by testing for the distinctive surface leptins. Proven effective to just .02 microns per cubic meter of air, the Bio-Hazard Detector has gained instant acceptance in four test markets, spread throughout the Midwest. Within hours the product sold out of each store, with no advertising and only word-of-mouth endorsement within each community.

Want to know more? Click here.

mcwhortle

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About McWhortle Enterprises, Inc.

McWhortle Enterprises was created 35 years ago by Thomas James McWhortle, III. The company markets exclusively to the world's largest corporate enterprises, providing the best protection from all terrorist bio-hazard attacks. So confidential are its products that major corporate customers have asked that McWhortle not reveal their names. Suffice to say that they all involve multi-country operations in areas where security is a must.

McWhortle Enterprises, Inc.
PO Box 50243
Washington DC, 20091
202-824-5151

Comments about the McWhortle website should be sent to webmaster@mcwhortle.com.

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January 25, 2002: McWhortle Enterprises announces plans to go public on January 30, the day the company's official Registration Statement will be filed at the U.S. Securities and Exchange Commission in Washington, D.C. Read the press release or hear an interview with the CEO, Thomas McWhortle.

September 30, 2001: McWhortle today announced record earnings for the third quarter. Earnings, calculated before interest, taxes, depreciation, and amortization, jumped 45% on an annualized basis from the prior year, as shown in the pro forma financial statements filed today. This solid performance has been noted by analysts following the company and compares very favorably with earnings at other defense-related multinational companies. Click here to view the financial statements.

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Watch out!

If you responded to an investment idea like this . . .

You could get scammed!

An investor protection message, brought to you by:

Securities and Exchange Commission

North American Securities Administrators Association

NASAA

Federal Trade Commission

National Association of Securities Dealers

NASD REGULATION
An NASD Company

McWhortle Enterprises does not exist. It is a complete fabrication, posted by the Securities and Exchange Commission, the Federal Trade Commission, the North American Securities Administrators Association, and the National Association of Securities Dealers to alert investors to potential on-line frauds.

We created this site because we've all seen an increase in the number of investment scams preying on our fears of anthrax and other bio-hazards.

This site shows some of the telltale signs of on-line investment fraud. Promises of fast and high profits, with little or no risk, are classic red flags of fraud. Remember — if it sounds too good to be true, it usually is! For more information, read the SEC's brochure, "Internet Fraud: How to Avoid Investment Scams," or the tip sheet, "Stock Market Fraud: 'Survivor' Check List."

Before making any investment — online or offline — it pays to do your own research to make sure the company exists, that its products are genuine and its claims legitimate. McWhortle Enterprises has no track record and no legitimate products. (It can't, we made it up!) If a company is registered with the SEC, you can find financial statements on the SEC's website, filed electronically through "EDGAR." If a company is not registered with the SEC, check with your state securities regulator before investing.

McWhortle offers a lucky few the ability to get in on the ground floor through "pre-IPO" investing. Investing at the pre-IPO stage can be extremely risky. Pre-IPO offerings targeted at the general public — as is the McWhortle opportunity — are often fraudulent and illegal. Learn more by reading the SEC's brochure, "Risky Business: 'Pre-IPO' Investing."

Finally, McWhortle asked victims to supply a major credit card and social security number, "for identification purposes." The FTC wants you to be aware that by stealing your name, credit card number and/or social security number, fraudsters can effectively steal your identity and ruin your credit rating. Read more about identity theft here. (And by the way, we have not collected any information about you.)

e-mail us

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RESPONSE TO WRITTEN QUESTIONS OF SENATOR AKAKA FROM ALAN GREENSPAN

Q.1. Chairman Greenspan, in your statement, you mentioned the need for building bridges between our educational institutions, private businesses, and community organizations to increase familiarity with new technological and financial tools that are fundamental to improving individual economic well-being. What are your recommendations to facilitate the building of such bridges?

A.1. Dialogue among educational institutions, private businesses, and community organizations to identify shared objectives is an important first step. It can facilitate the building of bridges among parties interested in promoting financial literacy and in increasing consumers' familiarity with new technological and financial tools. Successful partnerships and cross-sector collaborations can in turn offer an effective means for addressing what often are complex issues, by helping the parties to leverage resources, bring different perspectives together, and expand the reach of the initiative's participants.

The Federal Reserve System both participates in and convenes such partnerships and collaborations through the System's Community Affairs Offices, which regularly sponsor meetings for and conduct outreach to a broad base of groups. These activities foster information sharing and have resulted in the formation of important linkages that have led to the development and implementation of effective strategies.

The Federal Reserve System has played a role, for example, in a number of partnerships that address financial literacy. In Cleveland, the Federal Reserve Bank was a key player in developing and implementing "Cleveland Saves," a pilot program for the Consumer Federation of America's "America Saves" campaign. This initiative, which is being replicated in Kansas City, Charlotte, and Philadelphia, enlisted the help of local business, sports, government, religious, and community leaders to increase financial literacy and savings on a city-wide basis.

Q.2. I have had several constituents contact me inquiring how changes in the Federal funds rate relates to the interest rates that they pay on their credit cards and mortgages. Although I have been pleased that they have contacted me for information and I have provided them with an explanation, this reveals to me a need for a greater understanding of the real life implications of the activities of the Federal Reserve. How can we better educate the general public about the activities and significance of the Federal Reserve?

A.2. The Federal Reserve System has actively promoted economic education and better public understanding of the roles of the Federal Reserve System for many years, utilizing a variety of vehicles. Most recently, the economic educators of the Federal Reserve System developed and launched (in September 2001) an interactive website, *www.FederalReserveEducation.org,* that offers students, educators, and the general public an introduction to the workings of the Federal Reserve System. The site's tutorial, FED101, covers a wide array of topics including the Federal Reserve's history, its structure, and its functions in the areas of monetary policy, banking supervision, and financial services. Interactive graphics and a series of quizzes and self-tests make it easy for visitors to the site to understand the Federal Reserve's role in the U.S. economy and how it carries out its many duties. The website links to a multitude of other resources on the Federal Reserve and to general economic education materials offered by the System (as well as linking to other relevant external organizations). One such linkage is to *In Plain English,* an easy-to-read guide to the structure and functions of the Federal Reserve System developed by the Federal Reserve Bank of St. Louis. This brochure can be accessed on the Bank's website, *www.stls.frb.org,* and is also available in print form.

Other resources include the Board's publication, *Purposes and Functions of the Federal Reserve System.* It provides an overview of the Federal Reserve System, including a discussion on the goals and implementation of monetary policy and on the international and domestic roles of the Federal Reserve. The publication is accessible at *www.federalreserve.gov.* That website also features a Publications and Education Resources section that links to other informational tools on the Federal Reserve and on general economic concepts.

In addition, many of the Reserve Banks provide instructional material and support to classroom teachers in their Districts through conferences and workshops, special newsletters, and tours of Reserve Bank facilities. One example is "Fed Challenge," a multilevel national competition for high school students designed to increase understanding of the Federal Reserve's role in setting U.S. monetary policy; to develop research, cooperation, presentation, and critical-thinking skills of students; and to promote economic literacy and interest in economics.

More generally, the Consumer Affairs Offices also provide insight into the Federal Reserve's role in fostering community economic development through their outreach, technical assistance, and other informational activities.

Q.3. As you indicated in your statement, the Federal Reserve is interested in measuring the effectiveness of financial literacy programs. I look forward to reading the papers that will be presented at the Community Affairs Research Conference scheduled for the spring of 2003. What has the Federal Reserve learned thus far about the effectiveness of financial education?

A.3. Available data for measuring the efficacy of financial literacy are, regrettably, not plentiful. Some research has been conducted by organizations that have been directly engaged in offering or funding training for the public. Generally, the resulting data show a positive relationship between formal financial education and improved financial conditions. For example, research by the National Endowment for Financial Education among high school students identified a positive correlation between participation in basic personal finance training and the students' knowledge, behavior, and confidence relating to managing finances. Data reported by the Cooperative Extension System on its "Money 2000" initiative indicate that 80 percent of respondents affirmed that the program improved their financial situation through increased savings or decreased debt. A study conducted by Freddie Mac showed that prepurchase homeownership counseling contributed to reduction of delinquency rates by over a third.

The Federal Reserve has not conducted research on the effectiveness of financial literacy. But the Board does take great interest in understanding consumer finances, and conducts the Survey of Consumer Finances (a triennial survey) to gain insight into the financial and demographic characteristics of U.S. families. These data provide an important research tool for identifying trends relating to consumers' use of financial services. Other survey work that is currently in progress will collect data on consumers' learning preferences and information sources which may be helpful in designing and marketing financial literacy materials.

STATEMENT OF THE NATIONAL ASSOCIATION OF FEDERAL CREDIT UNIONS

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 nearly 1,000 Federal credit unions—financial cooperatives from across the Nation—that collectively hold approximately 62 percent of total Federal credit union assets; NAFCU represents the interests of approximately 24 million individual credit union members. NAFCU, and the entire credit union community, appreciates the opportunity to participate in this important discussion about financial illiteracy.

Financial Literacy and Personal Savings are Intertwined

NAFCU and our member credit unions know that financial illiteracy is an issue that touches all Americans—at every age and income level. Intertwined with financial literacy is personal savings. The Nation's personal savings rate is slumping and personal savings rates are at their lowest level in nearly 40 years. 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 proactively involved in promoting financial literacy and personal savings in America. NAFCU President/CEO Fred Becker's first major speech before the credit union community in September 2000 addressed the need to increase the personal savings levels of all Americans.

Many credit unions have special programs to educate their members and assist them in achieving their savings goals. These programs not only teach their members about saving, but also assist them in becoming more financially literate. We want to tell you about just two such success stories.

McCoy FCU: Teaching Youth about Money and Savings

NAFCU member McCoy Federal Credit Union, located in Orlando, Florida, is the only community credit union in Central Florida. It has assets of $235 million and serves the borrowing and saving needs of about 55,000 members. In September 1993, McCoy FCU 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 them and their financial institution—a credit union.

The Youth Savings Program is set up in two age groups 5–10 years and 11–17 years, with appropriate incentives targeting these two very distinct age groups. A Youth Savings Brochure, available to credit union members and potential members, explains eligibility based on McCoy FCU's field of membership. The brochure is often the first exposure many young people have to financial terms, providing definitions of such terms as saving, deposits, interest, withdrawals, and balance, as well as a savings register and I.D. card. It also explains savings goals and includes ideas of how students might obtain the money to put into their savings accounts, that is piggy bank, birthday, allowance, chores, good grades, or jobs.

When a young person joins McCoy FCU's Youth Savings Program and opens an account for $5–$99, they receive several items appropriate to their age designed to encourage savings and to help them measure their progress in meeting their savings goals. McCoy FCU waives the $5 credit union membership fee for the young people who join, and there are no fees associated with Youth Savings Program accounts. To encourage their active participation and savings, young people earn various 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. Upon reaching 18 years of age, the participants receive a letter telling them that while they are no longer eligible for McCoy's Youth Savings Program, as fiscally responsible "graduates" of the Youth Savings Program they can now take full advantage of the many other services that McCoy FCU has to offer. The letter then proceeds to introduce them to other services that McCoy FCU offers its members, such as Share Draft Accounts.

In order to effectively reach out to all segments of the community and educate its young people about, and get them involved with, the Youth Savings Program, McCoy FCU spreads the word in a number of ways:

1. Various youth organizations (i.e., YMCA).
2. Partners in Education (Orange County School System).
3. Presentations at local schools and church youth groups.
4. Sponsorship of youth programs.
5. Word of mouth.

6. McCoy Financial Planner Newsletter.
7. Brochures in the credit union's lobbies and new accounts areas.

McCoy FCU's program has successfully prepared thousands of young people to successfully manager their financial affairs. As of May 31, 2001, McCoy FCU's Youth Savings Program had 4,589 members representing 8.3 percent of the credit union's total membership with savings totaling $3,176,587.

Promoting Financial Literacy in San Antonio

San Antonio City Employees Federal Credit Union (SACEFCU), which serves government employees in San Antonio, has about 32,000 members and $175 million in assets. SACEFCU was asked to prepare and teach basic financial courses for the San Antonio's Adult Basic Education and GED Preparation Program. The credit union was a logical choice for implementing this program because of the depth of financial knowledge and experience of its dedicated staff. The credit union, in turn, availed itself of information and assistance offered by a resource knowledgeable about financial education: the National Endowment for Financial Education (NEFE), a nonprofit foundation committed to helping Americans gain the skills and knowledge needed to control their personal finances.

SACEFCU adopted an educational curriculum initially developed and made available by NEFE. The curriculum includes courses on financial planning, cash now, spending and savings, credit and debt management, insurance needs, savings and investments, homeownership, and small business opportunities. The credit union also made use of instructional materials provided by the NEFE without charge. SACEFCU's financial literacy program is *free,* and the knowledge imparted via the curriculum is supplemented by guest appearances by area professionals and experts.

The first class taught by SACEFCU was a pilot program comprised primarily of people training to become literacy teachers themselves. Twelve trainers and eight students have graduated from the pilot course, taught entirely by SACEFCU.

SACEFCU realized that by committing itself to educating more people to become financial literacy trainers and teachers, they could more effectively promote financial literacy among its members and the San Antonio community at large—spreading the word of financial literacy. As a result, SACEFCU hosted a one-day "train the trainer" course for 24 city of San Antonio county agencies and private industry trainers. Eventually, with the financial literacy program well developed and solidly underway in San Antonio, SACEFCU stepped back with the city taking over the financial literacy classes.

Having been well established under the auspices of SACEFCU, the financial literacy course is now offered in a number of literacy centers in San Antonio throughout the year. Meanwhile, SACEFCU has maintained an active role in the advancement of the financial literacy program it conceived by periodically monitoring and auditing the classes. The city of San Antonio is very willing to share the curriculum for this program with others who share their interest so that other cities can benefit from San Antonio's experience as they develop their own financial literacy courses.

Realizing that true financial literacy and healthy saving habits are best fostered among the young, San Antonio has now enlisted SACEFCU to do for the city's children what it has already done for the city's adults: develop an age-appropriate financial education course. The credit union is now working on creating such a financial information program to teach local elementary school children about financial literacy and help foster an appropriate awareness of the value of money.

Conclusion

These examples of what credit unions are doing to promote financial literacy and savings are just two of many. Credit unions in every State regularly work with their members to educate them on financial matters, to increase their financial literacy, and to promote their personal savings. Credit unions by their nature have a special relationship with their members—one that has put credit unions on the front line in fighting financial illiteracy for years. Credit unions are in NAFCU's view critical partners in implementing any national strategy promoting financial literacy and education. NAFCU and the Federal credit union community stand ready to work with you as we move forward together.

SOME FACTS ON FINANCIAL LITERACY

Americans Lack Basic Financial Knowledge

- Americans scored an average of 42% on a 14-question test of basic knowledge of personal finances. Fewer than one in ten (8%) of the survey respondents answered three-quarters of the questions correctly.[1]

- The average American adult failed a test of basic economic concepts. Only six percent of adults tested received a grade of A. For example, 63% of adults did not understand the basic concept of inflation.[2]

- 82% of high school seniors failed a 13-question personal financial quiz examining their knowledge of issues like interest rates, savings, loans, credit cards, and calculating net worth.[3]

Financial Education Could Help Millions Enter the Financial Mainstream

- An estimated 10 million adult Americans have no relationship with a mainstream financial services provider.[4] Of the millions of households that have no relationship with a bank, one-third of these households are African American and 29% are Hispanic. One-fourth of all lower-income families are "unbanked."[5]

- A lack of basic consumer finance education, including lack of familiarity with how a checking or savings account works, has been cited as a major reason why millions of Americans do not set up such accounts.[6]

- Lack of access to mainstream financial services leads millions of Americans to rely on check-cashers, who often charge exorbitant fees. For example, fees for cashing personal checks average 9.36%.[7]

- Although estimates of the percentage of subprime borrowers who could qualify for cheaper conventional loans go as high as 50%,[8] a study using a conservative 20% figure projects that those borrowers annually pay $3 billion more in interest payments than they would pay at the lower rates.[9]

- Consumers pay $1.6 - $2.2 billion in fees on 55 - 69 million payday loan transactions a year.[10]

Inadequate Planning Places Many Americans in a Precarious Financial Position

- Fewer than 50% of American parents make a household budget and stick to it most of the time.[11]

- 49 percent of Americans age 18 - 34 say they are living beyond their means.[12]

- From 1995 to 1998, the median amount of family debt jumped from $23,000 to $33,300, an increase of 42%.[13] Debt service payments constitute approximately 14% of Americans' disposable income.[14] In 1990 the ratio of debt to after-tax income in the average household was 85%; today it is 104%.[15]

- Personal bankruptcy filings rose 8.8% – to over 1.3 million – in the 12-month period ending June 30, 2001.[16]

Growth in Credit Card Debt Pushes Americans to the Brink

- The average credit card debt per household has tripled over the past decade, to $8,123.[17] Over half of families that earn less than $10,000 a year have over $1,000 in credit card debt.[18]

- Americans owe more in credit card debt than for education.[19]

- Two in ten Americans are worried that they will not be able to make the minimum payment on their credit card balance.[20]

College-Age Americans are Particularly at Risk

- 78% of college students have at least one credit card; many students have four or more cards. The average credit card debt among undergraduates was $2,748 in 2000, a 46% increase since 1998. 9% of students carried a balance exceeding $7,000.[21]

- In 1998, four-fifths (81%) of college students had obtained their first card by the end of their freshman year.[22]

- The number of young Americans between the ages of 18 and 25 who declared bankruptcy in the 1990s nearly doubled, from 60,180 in 1991 to 118,000 in 1999. In 2000, young people accounted for about 7% of the nation's personal bankruptcies.[23]

Americans Are Forgoing Opportunities to Build Wealth

- Americans could earn $30 - $50 billion in additional interest each year by shifting traditional savings or money market accounts to higher-rate savings vehicles that are just as safe, such as certificates of deposit, high-rate savings accounts and Savings Bonds.[24]

- Only four in ten Americans correctly identify home equity as the most important way to build wealth.[25]

- The net financial assets of the typical U.S. household in 1998 amounted to less than $10,000 ($9,850). Among low- and moderate-income families, net financial assets amounted to less than $1,000. The typical household in the under-35 group had zero net financial assets.[26]

- About one in twelve American families (8%) had a negative net worth in 1998.[27] About one in eight families (12.1%) had net worth of less than $5,000. The median real net worth for families earning less than $25,000 decreased between 1995 and 1998.[28]

Wealth Building Is Especially Low Among Minorities

- As of the late 1990s, Hispanic Americans had a median family financial wealth of zero; African Americans had a median family financial wealth of $1,200.[29]

- As of the late 1990s, African Americans had a median family net worth of $10,000 - 12% that of Whites ($81,700). Hispanic Americans had a median family net worth of $3,000 - 4% that of Whites.[30]

- 75.5% of Hispanic Americans have not accumulated enough savings for retirement.[31]

Failure to Plan for Retirement Could Leave Millions Unprepared

- More than half of American families are not saving enough to preserve their standard of living in retirement. Three-quarters of lower and moderate-income families have not accumulated adequate savings.[32]

- Three out of ten individuals have not yet begun to personally save for retirement, up from one-quarter in 2000. While 69% of all households have some retirement savings, only 54% of African-American and 50% of Hispanic-American households do.[33]

- Surveys show that half of all Americans have not taken the basic step of calculating how much they will need to save for retirement.[34] Households with a savings plan save twice as much as those without a plan.[35]

- In 1997, nearly 63% of workers ages 25 to 64 did not own a retirement saving account.[36] In fact, 90% of those eligible for an IRA do not contribute.[37]

Lack of Basic Knowledge Poses a Problem for Investors

- In a recent survey, two-thirds of investors incorrectly believed that there is an "organization that insures you against losing money in the stock market or as the result of investment fraud."[38]

- Less than half of investors understand that the purpose of asset diversification is to balance both risk and return in achieving their financial goals, with 45% mistakenly believing diversification provides "a guarantee" that their portfolio won't suffer if the stock market falls.[39]

- Surveys have found that the main barriers to saving and investing by women are a lack of understanding about investing and financial planning.[40]

Children Are Being Left to Figure Things Out for Themselves

- Only 10 - 20% of high school seniors nationwide will have had any personal finance training by the time they graduate.[41]

- 45% of high school seniors indicated that parents and other family members are their main source of information about personal financial matters.[42] More than half of 14- to 16-year-olds (53%) receive little to no financial advice from their parents, however,[43] and only 26% of 13- to 21-year-olds reported that their parents actively taught them how to manage money.[44]

- Fewer than one in two high school seniors knew that they, themselves -- not the government, their parents, or their employers -- are responsible for providing the majority of the funds that they will need for retirement.[45]

- Children under 18 spend $150 billion annually, and 40% of young people ages 12 to 19 have access to a credit card.[46] 36% of high school seniors have an ATM or debit card of their own.[47]

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THE STATE OF FINANCIAL LITERACY AND EDUCATION IN AMERICA

WEDNESDAY, FEBRUARY 6, 2002

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The Committee met at 10:05 a.m. in room SD–538 of the Dirksen Senate Office Building, Senator Paul S. Sarbanes (Chairman of the Committee) presiding.

OPENING STATEMENT OF CHAIRMAN PAUL S. SARBANES

Chairman SARBANES. Let me call this hearing to order.

Today, we hold our second hearing on the state of financial literacy and education in the United States. We are very pleased to have such a distinguished panel of witnesses, all of whom bring significant expertise on this subject.

I think, as most people know, we began our exploration of this issue yesterday, when we heard from Treasury Secretary O'Neill, Federal Reserve Board Chairman Greenspan, and SEC Chairman Pitt. Their testimony underscored the urgent need for improved financial education in the United States. In fact, one witness observed in response to the Committee's questions, the problem of financial illiteracy in this country is one of "epidemic proportions."

Each of the agencies who testified yesterday are actively engaged in efforts to improve Americans' financial understanding, and I commend them for their commitment to this issue, and they are all developing additional initiatives.

Of course, as I noted yesterday, financial illiteracy is not a magical solution that will solve all the problems consumers face in making financial decisions. We obviously need a framework within which these activities take place that provide strong legal protections, vigorous enforcement, and best practices on the part of industry.

Nonetheless, financial education can go a long way toward preparing consumers to make decisions that will be in their long-term financial interest. As was noted yesterday, the costly consequences that inadequate financial education can have, includes such difficulties as: increased reliance on the high-cost fringe financial sector by those who find themselves closed out of mainstream banking institutions; predatory lending, when people are persuaded to borrow on terms they do not fully understand and cannot afford; the accumulation of dangerous amounts of credit card and household debt; the inability for people to save, to build a nest egg; and the inability to plan for a secure retirement.

I indicated yesterday that I think we need a national strategy to bring the public and private sectors together to address this problem of financial illiteracy. The commitment of yesterday's witnesses to improve financial education gives me some confidence that we can undertake increased coordination and cooperation on this issue at the highest levels of the Federal Government.

Today, we will hear from representatives of the private and nonprofit sectors, as well as a from State government. We had far more requests to testify than we could accommodate. And frankly, I am gratified that there are so many organizations and groups working on this issue. It is a testament to the growing awareness of the importance that financial literacy plays in helping people make the financial choices necessary to give them the opportunity to succeed in our society.

The panel before us today covers a broad spectrum of issues related to financial literacy and education, from school-aged children to young people who are handling credit for the first time, first-time mortgage borrowers, right up to those who are trying to save enough for retirement. I believe the testimony we will receive this morning will help to inform the development of a national strategy to address this issue and we look forward to working with each of you in the weeks ahead as we try to make progress on this issue.

Before I turn to our panel of witnesses, I will yield to my colleague, Senator Gramm.

STATEMENT OF SENATOR PHIL GRAMM

Senator GRAMM. Mr. Chairman, let me thank you for these hearings. I dedicated 12 years of my life as a college professor in trying to deal with economic and financial illiteracy. I was blessed to have very good students, but it is still an uphill battle. And they were in a position where they knew that I was going to ask the material on the test and they were going to have to explain to momma if they did not know the answer.

I think this is a very important undertaking. Obviously, today, we are talking about the budget in the Budget Committee, of which we are both Members. We are talking about tax provisions in the budget in the Finance Committee. Both of these things are more immediate.

But in terms of the long-term, the functioning of a system that is primarily based on individual decisionmaking and the freedom of people to do things right or make mistakes needs to be conditioned by people who have a certain level of understanding about finance.

I think it is fair to say that, from my mother on back probably to Adam and Eve, no one in my family ever owned any financial instrument, other than a Government savings bond or a savings account.

Today, it is common for young people to have 401(k)'s, retirement programs, IRA's, Roth IRA's. There is intense competition in the letting of mortgages, a high reward for competitive shopping in many areas of financial services. I think the better job we can do in getting knowledge and developing a knowledge base in society, the better off we will be.

I just want to say that I am very pleased that Denise Crawford, who is our Securities Commissioner, is here today from Texas. Also, I am very happy today that we have two of my favorite colleagues from my service in the House, Susan Molinari and David Dreier, with us.

Mr. Chairman, Senator Miller and I are going to have to go over, we are introducing an amendment at 10:30 a.m. So, we are going to stay until then and then we will run over. If we can, we will come back. But, again, thank you very much for coming.

Chairman SARBANES. Thank you.

Senator Miller.

COMMENT OF SENATOR ZELL MILLER

Senator MILLER. I have no statement.

Chairman SARBANES. Senator Akaka.

COMMENTS OF SENATOR DANIEL K. AKAKA

Senator AKAKA. Mr. Chairman, I want to thank you, too, for holding this hearing on financial literacy. And I want to thank the witnesses for appearing today, and look forward to their testimony.

In the wealthiest country in the world, we must increase the ability of citizens of all ages and backgrounds to manage their resources, participate in the workforce, make wise investments, and become better informed about public policy. All Americans need to have the necessary skills and information to prepare for a secure financial future.

The current economic recession highlights the importance of financial literacy. American families are now facing an enormous amount of financial stress. The Department of Labor reports that 7.9 million Americans were unemployed in January. These unemployment statistics do not include those whose hours and pay have been reduced. In Hawaii, bankruptcy filings for the third quarter of 2001 were 20 percent higher than in 2000.

It is obvious that financial stress is not solely caused by lack of financial literacy. There are many factors that can cause financial difficulty, including the bankruptcy of an employer or a reduction in tourism due to the September 11 terrorist attacks. However, having or knowing how to acquire financial knowledge can prevent or reduce the consequences of a difficult financial situation. Increased education about basic economic concepts will help people to make better financial decisions and increase opportunities for participation in today's global economy.

Today's hearing will feature organizations on the front line of financial education. Mr. Chairman, I am looking forward to your recommendations, their recommendations, and the Committee's recommendations on how we can increase financial literacy.

Thank you very much, Mr. Chairman.

Chairman SARBANES. Thank you, Senator Akaka. We very much appreciate your efforts in this area.

I am first going to recognize Congressman David Dreier, who has come over from the House to introduce his former colleague, Susan Molinari. We are very pleased to have Congressman Dreier with us. He actually has taken the lead on this very issue in the House of Representatives. He is the author of H.R. 61, the Youth Financial Education Act, which was a comparable piece of legislation to the proposal put forward by Senators Corzine, Akaka, and Enzi, who have played an important role in this area, and others.

That legislation authorizes grants to support financial literacy programs for students in grades K through 12, as well as developing a national clearinghouse for model programs and best practices. And actually, important aspects of that legislation were included in the recently-passed education legislation.

So, we are making some progress step by step here. And David, we very much appreciate your being with us. We would be happy to hear from you.

STATEMENT OF DAVID DREIER
A U.S. REPRESENTATIVE IN CONGRESS
FROM THE STATE OF CALIFORNIA

Representative DREIER. Thank you very much, Mr. Chairman, and Senators Gramm, Miller, and Akaka. Let me say that you are right on target, Mr. Chairman, when you said that you have so many requests for witnesses. The panel is even spilling over on the dais here.

[Laughter.]

So this is an issue which I believe is very important and you have really covered my testimony in talking about the legislation that I, Senators Akaka, Corzine, and Enzi have worked on. And also the fact that we were able to include this very important language in H.R. 61.

I think that when Senator Gramm mentioned the fact that issues like the budget that we are dealing with are extraordinarily timely, I think this is a very timely issue as well because with the mention of 401(k)'s, we know that there are a couple of hearings taking place on both sides of the Rotunda dealing with 401(k)'s. And when you think about the fact that we want to ensure that young people are in a position that they can make the best decision possible when it comes to their retirement and all kinds of other things, looking at education in this area is something that is critically important.

I do not know if there were U.S. Savings Bonds when Adam and Eve were investing, Phil, but the fact is, if you look at the fact that today——

Senator GRAMM. That is big enough, you would think there were.

[Laughter.]

Representative DREIER. Exactly right. There may have been.

[Laughter.]

The fact of the matter is, if you look at the number of choices and options that are out there today versus the time that your mother was simply investing in those savings bonds, it seems to me that the need for this kind of education is even more important.

And that is why I am very pleased that we have seen so many organizations step forward and, from my perspective, there is no one more important in this effort than Susan Molinari. As you said, Phil, she served with us in the House of Representatives. But she has also taken a lead role as the National Chairperson for the Americans for Consumer Education and Competition. And as the mother of two young daughters, she wants to ensure that they make all kinds of plans to take care of her in retirement, I am sure. So, she wants to make sure——

Ms. MOLINARI. As well as that guy I am married to, too.

[Laughter.]

Representative DREIER. Yes, exactly, because he has very expensive taste, we know, as well.

[Laughter.]

So making sure that the kind of education that is out there is very important. Susan has done a wonderful job in stepping forward and offering the kind of public presentation that is needed for this issue. I am very pleased that she has done that. I am going to have to go back to the other side of the Capitol, but I have taken a look at the testimony and will look forward to seeing the testimony of all of you. And I suspect that you have other panels as well here that you are offering, Paul.

I really applaud the fact that you have focused on these many, many different organizations that are committed to this goal, and I thank you for including me.

Chairman SARBANES. Thank you very much, Congressman Dreier, for coming over, and we look forward to continuing to work closely with you on these issues.

We will hear first from Susan Molinari. I will move across the panel. And I think what I will do is introduce each person as the time comes for your testimony. That way, we can link the introduction with the person, instead of doing it all up front in the beginning. As Congressman Dreier said, Susan Molinari is the National Chairperson of Americans for Consumer Education Competition, which was established 2 years ago to promote financial literacy in education among young people, directly the subject that we are concerned about, as well as to raise awareness among educators and legislators on the importance of financial education. The ACEC does a national survey of high school seniors, as I understand it, and I guess we will hear a bit about what that survey shows, but it is not very encouraging news.

Susan, we are delighted to hear from you. Thank you very much for coming today.

STATEMENT OF SUSAN MOLINARI NATIONAL CHAIRPERSON AMERICANS FOR CONSUMER EDUCATION AND COMPETITION

Ms. MOLINARI. Thank you so much, Chairman Sarbanes.

In his absence, let me begin by thanking Congressman Dreier for his kind introduction. I must emphasize that Congressman Dreier's efforts to improve financial literacy among our young people have gone back many years, including a piece of legislation he cosponsored with Congressman Earl Pomeroy, where they really got out in front in talking about this problem beginning in the 105th Congress, where he introduced a House Resolution Expressing Support for Personal Financial Literacy Programs and culminating with this year's passage, as you all know, with the No Child Left Behind Act.

Congressman Dreier, as well as everyone sitting with the Senators around this distinguished dais were very instrumental in ensuring that the No Child Left Behind Act included full funding of the financial literacy programs. This legislation earmarks $5 million specifically for financial education. And I commend all of you for that particular accomplishment.

Chairman Sarbanes, Ranking Member Gramm, Senators Miller, Akaka, as you know, I am Susan Molinari, Chairperson of the Americans for Consumer Education and Competition. I want to thank you for this opportunity to testify and participate in this very important dialogue to improve our Nation's financial literacy.

I would also like to recognize in particular Chairman Sarbanes for his leadership in initiating these hearings and helping to elevate the dialogue on financial literacy.

At a time when we do focus on the economic problems of our Nation, individually or collectively, I was very excited to come forth today and spend some time, not only in examining the problems, but also putting forth solutions. Obviously, educating the public, as you said, Senator Gramm, to make the right decisions or providing them with the best information to make their own decisions, is one way that we can make sure that some of these mistakes are not made in the future.

Teaching our young people to manage their finances should be as much a part of their curriculum as teaching them math or grammar. It is a subject that will affect them throughout their lives and will impact their ability to purchase a home, raise a family, and prepare for retirement.

Let me digress just for a minute to say that I am honored to be part of this board presentation here today where so many people sitting here and sitting in the audience have spent a significant portion of their lives working and promoting financial literacy.

And while I am honored to appear always before the U.S. Senate, I must admit that I am a little bit nervous because I am sitting two seats next to a former president of the college that I attended. When I was at the State University of Albany, Patrick Swygert was President. And so, one can imagine when you are a freshman or sophomore in college, if you ever thought you were this close to the president of your university, you were about to get kicked out of school.

[Laughter.]

So, I am delighted to now be sitting very close to Patrick Swygert and to work closely with him and to hear about his partnership with Freddie Mac that is also going a long way toward improving financial literacy in this country.

As we said, financial literacy forms the foundation that supports such American Dreams as homeownership and secure retirement. Sound financial skills are crucial to avoiding the pitfalls that result in many of our citizens, but particularly young people, getting into financial hot water or becoming victims of charlatans who prey oftentimes, as you correctly stated, on the financially illiterate. Quite simply, being financially literate is essential to controlling rather than being controlled by one's financial circumstances in life. And as Federal Reserve Board officials have pointed out, mastery of these financial ABC's by consumers is essential to the smooth and efficient functioning of our free market economy.

These hearings bear witness to the fact that you and your colleagues, Mr. Chairman, share the view of many of us in the financial community, that the sweeping education bill which President Bush recently signed into law is the beginning and an important first step, a downpayment, if you will, toward the financial education accounts of our Nation's young people.

Let me at this time also thank and recognize Senator Corzine for the leadership that he has taken in making sure that this provision was championed in the Senate and passed, along with Senators Enzi, Akaka, Jeffords, Harkin, Kennedy, and, of course, Senator Sarbanes. Chairman Boehner of the House Education Committee, along with Congressmen Dreier and Pomeroy led the House.

Now let me just begin my official testimony by asking the five most frequently-asked questions when we talk about financial literacy programs for younger people.

First, how bad is the problem? Well, let's look quickly at the bottom line. Here's a study that caught my eye 2 years ago when we were first forming ACEC. It was a 1999 study done by the National Council of Economics test of basic economic principles.

Adults received a 57 average grade. High school students scored 48 percent. Half of the adults and two-thirds of the students did not know at that time that the stock market provides a venue for people to buy and sell stocks. Now, I bet that number has gone up a little bit, but that is kind of an amazing statistic to know that occurred in 1999. Less surprising is the statistic that says that only 54 percent of adults and 23 percent of students knew that when Government spending exceeds its revenue, a deficit is created, a test I think many on Capitol Hill would not do so well on these days.

ACEC should add to this data, as you said, and we reported last year with a survey in which we surveyed over 800 high school seniors and juniors basic economic principles. Eighty-two percent failed that survey. We tested them on real life questions such as interest rates, loans, et cetera. Now that plays out in real life because it is not just surveys. According to Norton Bankruptcy Law Advisor, over a 10 year period, from 1991 to 2001, individuals between the ages of 25 to 34 declaring bankruptcy rose from 417,000 to 464,000.

Second, now that we have established that there is a problem, why are we suggesting that these problems be solved at the blackboard rather than at home by their parents? While we may be great parents, ladies and gentlemen, we are not great investors and we are not great savers.

Fifty-six percent of U.S. households have failed to save enough for retirement. Fifty-three percent of Americans report that they oftentimes live paycheck to paycheck. And remember that first Lou Harris poll that I cited—parents, as well as their teenagers flunked that test. Moreover, a VISA USA survey revealed that 81 percent of parents want their children to get solid finances taught in schools because they want their children better prepared to manage their finances than they were and they are.

Third, should we ask our teachers to assume one more responsibility in preparing our children for the future?

I would answer that as we raise the next generation to be successful don't we have an obligation to train them to deal responsibly with that success? For when they are not adequately taught, retirement plans are not funded, medical plans are not paid, bankruptcies are absorbed by consumers one way or the other and our economy is overall negatively impacted.

Fourth, do financial literacy courses work?

Students, like those at Woodrow Wilson High School's Academy of Finance here in the District of Columbia, offer insights into the value of personal financial classroom instruction. Whereas just 146 of the 801 seniors taking ACEC's 2001 personal financial quiz were able to achieve a passing grade, all of Woodrow Wilson's 12th graders passed. They did so after just one semester of personal finance instruction that included everything from borrowing money all the way to estate planning.

Similarly, the National Endowment for Financial Education's High School Financial Planning Program made a significant difference in the financial skills of students taking that course work. A survey of teens who completed this program found that nearly half knew more about credit cards and nearly two-fifths knew more about investments. The knowledge gained also brought important behavioral changes in the teens. Nearly two-fifths improved their skills for tracking spending, and nearly half began to save or began saving more. More importantly, teens taking the Financial Planning Program retained what was taught to them and used their practices in their daily lives.

Let me also just say on this subject, when we went into these classrooms, it not only took the valedictorian and made them good financial planners. What it did was it took kids that I talked to who said, you know what? They were about to fail junior year and senior year math. Then, all of a sudden, their teacher said, let's look at that loan you want to take for the car of your dreams. Let's start to take the college applications that you are going to have to fill out. All those people who want to join a gym. Let's look at the financial programs that they have for them. The math all of a sudden had tremendous relevance to the children that were learning it and they picked it up and they ran with it.

You know what it did? It gave them power. It was no longer just a class about math or applied science. It gave them power, oftentimes, for children in very powerless situations.

Teachers can incorporate financial literacy curriculum into their applied math or economic courses right now by accessing the Internet. The ACEC website contains a course prepared by Professor Howard Black who was formerly of Howard University and now at the University of Tennessee that can be downloaded for use in the classroom.

I know that Project Jump$tart always has their websites filled with curriculum. And the truth is, Senator, when I travel, the people that I talk to referring to the public-private partnerships that you referred to in your opening statement, no matter where I go to speak on behalf of financial literacy, people who are investment counselors, retired bankers, raise their hand and say—I would love to be a part of training my community because I have seen what happens to this community when the wrong decisions are made. So, you are right. There is a wealth of people out there who know the mistakes that have been made and are anxious to get into the classrooms to help the teachers.

Fifth, can we afford to teach financial literacy courses? Of course the answer is, we cannot afford not to. The poet e.e. cummings once said: “I am living so far beyond my income that we may also be said to be living apart.” That might be funny were it not for the fact that too many Americans have the same relationships with their financial life, myself included. Working together to improve the financial literacy of our young people we can reunite consumers and their income so that they may live comfortably and productively under the same roof.

Chairman Sarbanes, thank you for the great honor of giving me the opportunity to testify before you all this morning.

Chairman SARBANES. Thank you very much, Susan. It is very helpful testimony.

We have been joined by Senator Corzine, who has, of course, played a very important role in moving these efforts forward. Jon, do you have a statement?

COMMENTS OF SENATOR JON S. CORZINE

Senator CORZINE. I have one, but I would rather listen to the witnesses.

Chairman SARBANES. I want the witnesses to know what a great deference that is to the witnesses.

[Laughter.]

Senator CORZINE. I believe that they can make the case that we have a lot of work to do here to bring financial literacy to our children, to adults in full life experience. And I think it is terrific that you all are here and I thank you very much and look forward to hearing your testimony.

Chairman SARBANES. Very good.

We will now hear from Steven Brobeck, who is the Executive Director of the Consumer Federation of America. CFA has been actively involved in educating consumers about financial matters. It has been an invaluable resource for anyone with an interest in the many ways in which Americans, particularly low-income Americans, become entangled in unfavorable or abusive financial transactions.

We very much appreciate Mr. Brobeck being with us. Actually, Steve, I understand you were on ABC’s nightly news last night on this issue with reference to yesterday’s hearing. So, we are trying to raise, obviously, the profile of this issue and see if we cannot get a national commitment to it. We would be happy to hear from you.

STATEMENT OF STEVEN BROBECK
EXECUTIVE DIRECTOR
CONSUMER FEDERATION OF AMERICA

Mr. BROBECK. Thank you very much, Mr. Chairman, Members of the Committee.

CFA greatly appreciates the opportunity to discuss the financial education needs of lower-income adult Americans, effective ways to meet these needs, and the role of the Federal Government in this education. These needs are so pressing because the poor and near-poor have few financial resources to waste, but relatively poor skills in managing these resources. Most of some 35 million households with incomes under $25,000 have net financial assets excluding home equity of less than $1,000.

Yet, they tend to be charged high prices because of their economic condition, where they live, and their low literacy levels. Because these households often lack basic reading and math skills, they frequently have difficulty conducting effective product searches and they also tend to be vulnerable to seller abuses.

Individuals who do not understand percentages, for example, may have difficulty learning the costs of mortgage and consumer loans. Those who read poorly may not be able to check whether the oral promises of sales persons are written into contracts. And those who do not write fluently are limited in their ability to resolve problems by writing to sellers or to complaint agencies. And then consumers for whom English is a second language face special challenges obtaining good value in their purchases.

Over the past decade, the financial vulnerability of lower-income Americans has increased simply because of the greater availability of credit. During the 1990's, credit card debt rose from about $200 billion to more than $600 billion, and unused bank card credit lines to more than $2 trillion.

Just the fact that most recent Chapter 7 bankrupts have incomes well under $30,000, and that credit card debts that approach these incomes, indicates that the growing availability of credit cards to lower-income households confers financial risks as well as benefits.

In the same period, the expansion of subprime mortgage lending and high-cost small loans marketed largely to lower-income households, also increased their financial vulnerability. This vulnerability cannot be reduced without effective financial education. In our view, there are five important characteristics of this education.

First, it must seek to change behavior, not just improve knowledge. Effective financial education must help ensure that consumers adequately apply the knowledge that they learn.

Second, effective financial education must include attractive, useful knowledge that is relatively easy to apply. The knowledge that can be communicated most easily and effectively to large numbers of adults who are unlikely to return to the classroom after they leave school takes the form of relatively short, simple messages containing built-in motivators about how to meet financial needs and attain financial wants.

Third, effective education must address values, as well as knowledge. Most importantly, it should raise basic questions about the role and value of consumption in people's lives.

Fourth, this education must provide chances to learn by doing, as well as by studying. It should include opportunities to participate in the marketplace through actual and simulated experiences.

Fifth, effective financial education should be part of a comprehensive national plan for increasing the financial literacy of all Americans. Unfortunately, at present, many worthwhile financial education programs do not reflect any broad, compelling vision and reach only a small minority of the population.

We need a comprehensive plan, in our opinion, with the following elements. A rigorous assessment of financial education needs. Identification of those populations with especially pressing needs. Evaluations of existing programs to develop the most promising strategies for meeting these needs. A campaign to organize broad social and political support for these strategies. And finally, continuous evaluation of the successes and failures of these strategies.

In our view, only the Federal Government has the concern, the objectivity, and the resources to effectively lead the development and implementation of such a plan. We recommend as a first step that it initiate a major study of the Nation's financial education needs and the most effective strategies for meeting these needs. We also suggest that the study considers the feasibility of a separate U.S. Office of Financial Education that could undertake new research and test new programs.

In closing, we would echo what you said yesterday, Mr. Chairman, that while financial education is needed to reduce the financial vulnerability of lower-income Americans, this education by itself is not sufficient. It must be coupled with effective consumer and investor protections. Only a sensible combination of financial education and regulation can help ensure that consumers manage, spend, borrow, and save their money adequately.

Thank you.

Chairman SARBANES. Thank you very much. We appreciate that statement.

Next, we will hear from Patrick Swygert, President of Howard University, who is speaking on behalf of the Historically Black Colleges and Universities.

Yesterday, it was mentioned in our hearing that 78 percent of U.S. college students have at least one credit card, and many of them graduate with thousands of dollars of credit card debt.

The number of bankruptcies amongst those 18 to 24 years has gone up—it has doubled in less than a decade. Recognizing students' need for guidance on managing the responsibility that comes with having a line of credit, Dr. Swygert and other leaders of the Historically Black Colleges and Universities have been in the forefront in improving financial literacy among college students. So, we are very pleased to hear from you, sir.

STATEMENT OF H. PATRICK SWYGERT PRESIDENT, HOWARD UNIVERSITY APPEARING ON BEHALF OF HISTORICALLY BLACK COLLEGES AND UNIVERSITIES

Mr. SWYGERT. Chairman Sarbanes, thank you very much for this opportunity, and Members of the Committee, Senators Dodd, Corzine, and Akaka, thank you so much as well.

My name is Patrick Swygert and as Chairman Sarbanes has indicated, I have the privilege of being President of Howard University, and also the privilege of being a former President who had the opportunity to share some time at the State University of New York at Albany with one of our most distinguished graduates, Congresswoman Susan Molinari.

Chairman SARBANES. You were certainly a privileged college president to have her in your student body.

Mr. SWYGERT. Yes, indeed.

[Laughter.]

Mr. Chairman, I would like to submit for the record my written statement and highlight one or two items that are found therein.

Chairman SARBANES. Your full statement will be included in the record.

Mr. SWYGERT. Thank you. Mr. Chairman, as you indicated, Howard University and the Consortium of Historically Black Schools and Colleges have worked very, very hard and, indeed, I believe, are in the forefront of dealing with one of the great challenges confronting American college-age students. Namely, their use and, far too often, misuse, of credit cards.

Let me say at the outset, however, Mr. Chairman, that if used responsibly, credit cards allow students to build up credit histories that facilitate increased access to credit in the future.

However, if college students have not learned financial management skills in their secondary education, or from their parents, and if they misuse their credit cards or mismanage their credit card debt, the disadvantages far outweigh any supposed advantages.

In order to protect students from unnecessary debt accumulation, all learning institutions, Mr. Chairman, have an obligation to promptly educate such students on credit card consumer debt and the dangers of credit card debt.

Howard University is already addressing the national financial literacy problem as it relates to African-Americans and to other minorities.

In partnership with Freddie Mac, Howard and four other historically black colleges and universities—Benedict College, Clark Atlanta University, Florida A&M University, and St. Augustine's College—are participating in the CreditSmart program, which seeks to develop a comprehensive, classroom-based consumer education curriculum for college students.

Students are provided with an overview of credit and credit management; insight as to how lenders access credit histories; and the key steps to achieving financial goals. The curriculum's mission is designed to increase financial literacy by enhancing successful lifelong money management skills.

This morning, Mr. Chairman, I am accompanied by the Director of that program, the CreditSmart Project, Manager and Professor of Finance at Howard University, Dr. Debby Lindsey. Also, I am accompanied by our Senior Vice President for Government Relations, Dr. Hassan Minor, who has been instrumental as well, and his staff assistant, Mrs. Andrea McIntosh.

Now, Mr. Chairman, we have found, in cooperation with Freddie Mac and our other partners, that what we characterize education for financial literacy as indeed, very hard work. No one should believe that simply attending a seminar or two, or a program or two, or an awareness session or two, will imbue students, whether they be middle school students, high school students or college students, with the necessary intellectual wherewithal to manage their way through the welter of financial instruments and opportunities available to them. It is hard and intensive work.

I think these hearings are terribly important inasmuch as they underscore both the intensity of the issue and also the need for a national strategy to address it.

We have a number of other strategic partners, Mr. Chairman, that I would just like to mention, if I may, before concluding my remarks at this phase of the hearing. Namely, we have a relationship with our strategic partner, the Fannie Mae Foundation, which has developed a personal finance initiative that Howard is participating in as well.

In addition, we are well aware of, and we certainly support the National Urban League, the Coalition of Black Investors' Investment Education Fund, and the Investment Institute Education Foundation, for the role that they are playing in seeking to raise awareness of these issues within the African-American community in particular.

We also take this opportunity to acknowledge a program entitled, "Are You Credit-Wise?," a program funded and sponsored by MasterCard which provides a financial education program on a peer-to-peer basis. At Howard University, indeed, we have two student interns, Ms. Marsha Ann Brown and Ms. Stella Stiles, who are involved in this peer-to-peer counseling which is also so terribly important.

Mr. Chairman, again, thank you so very much for this opportunity to share these brief remarks with you and I look forward to any questions you may have.

Thank you, sir.

Chairman SARBANES. Thank you very much. And your full statement will be included in the record.

We have been joined by Senator Dodd and I will yield to him if he has any statement.

COMMENTS OF SENATOR CHRISTOPHER J. DODD

Senator DODD. First of all, Mr. Chairman, just to apologize for being a bit late, but we had a hearing on long-term care for the elderly, a joint hearing this morning, and I apologize for getting up here late.

Susan, welcome back to familiar territory to you. And to all of the witnesses here.

Thank you all very, very much.

Chairman SARBANES. Thank you very much.

Senator DODD. Thank you, Mr. Chairman. This is a very important set of hearings. As we mentioned yesterday, Senators Corzine and Akaka, I know that a lot more attention is being paid to a very specific case, the Enron case. But in a sense, what we are doing here may have more to do in the long-term—with addressing some of the underlying problems here than many other things we may suggest. So, I am very grateful to the Senator from Maryland and Senator Corzine and others who have really made education in this area such an important point.

Chairman SARBANES. The Committee will turn its attention to Enron beginning next week with a series of hearings.

We had originally scheduled this hearing on financial literacy for September 20. We had Chairman Greenspan, Chairman Pitt, and Secretary O'Neill as our witnesses. Of course, we had the events of September 11. So the focus of that hearing shifted off to whether we could get our markets up and functioning again and get back into action. We then scheduled the hearings for yesterday and today. I was determined we were going to carry through with them.

There is always something, the hot topic of the moment, that can divert you off. And we will go to that issue, as I said, next week. But we very much wanted to move ahead on this schedule. And those on this panel have been very gracious in arranging their schedules so that we could bring you all in at the same time. This is a long-term issue, but we intend to stay with it and see if we can't make a difference.

Next, we will hear from Don Blandin, who is the President of the American Savings Education Council. ASEC is a leader on the issue of retirement saving. It has focused on public awareness about saving through ads, public events, national surveys, such as the 2001 Retirement Confidence Survey. Their work actually becomes even more essential when we consider that the largest generation in history is set to start retiring at the end of this decade.

Mr. Blandin, thank you for coming. We would be pleased to hear from you.

STATEMENT OF DON M. BLANDIN, PRESIDENT AMERICAN SAVINGS EDUCATION COUNCIL (ASEC)

Mr. BLANDIN. Thank you, Mr. Chairman. I am pleased to join you for your second day of hearings.

I was in this same building yesterday for your other hearings and found it was very interesting and even had an opportunity to give a several minute summary on CNN this morning, since they seem to be interested in this topic as well.

I am Don Blandin, President of the American Savings Education Council, a coalition of public- and private-sector organizations that promotes financial education to adults and to children. We believe that coalition-building, the public- private-sector partnerships, are the key to increasing financial literacy in the United States.

Within ASEC, we are bringing together a large and diverse group of institutional representatives from various sectors who may not always sit at the same table, but have discovered that they share a common goal and can help educate more Americans by leveraging each other's networks and resources.

I will not address the need for financial literacy and financial education, since that is well-documented and was highlighted during yesterday's hearing with prominent Government leaders. Rather, I would like to highlight several examples of best practices and encourage others to benefit from and, in some cases, replicate these efforts.

As background, here are some key findings from a national field study recently done by the Institute for Socio-Financial Studies and commissioned and supported by the Fannie Mae Foundation.

Financial education is most often provided by communities, by employers, by faith-based organizations, and within the military, the study found. The most recently taught topics are: Budget and money management, saving and investing, credit and debt, 401(k) investing, and how to pay for school and health care, health care being a very important growing issue.

The biggest challenges that program leaders and managers face in these programs are having enough resources to run the program, inexperience in reaching out to different cultural groups, and being able to attract or expand the program to reach even more participants than they currently do, a comment that I think echoes the concern of Steven Brobeck. What helps a program to be successful?

The study found that a clear mission statement, targeted outreach, adequate resources, successful evaluation and follow-up, measurable results, essentially, easy access to the program, a relevant curriculum, and what they called dynamic partnering.

The issue of retirement savings and financial education has long been a policy concern in Congress and some Members of this Committee helped to enact the 1997 Savings Are Vital To Everyone's Retirement Act, also known as the SAVER Act. As mandated by the SAVER legislation, the first White House and Congressional summit on retirement savings was held in 1998, and the second summit is scheduled later this month on February 27, here in Washington.

In my written testimony, you will see the results of a Delphi survey conducted to evaluate ideas generated by the 1998 summit delegates on ways to help Americans better save for retirement and become more financially secure.

The top five financial education ideas that came out of that process include:

Educate people about the benefits of starting to save early.

Educate people about the cost of retirement, including the increasing costs of health care.

Encourage the use of payroll deductions.

Develop financial curriculum for high schools and colleges.

Provide simple, easy-to-use information on retirement savings.

These were some of the top recommendations coming out of the Delphi study of the first White House and Congressional summit.

The Emmy award-winning *Choose To Save®* financial education campaign was cited in 1998 by summit delegates as the type of campaign that should be conducted throughout the Nation. Today's national *Choose To Save®* program, underwritten by Fidelity Investments in the Washington, DC market, includes ongoing news coverage and special programming through our DC media partners, WJLA–TV Channel 7, WGMS radio, and WTOP radio.

In April, 2000, the *Choose To Save®* program hosted a forum on retirement security that brought together key representatives in the public, private, and nonprofit sectors to share expertise and best practices. The top six initiatives ranked by participants included:

Creating a national media campaign to raise public awareness.

Promote negative election as a default design feature.

Promote consumer financial literacy in K–12.

Promote financial planning tools and websites through the Social Security Administration's benefit statement mailings.

Promote preservation/rollover through the use of waivers recognizing foregone future accumulations.

Require automatic rollover of lump sums as a default design feature in retirement plans.

In my written testimony, I go into detail about the *2001 Parents, Youth & Money Survey,* cosponsored by the Employee Benefit Research Institute, ASEC, Matthew Greenwald & Associates, and underwritten by the TIAA–CREF Institute.

The findings of this and other studies support the important work of such organizations as the Jump$tart Coalition for Personal Financial Literacy, whose objective is to encourage curriculum in schools to ensure that every student graduates from high school with basic personal financial management skills.

According to recent research by the National Conference of State Legislatures, only seven States currently include personal finance instruction in a required course. But there are some exciting new efforts, one of which was mentioned yesterday. There is a new learning tool called *Money Math: Lessons for Life.*

The Treasury Department, the Jump$tart Coalition, and other partners have developed four free lesson plans that can be included in middle school math curriculum that teaches important personal finance skills to students in grades seven through nine, essentially those middle school students where I think it is very important to start, again, as early as you can on basic money management.

America is the land of opportunities, but many Americans are opting out of their opportunity to build personal wealth by overspending, carrying excessive credit card debt, and not participating in their company's employment-based retirement plans.

I urge employers that have not yet done so to join us in our mission to help educate their employees and other Americans about personal finance. And I leave you with five lessons I have learned over the years about public- and private-sector partnerships and coalition-building, as we are beginning down this road through these hearings.

You should emphasize personal relationships.

You should make sure that any alliance you form is a two-way street.

You should have patience.

You should be flexible.

And most of all, think big, since the purpose of a coalition is to accomplish something that no one entity could accomplish alone.

Mr. Chairman, Members of the Committee, I thank you for the opportunity to speak with you today. I request that my full testimony be placed in the record and at the appropriate time, I would be glad to take questions or answer any written questions following the hearing.

Thank you.

Chairman SARBANES. Thank you very much, sir.

Next, we will hear from Tess Canja, President of the Board of Directors of AARP and who has visited with us before. We are pleased to have you back before the Committee.

Many older Americans, particularly older women, are finding themselves ill-prepared to make the type of complicated financial decisions required of them in their later years. And as our hearings last summer demonstrated, the hearings on predatory lending, seniors are often targeted as victims for abusive loan terms and other devastating financial arrangements. We know that this is an issue in which AARP has interested itself for quite a period of time, and we would be happy to hear from you.

Ms. Canja.

STATEMENT OF ESTHER "TESS" CANJA PRESIDENT, AARP

Ms. CANJA. It is so very good to be back. Thank you and good morning, Chairman Sarbanes, and distinguished Members of the Committee. I am, as you know, Tess Canja, President of AARP. And if I may, I would like to ask that my longer written statement be submitted for the record.

AARP considers the work being undertaken by this Committee regarding financial literacy to be critical in its focus and in its timing. If there is a positive aspect of the Enron debacle, it is that we need to clearly understand the investment process and to protect fair play in it.

The policy debate over the issue of Social Security and its benefits has provided additional focus regarding the risks of private investment.

To be certain, developing effective financial literacy and services and programs should not be viewed by anyone as a substitute for clear and strong oversight and enforcement of investor protection laws and regulations. However, we see a need for a national strategy for making available well-esearched and well-evaluated programs for financial literacy.

AARP has long been active in conducting research and providing financial education and counseling services to our members. On the one hand, we have learned from an independent analysis of 1994 Health and Retirement Study data, prepared for AARP that low levels of savings and high levels of personal and real estate debt are serious problems for many households nearing retirement. On the other hand, there has been a sustained trend of great popular participation in the stock markets and an increasing reliance on these investments for retirement income.

According to the Census Bureau, more than 28 million Americans over the age of 65 rely to some extent on investment income to meet their living expenses. Three quarters of older persons depend on investment income to meet 25 percent or more of their total income. This trend is likely to accelerate as the Baby Boomer generation ages and defined contribution pension plans replace defined benefit pension plans. These findings raise important policy questions about how to improve the financial literacy of all Americans.

In 1998, AARP commissioned a national telephone survey of 1,500 adults aged 18 and older. Four questions were asked to provide a general indication of the level of investment knowledge possessed by this sample of consumers. The specific questions asked are cited in my written statement. Among consumers under the age of 65, 12 percent answered all four questions correctly, while only 6 percent of the age 65 and over could do it.

The growth in the proportion of Americans investing in the stock market appears not to be well supported by a corresponding knowledge about fundamental product features, charges and risks.

In April 2001, AARP contracted for a study of persons age 50 through 59 to gain more information about their interests in financial planning and management. Among the key findings of this unpublished survey, when asked about their level of confidence in a financially secure retirement, only 2 in 10 respondents say they are either extremely or very confident that they will have enough money to live comfortably throughout their retirement years.

When respondents were also asked to rate how important it was for them to learn about each of 22 different financial topics, more than 6 in 10 say Social Security, that the benefits are important to learn about. However, less than half as many consider knowing how much money they will need in retirement or about sources of retirement income as important topics to learn about. And less than 1 in 4 picked any of the other topics such as investment, savings, tax strategies, and interest in inheritance issues as being among the top five.

In conclusion, the need and the demand for financial literacy programs and services will continue to grow. We look forward to working with you, Chairman Sarbanes, and Members of the Senate Banking Committee, on both fronts—strengthening investor protections and strengthening the investor.

Thanks for this opportunity to testify today and I would be happy to answer any questions that you may have.

Chairman SARBANES. Thank you very much. Your full statement will be included in the record.

We have been joined by Senator Stabenow, who has taken a keen interest in this issue. Debbie, did you have any comments that you wanted to make?

COMMENTS OF SENATOR DEBBIE STABENOW

Senator STABENOW. Well, thank you, Mr. Chairman. I would just welcome all of our guests that are with us today. And in particular, I would welcome Tess Canja, who has been with us before, who is a friend from Michigan. We go back some 25 years, Mr. Chairman. I won't say how old we were then.

[Laughter.]

But it is a pleasure to have all of you here. I will have an opportunity and do have some questions that I would like to ask at the appropriate time.

Chairman SARBANES. Well, you both started out at an extremely young age in these public policy matters.

Senator STABENOW. That is correct.

[Laughter.]

Chairman SARBANES. That is my understanding.

Next, we will hear from Raul Yzaguirre, President and CEO of the National Council of La Raza. As part of its campaign to improve economic opportunity for Hispanic Americans, La Raza is actively engaged in financial education efforts. And through its extensive work with community-based groups, La Raza is raising awareness of this critical issue.

Raul, we are very pleased to have you with us. We would be happy to hear from you.

STATEMENT OF RAUL YZAGUIRRE
PRESIDENT AND CHIEF EXECUTIVE OFFICER
NATIONAL COUNCIL OF LA RAZA

Mr. YZAGUIRRE. Thank you, Mr. Chairman, for that very kind introduction and for this opportunity to speak here today on behalf of the National Council of La Raza.

Before I begin, I want to thank you, Chairman Sarbanes, for helping make Raoul Campos a prospective nominee to the U.S. Securities and Exchange Commission.

As you know, the National Council of La Raza is the largest Hispanic constituency-based organization. We have been working for many years in an effort to address the economic issues faced by Latino working families. An important element of this work is to explore the financial security of Latino families, which includes focusing on issues such as savings and investment, retirement security, pension coverage, homeownership, tax policy, and financial literacy.

In light of this, I appreciate this opportunity to address you about how important financial literacy and education is to improving the economic status of Latino families in the United States.

In recent years, it has become clear that the economic well-being and financial security of families is not simply predicated on one's income from work. Financial security today is defined by net worth or wealth of a family or a household. Thanks, in large part, to a vibrant financial services market, American families have become wealthier and more financially secure, even though their incomes have grown at a more modest rate.

Unfortunately, as most Americans benefited from the economic boom of the 1990's, Latinos have been left behind. As Chairman Alan Greenspan mentioned yesterday, while the median family net worth of most families increased, the median Latino family net worth decreased in the 1990's. By 1998, the ratio of family net worth between Anglo-white families and Latino families was 27:1—that is, 27 times larger than the Latino net worth. Just as appalling, when home equity it taken out of the equation, we find that Hispanic families have a median financial wealth of zero. Just remember that this is despite increases in income and decreases in poverty for Latino families.

This wealth gap exists due to many factors, including lack of knowledge and adequate information about the financial services industry and insufficient kinds of financial products to meet the distinct needs of Latino families.

These barriers keep Latino families from becoming active participants in the financial market and in turn inhibit them from accumulating assets and reaching financial security. They can be addressed through financial education, which leads to a finally literate community. Improvements in financial literacy and financial education opportunities for Hispanic families are critical to financial security.

It is eminently clear that our Nation's current and future economic security is increasingly dependent on the Latino community. Today, there are more than 35 million Hispanics in the United States mainland, and an additional 4 million American citizens on the island of Puerto Rico. One in eight Americans is Latino. We are more than one in ten workers and one in five students.

The number of Hispanic-owned businesses has continued to rise dramatically and Latinos have a purchasing power that exceeds $450 billion annually. Latino financial well-being has benefits and the lack thereof has consequences for all Americans.

Due to the lack of Latino participation in the financial services arena, the enormous potential that Latinos have to contribute to this country's economy is untapped.

According to the Survey of Consumer Finances, in 1995, nearly one-third of Latinos did not have a basic checking or savings account, compared to just 13 percent of Anglo whites. The drawbacks to not owning a transaction account are manyfold. Your money is less secure and it does not accrue interest and you are subjected to check cashers and predatory lenders that, at the very least, charge exorbitant fees for their services. In addition, you do not have access to other services or products that are necessary for asset accumulation. How do we provide information about saving in beneficial ways for Latinos to access financial services?

First, successful financial education programs have to be responsive to cultural nuances within the Latino community. This means that simply translating all materials into Spanish mostly fails to elicit the hoped-for response. Many Hispanics that need financial education were born in this country or speak fluent English.

As you cited yesterday, Mr. Chairman, another issue that affects various Hispanic communities is remittances. Remitted money serves not only as an alternate form of savings, but also as a critical source of investment capital for countries that are often suffering economically.

In 1999 alone, over $13 billion was wired from the United States to Latin America. However, one of our concerns is that those who remit money are paying too much for these services. Fortunately, there are increasingly more services available from credit unions and even some banks that will wire money abroad at a much more reasonable cost than traditional money-senders. In addition, these services are more frequently being linked to savings or checking accounts in the United States, further encouraging participation in financial services.

Second, effective financial education programs for Latinos link education to accessing a product or service, which provides strong incentives for Latinos to take time to attend classes and to ask questions.

Third, successful education programs are delivered by groups that the community knows and trusts. Evidence suggests that for Latinos, the best vehicles for financial education are community-based organizations, or CBO's, that already have strong relationships with the community.

I would like to highlight two noteworthy Federal programs that combine these elements: The Individual Development Account program, or IDA's, and homeownership counseling programs. The IDA program is a Federally-sponsored program that provides incentives for savings and asset accumulation among low- and moderate-income people by matching participants' savings. As part of this program, IDA accountholders must attend mandatory financial education classes, often provided by CBO's administering the IDA program. Preliminary data has been very promising. Latinos are not only getting educated, they are also saving more.

Also, the Federally-sponsored homeownership counseling programs offer another model for effective financial education. A number of local NCLR affiliates provide prepurchase counseling, both to people who are ready to buy a home and to those who are just starting the process of saving for their first home. The education and assistance provided are effective for both groups because they are directly linked to achieving the goal of homeownership.

All that being said, more information is needed about best practices and approaches to improving financial literacy. However, we do know that such measures are only useful insofar as they result in mature improvements in the asset level and financial security of Latino families nationwide. That is why we must have a national partnership among the Government, community-based groups, and advocates in the financial services industry. The Federal Government can tap into Latino economic potential by taking public policy measures to foster financial education efforts.

The National Council of La Raza recommends expanding the existing IDA grant program to $500 million and including a clear intent to target such programs to serve more Latinos.

As President Bush proposed in his fiscal year 2003 budget, NCLR also recommends expanding the homeownership counseling program to at least $35 million this year. Furthermore, creating initiatives that entice the financial sector to play a bigger role in providing services, education, and opportunities for underserved communities would do a great deal to reach millions of people and increase the Nation's financial literacy.

Mr. Chairman, we will do our part. We are committed to serving the community by providing the financial education that underscores the importance of financial literacy and the opportunities it presents.

Finally, the financial services industry has an important role as well. It should become more involved in financial education efforts by partnering with community-based groups. They should also create new products to meet the needs of Latino families. This will benefit Latinos, as well as the institutions themselves by building trust in the community and shaping future customers to be informed consumers.

We all have a role to play in increasing financial literacy. It is important for the country that all Americans understand the financial market and that all Americans participate in it fully.

I thank you for allowing me to speak here today and I look forward to working with you in the future to help make all American families financially secure.

Thank you, Mr. Chairman.

Chairman SARBANES. Thank you very much.

Our concluding panelist this morning will be Denise Voigt Crawford. Ms. Crawford is a Securities Commissioner for the State of Texas. Surveys have consistently shown that most Americans do not understand the basics of investing. Ms. Crawford has been actively involved in financial literacy programs and investor education programs in Texas.

We are very pleased that she is here with us this morning. We would be happy to hear from you.

STATEMENT OF DENISE VOIGT CRAWFORD TEXAS SECURITIES COMMISSIONER TEXAS STATE SECURITIES BOARD

Ms. CRAWFORD. Thank you, Mr. Chairman. I am delighted to be here among such good company. As I hear the speakers today talk about their programs and their goals, I am very impressed with what has been done so far.

Chairman Sarbanes and Members of the Committee, unfortunately, despite these incredible efforts that have been made, these surveys that Ms. Molinari was discussing earlier show that we do continue to have financial and security and investment crisis in this country in terms of the level of financial literacy. And what does that mean to us?

What it demonstrates to me is that what we are doing is great as far as it goes. But we have to do a better job of pinpointing those components of our society that can be reached most efficiently and work together to do that and motivate people to learn and collaborate and coordinate our efforts better.

And so I commend you, Mr. Chairman, in having these hearings because I am hopeful that as we go forward, that is exactly what will happen.

As you are probably aware from the testimony that you heard yesterday and your own experiences, everyone is decidedly concerned about the absence of financial literacy in the United States.

One of the things that has been very interesting to us in Texas is the fact that not only have the securities markets grown, but also they have grown at such a tremendous pace. And now, the dollar volume in the Texas securities market outstrips the combined deposits in all banks, savings and loans, credit unions, and thrifts, all of those financial entities. And it far outstrips them.

The Texas experience, to some degree, mirrors what is happening all over the United States. We just no longer live in the passbook savings community of our childhood. And you have heard repeatedly about the complex issues that come before U.S. citizens and other persons who are in our country.

Without a basic financial education, investors are obviously less savvy. The securities industry has been very concerned about that. We have worked closely with the securities industry on joint projects, primarily through the North American Securities Administrators Association, of which all State securities regulators are members.

The SIA has done an excellent job in trying to collaborate and reach out and it is really in the industry's best interest to do so because a savvy investor is much less likely to be disappointed in his or her investment. A savvy investor is much more appreciative of the inherent risk of the markets and is not so quick to assume that there is something about the markets that is somehow rigged or not right.

With regard to other entities with which we have worked, the AARP, ASEC, other members of this panel, we have reached out to those people and done a great deal of good on a collaborative basis.

I have to say that ASEC, the group that Don Blandin represents here today, has elevated public-private partnerships to an art. And that is something that I would highly recommend that this Committee keep in mind. Government cannot do it all. The taxpayers cannot do it all. It is very important for us to work with the private sector to make these educational outreach efforts work. I wanted to give you just a couple of examples from my experience as a securities regulator.

One of the things that we have found in our cases is that when people lose their money, and sometimes they are completely wiped out, we are more often than not successful in putting the perpetrators in jail, and that is extremely important. However, very seldom, if ever, are we able to get restitution for the investors. Very seldom. It is a huge problem.

So what we have analyzed in our office has been a series of situations where we brought enforcement cases and we have found that some fundamental concept, a financial literacy concept was missing. And had this concept been fully appreciated by the investors, perhaps they would not have been victims of fraud. Let me give you a couple of real-life examples.

You may have heard of these prime bank debenture schemes. They are incredibly huge across the country right now. In fact, State securities regulators have brought cases on behalf of more than 41,000 people nationwide who have invested in these deals. And at the very least, about $470 million has been lost.

Well, that is just one example. And you know what is really interesting about that case, Mr. Chairman, is that there is no such thing as a prime bank. There is no such thing. And if investors just understood that concept, they would not be ripped off, to put it in the vernacular.

Another situation. We have seen foreign currency frauds that are ongoing. We had one in Texas fairly recently, where we had about $50 million invested. The financial literacy concept that we found in our office as we investigated that case that was missing was the fact that the investors did not bother to read their account statements. And many times, if they did read them, they simply did not understand them.

Had they read them, or had they understood them, they would have seen that the account statements were completely unrelated to what was going on in the marketplace. Had they understood the basics of investing, it is fair to say that many, if not most, of these investors would not have been victims of fraud. I am going to give you one more example from real life. And it has to do with elderly investors or seniors.

These days, the senior population in the United States is actively seeking out higher returns from safe investments. And oftentimes, they turn to CD's. CD's historically have been a great investment for seniors. And legitimate CD's continue to be a good investment. However, the world of CD's is very complex today. You have things like callable CD's. You have variations on a theme. Unless an investor understand these differences, it is a real problem, particularly if an elderly investor does not understand. Let me give you one example.

One retiree was persuaded to invest more than $100,000 of her 97 year old mother's money in three callable CD's with 20 year maturities. For a 97 year old to have a 20 year maturity in a CD is just completely unacceptable. The financial literacy concept missing here is that the age and risk tolerance of the investor is very key in getting a callable CD or any other type of CD.

So as securities regulators who are always strapped for resources, we have seen day-to-day how critically important it is to have people who are savvy and understand the basics. I want to give you one example, the best example I can think of, of an outreach effort, a collaborative effort that was undertaken in this area.

Some of you here may have heard of a program called Financial Literacy 2010. It originated in the State of Texas, the Texas State Securities Board, without taxpayer monies, I might add, set up this program and we have since then, through NASAA, the Nonprofit Investor Protection Trust, and the NASDR, as well as the consumer education group at the Eastern Michigan University (National Institute for Consumer Education), have taken this program nationwide and we have reached out to thousands upon thousands of teachers.

In the State of Texas, we have delivered the program with free teaching guides to over a thousand teachers. We provide the information for free, and it is now in the schools and it is adaptable to economics classroom settings, to other settings, math settings and whatnot. And our goal is to make sure that every senior in the United States is given the opportunity to learn the basics of finance before he or she graduates. That is critically important, Senators, because so many of our seniors do not go on to college. So this is the only opportunity that they will ever have to get a personal financial literacy class.

This has just been a tremendous success. The components of the program are set forth in our written testimony and I commend it to you. And again, not necessarily to sell the program itself to you, but to use it as an illustration of one of these partnerships that we think is so important going forward.

With that, I am going to conclude my testimony and I would like to make myself available for questions. Anything that I can do to assist the Committee or anything that NASAA or the IPT can do as well, we are happy to.

Thank you again, Mr. Chairman. I am delighted to be here.

Chairman SARBANES. Well, thank you very much, Ms. Crawford.

It is obvious that great care and effort has gone into the prepared statements and not only will we include them in the record, but also they are a very important source of information to us.

There is a vote scheduled at 11:30 a.m. I do not know whether it will go off on time. I am going to just do one quick question and then yield to my colleagues because I know it will be difficult to reconvene. In fact, there are two votes scheduled in a row, so I will try to move along quickly.

I have one question that I want to ask and then I am going to yield. Senator Miller, I think you were here first this morning.

The Chinese have this expression—let a thousand flowers bloom. And I have some perception that a certain amount of that is going on. You have this company that is running a terrific education program for its workers and the Historically Black Universities and Colleges have a special program now. La Raza is working. The AARP. You have these exciting things happening in Texas. The councils are at work.

A lot of people can fall through the cracks. How do we get a system in place or a framework that we can say, well, everyone's going to go through this education process.

The Chinese have another expression. When a group visits China, the first question they ask is: Who is the responsible person in this group? If you get fingered as the responsible person, then you have to handle all the issues from there on. Who is the responsible person here? Who are we going to put this on.

Yesterday, Senator Carper said, that the treasurer of the State of Delaware has taken on the role of handling financial literacy as his project in Delaware.

I would be interested very quickly in just getting your thoughts on that and then I am going to yield to my colleagues.

Mr. SWYGERT. Mr. Chairman, if I may, it was not too long ago in our Nation's history that a question of public health was viewed as a very, very local, site-specific issue—whether it was personal hygiene, or the care and feeding of livestock, it was viewed as a very personal and local issue.

I think today, we understand that public health is a national imperative. Now how we address it still has a significant local, as it must, impact.

I think these hearings over the last 2 days have gone a long way in making the question of financial literacy a national question, and that is where we have to start.

I come from the perspective of higher education, and I guess if left to my own devices, I would say that the Assistant Secretary for Post-Secondary Education in the U.S. Department of Education should consider that as part of her new mandate. I have not consulted, by the way, with the Assistant Secretary.

Chairman SARBANES. Ms. Crawford makes an important point, that a lot of people never get beyond high school.

Mr. SWYGERT. Yes. As I said, Mr. Chairman, if left to my own devices. But I think it is bigger than that. I think it really has to start at the primary level.

When we talk about students in middle school and we talk about students in high school, you are talking about students, sometimes tragically, who already have incurred debt.

I think it has to start as a function of primary education. And if our young people in the second and third grade can be exposed to a foreign language, and successfully so, then I think we are clever enough to come up with ways and means of exposing them to financial literacy as well, as another language.

Chairman SARBANES. Does anyone want to add, very quickly?

Ms. CANJA. I will add.

Chairman SARBANES. Go ahead, very quickly.

Ms. CANJA. Very quickly. It really does have to be basic education through our school system. But then you come to special populations that have very special needs. I am thinking of women. I am thinking that 43 percent of women after the age of 65 are widowed and totally responsible for their economic security. And they need a great deal of guidance, a great deal of information at that moment or before they are coming into retirement. They have to realize that the chances of their being alone in later life is so significant. And so, somehow, whatever national strategy we have, we have to include these special populations. We heard about the Hispanic population and a whole group of special needs have to be addressed.

Mr. BROBECK. The issue is so large and complicated, that it is difficult to hold any one body responsible, which is why we suggest that you consider creating an Office of Financial Education within the Treasury, and within the Department of Education, to have some accountability.

But what would be really helpful as well is for the Federal Government to take the lead in helping to develop a comprehensive plan and evaluation of financial education which would serve as a roadmap for all of the many institutions that are seeking to meet needs and address challenges in this area.

Chairman SARBANES. Senator Miller.

Senator MILLER. Thank you, Mr. Chairman. I hurried back to get this question in. And I apologize for having to leave.

I am the product of a single parent, back before that term was even invented, and as prevalent as it is now. My question, and you touched on it, Ms. Canja, is special challenges that face women.

We know that an average woman spends 11½ years out of the workforce caring for children or other family members. And during that time, she is not investing in a pension or she is not paying into Social Security. Even during the working years, we know how much less she is paid than a man, and we will not get into that right now.

[Laughter.]

And women, as you have pointed out, live longer than men, an average of 7 years. So my question is what do you see as the consequences of these challenges for women in their retirement years? You touched on that a little. What role do you see for financial education in particular for these women? And I know that we could talk about that all morning.

Ms. CANJA. Yes, we could. I can tell you that it has been a huge concern of AARP's and we have had programs that have addressed it. We had a very wonderful program—Women's Financial Information Program. It gave basics. Very often, and especially in more traditional families, the husband has handled the finances and the woman, and especially if she has to deal with it then, really does not know where to turn.

So this took care of many, many basic things for women. We have expanded that now into a program for younger women who are coming into retirement and talking much more about investments and financial planning, the kinds of things they need to do.

There is a tremendous need for financial information for women of all ages as they move forward because they can be left alone at any age and responsible for their economic well-being.

Senator MILLER. Thank you. If you have any information, or if any of you have anything that you would like for me to read on the subject, I would appreciate your sending it to me.

Ms. CANJA. We will get you something.

Senator MILLER. Very good.

Chairman SARBANES. Thank you very much.

Senator Akaka.

Senator AKAKA. Yes, Mr. Chairman, I know that we are short on time. I was trying to think of a question like yours. I come back to the question that I think was raised by Mr. Brobeck. And that is, is there a comprehensive national kind of plan that can be used nationally in our country to deal with the problems that we are facing today?

Enron of course now is a spark that will certainly drive it. But as was mentioned earlier, I did put in a bill for economic education beginning from kindergarten, as was mentioned here by Dr. Swygert. But whatever we do will have to be comprehensive and national.

That is my question to all of you. What is the National Plan? Suggestions were made that we assign that task to the Federal Government, perhaps by giving it to the Secretary of Education. But in spite of that, I am looking for an answer to this. And so, let me just lay that down to you.

Ms. MOLINARI. Senator, if I can start just by saying, obviously, we are in a delicate area of debate here on Capitol Hill with regard to the Federal role in course curriculum in schools.

One of the concerns that we have heard constantly as we travel around the United States is not only how do we get that course curriculum in particularly high schools, but also particularly now that we are requiring schools to give standardized tests. How do we make sure that we are complementing the effort of the course curriculum with regard to the State tasks with the national impacts that are now being implemented throughout the United States. So, we have to somehow make sure that we are, in fact, rewarding the teaching of this with regard to the eventual testing and the way we deal with that today.

Obviously, a lot of this I think does have to be left to the States to determine where they best enforce this curriculum. I have traveled to Delaware where they do a terrific job in the very early school grades, where high schools will run banks. The kindergartners are allowed to have their day where they go in and make their deposits and they learn to start at a very young age, get the general sense of accomplishments by saving and investing and spending and having their own little plan for how that money is going to last for the week.

It is never too early to begin the very basic principles. But, again, once we start to get to the course curriculum in high schools, we cannot under-emphasize I think the role that the State education departments have to play. But I would certainly agree with everyone here that, as we proceed, and if we all agree, as I think we do, that this needs to be put on a very ambitious timetable, that the Federal Government can serve a very positive role by serving as a clearinghouse, if you will, for best practices, for good curriculum, and make that available to the State education departments as quickly as possible.

Mr. YZAGUIRRE. Mr. Chairman.

Chairman SARBANES. Mr. Yzaguirre.

Mr. YZAGUIRRE. Mr. Chairman, I listened very carefully to all the testimony here and I was particularly struck by Steve Brobeck's comments about the end goal here. And the end goal, as I understand it, and one that I would support, is not to increase knowledge, but to change behavior, to move it in the right direction.

I want to emphasize that because it has been our experience that tying all of these education programs to a specific event like buying a home or buying a car, tying it to IDA's, Individual Development Accounts—and buying a home—home counseling, has by far the best way of changing actual behavior compared to simply offering a course. This is not to in any way demean the importance of education, but it is also important to understand people's motivation and how we actually change behavior.

Chairman SARBANES. Mr. Blandin, you wanted to comment.

Mr. BLANDIN. Yes.

Chairman SARBANES. Then, I will go to Senator Stabenow for her questions.

Mr. BLANDIN. Thank you, Mr. Chairman. I am trying to answer both of your questions.

Let me just say that I believe that the Government needs to create the climate for fostering public- and private-sector partnerships that can create the environment by using its bully pulpit of the Congress and the President to make sure that the people know that this is an issue of national concern.

And if you do that through a Presidential commission, a Congressional commission, and have private-sector leadership involved, I think that will go a long way and do a lot better than creating a Federal entity to oversee it or to run it.

We actually have Federal legislation now that is on the books that has not been implemented appropriately in a way that would make a difference.

So, I think that it needs to be a public-private sector partnership with the Federal Government in the lead in helping to determine what needs to be done, but creating a separate office I am not sure is in the best interest.

Chairman SARBANES. Well, we will have to examine that carefully. Maybe we need to have a coordinator. Maybe one objective would be to establish a financial literacy council in every State and figure ways of encouraging that, so that at least in every State, you say, well, now, there is the locus of responsibility here. They are supposed to be addressing this issue. And that council, of course, could be a public-private composition.

Ms. CRAWFORD. Mr. Chairman, if I may.

Chairman SARBANES. Yes.

Ms. CRAWFORD. I would like to respond to your suggestion.

As a State securities regulator, I think what you have just suggested makes a great deal of sense. One of the things that we have discovered is that the Governors, for example, have gotten very involved in investor education. One of the outreach programs that we have among the State securities regulators each year is a Facts on Savings and Investing Month.

The Governors almost routinely issue proclamations and get involved in the activities. And President Bush this year actually sent a letter from the White House commending all of the participants. So back when he was Governor of Texas, he did this, and now as President, he continues to endorse that. That kind of climate is extremely important going forward.

Chairman SARBANES. Thank you.

Senator Stabenow.

Senator STABENOW. Thank you, Mr. Chairman. I think it is critically important that we look broadly at this issue and I appreciate the comments.

I mentioned yesterday the Jump$tart Coalition in Michigan and the efforts working nationally and how important I think those public-private relationships are.

I did want to mention just three more specific issues, though, and would welcome a comment on any of them. I know we have very limited time.

First, I know that there is a great challenge, and we are talking about the language of financial services for many, many people. It already sounds like a foreign language. But when we are then coupling that with the attempt to translate what interest means or APR's or yields fees, capital gains, et cetera, into Spanish or Russian or Arabic or other languages, it seems that we have a special challenge as it relates to addressing the language of financial services and a multitude of languages and people who are coming as immigrants to our country and maybe, in fact, translating through their 8 year old child, and the challenge of then, as an adult, feeling vulnerable on a child who is attempting to negotiate a car loan or some other challenge. And so, I would welcome any comments on that.

Second, I know AARP and many others have been involved in predatory lending, and this is a major issue that I have been involved in in Michigan and feel that we have to address these issues as it relates to financial literacy and information.

And then, finally, I have a real concern as a parent of two children who have gone through teenage years and who have been aggressively marketed by credit card companies and if not every day, every other day, get either an application or a card in the mail, even before they were working at all. And certainly, for my 21 year old now, she would have the opportunity to have 10 different credit cards at any moment, she is not working full time and is, in fact, going to school. I would welcome any thoughts regarding the role or responsibility of credit card companies and providing information as it relates to what is happening to promote credit.

Mr. SWYGERT. Senator, if I may, I would like to speak to your first question. Namely, the question of translating financial documents and instruments into other languages. As an educator, I would like to begin by saying the first challenge is translating many of those documents into English. I think that is where we need to start. If we have learned nothing else recently, we have learned that a lot of the folk who we thought understood the language that was being expressed had no greater knowledge than lay persons, apparently.

So, I think that is where we need to start. I think the Federal sector has been very helpful in terms of the SEC, insisting upon plain language in so many documents. And this is a movement that has been underway for some time.

In terms of language, in terms of simple transactions being in the language of the consumer, here, I think again the work of the Committee can underscore both existing statutes and underscore the will of the Senate, that language that purposely obfuscates, is simply not in the Nation's best interest.

Whether we need more legislation in this regard, I for one, would have to think more about. But I do think that it is in all our best interests, both in terms of the consumer and the Nation's interest at large, that the language be understandable, however it is translated, and to whom it is addressed.

Mr. BROBECK. On the controversial issue of marketing of credit to young people, we sponsored a study that was released several years ago that revealed that a significant minority of college students were carrying unsustainable credit card debt levels, that those debt levels had carried with them huge costs that included dropping out of school, or at least cutting back on the course work.

In a couple of cases, we brought in the mothers of apparent related suicides.

But it is difficult because even teenagers now, many of them are working. It is hard to tell them that they cannot accept a credit card and use a credit card.

You asked the question: What is the responsibility of the issuers? Most importantly, it is only to extend sustainable, affordable credit. That is their responsibility.

Now it is very hard to create a law that would require them to do that. But if everyone in the country understood that that was their responsibility, I think they would act more responsibly. Then when it comes down to legislation, Senator Dodd has taken the lead and we support his efforts.

Senator DODD. I have tried over many years to get the industry to be more sensitive to the issue and it seems to get worse. The numbers are just getting worse every year. I cited them yesterday. I do not know if you have seen the sheets here. We made them part of the record yesterday. The average credit card debt per household has tripled in the past decade, to in excess of $8,000. Over half of families that earn less than $10,000 a year have over a $1,000 in credit.

Americans owe more in credit card debt than education debt. Knowing the cost, I won't get into the cost of higher education. Seventy-eight percent of college students have at least one credit card. The average credit card among undergraduates is almost $3,000. It is up 46 percent in 2 years. I quickly want to add, credit cards are a real asset for consumers. I do not want to be in the position of suggesting that credit cards are a liability. They have been a wonderful vehicle for people.

First, our bill simply said that if you are under 21, you have to be able to prove that you can pay, something that I thought you would ask. Second, if you are not going to pay, is someone going to cosign it with you? And third, if either of those things are too much for you, then would you require that there be a course in what credit responsibilities are? Any of those things so that you can at least raise the level of literacy because you are just seeing kids coming out of school at a young age—and I agree, 18, 20, you should be certainly more responsible than you would be at a younger age. But you are watching the debt.

We had bankruptcies between 18 and 25 year olds. In the early 1990's, there were 60,000. In 1999, there were 120,000, double the number of bankruptcies in this country of kids, really young people. That is not a good way to begin.

So, I appreciate the Consumer Federation's interest in this subject matter. And I wish we could convince more people. This is not a way to try and deny people access to credit cards. But if you look at the proliferation of this stuff, you are watching infants getting stuff mailed to them in the mail, and automatically, they are approved.

You know what happens. It is the parents that they are counting on. They will go to a college campus and they will tell kids, pay for your books with credit cards. Save your cash for Friday and Saturday night when you want to go out. And of course, these things mount up and it is the parents that are going to get hit with the darned thing. That is what happens. So, they know what they are doing. They know these kids are not going to pay it. Their parents are.

So it is tragic, in my view, that they haven't been more—the bankruptcy act we are trying to pass, I have been opposed to it for a number of reasons. Not because I do not believe that we should not try and restrain the amount of bankruptcies. But there is not a commensurate sense of responsibility on those who are extending credit.

Just as the consumer has to be more responsible, those who are extending the credit have to be more responsible. And credit card companies dumping this stuff on college kids and sending them unsolicited, preapproved credit cards to infants and children is not responsible. It is highly irresponsible. And there is not a parent in America who does not understand what I am saying.

And so, when I hear them claiming about the problems of bankruptcy and simultaneously pouring this junk out to them asking them to assume responsibilities they cannot even begin to afford—I am sorry, but I get a little irate about it.

[Laughter.]

It has literacy issues.

Chairman SARBANES. You should hear him when he is really upset.

[Laughter.]

Senator MILLER. You have a child who is coming on to it.

Senator DODD. I have a child who is 4 months old. I am getting nervous.

[Laughter.]

Ms. CANJA. How many credit cards does she have already at 4 months?

Senator DODD. She is 35 years old.

Senator SCHUMER. She has been mailed a lot of them, I am sure.

[Laughter.]

Senator DODD. Actually, Senator Stabenow, I kind of jumped in on your time.

Senator STABENOW. I very much appreciate your comments. I would underscore that certainly credit cards are an important tool. But it is extremely disheartening as a parent to watch these come in and to see my children at 12, 14, 16, being offered preapproved credit cards.

Senator DODD. Mr. Chairman, I apologize. I will just finish up briefly and you can go to Chuck. And that is, on the Hispanic households, Raul, my good friend. The absence of bank accounts, that 42 percent of Hispanic homes do not have bank accounts. You alluded to it in your testimony a little bit about what the reasons may be.

I wanted to ask you about the individual development accounts, the IDA's. What do we need to do to make the IDA program and financial institutions do a better job in outreaching to the community?

Those two questions I just have quickly, and then Chuck, whatever you want to ask.

Mr. YZAGUIRRE. Thank you, Senator. First of all, we need to increase the amount of appropriations for the IDA program. It is a Federal program. It has been hugely successful. I think it comports with our experience that if you have an event, if you have a goal, that you can tie consumer education, financial education to, you will change behavior and you will create middle-class people out of poor people.

So, we support the program very much. I would couple that also with housing counseling, which is in some ways a similar kind of situation where you have a specific event and you are trying to educate people to come to it and tie the two programs together. An IDA account can be used for a homeownership downpayment. I am sorry, I forget the rest of your question.

Senator DODD. On the 42 percent Latino households that have no bank accounts. You point out that in many countries where there is a lack of confidence and trust, maybe in their native countries in financial institutions.

Mr. YZAGUIRRE. Indeed.

Senator DODD. And so they bring that insecurity about can you trust these institutions with their hard-earned money. I presume that has a lot to do with it. I presume language barriers as well. But there may be others.

Mr. YZAGUIRRE. You know our community well, Senator. It is due in part to that. It is also due to the fact that poor people of any race or ethnicity have a distrust of institutions in general. It also has to do with income.

But a lot has to do with the banks' willingness to do the right thing. We have visited a number of communities. Let me just give you one example.

I went to a community in Gainesville, Georgia, where the community had almost forced the bank to set up a branch in the Latino community. It did so reluctantly and they created all Latino clerks. They had a day care center. They had everything in Spanish. They are making money hand over fist. So it is not just simply to do the right thing for altruistic purposes. There is money to be made and sometimes banks and financial institutions are not necessarily looking after their own best interests.

Senator DODD. Thank you, Mr. Chairman.

Chairman SARBANES. Senator Schumer.

COMMENTS OF SENATOR CHARLES E. SCHUMER

Senator SCHUMER. Thank you, Mr. Chairman.

I want to thank you again for holding this hearing. I also want to welcome my New York colleague, Susan Molinari, who is a good friend, was a great Congresswoman, and who is doing a great job here on these issues.

Welcome, Susan. As well as Mr. Swygert, who used to head Suny at Albany before he moved south.

[Laughter.]

Chairman SARBANES. Susan was his student. We found that out this morning. She was a student there when he was the President.

Senator SCHUMER. Oh, really?

Ms. MOLINARI. His name is on my diploma.

Senator SCHUMER. That is another plaudit for you because you did a great job.

Mr. SWYGERT. Thank you, sir.

[Laughter.]

Senator SCHUMER. I just have one question. The dilemma we face in this issue is that many of us, as you can tell by the questions, feel some urgency here. And at least for me, and I mentioned this yesterday, having a daughter in high school, seeing the courses that she is required to take, and I want her to have a broad-based education, but geometry. That is a good one. Algebra is really important. Trigonometry is getting a little bit further afield. And yet, nothing on the things we are talking about here and trying to really learn what the world is all about. So the question I guess I have is, what is the appropriate Federal role here?

Our local schools are overburdened. They have so much to do. We are putting new requirements on them. But at the same time, there is a real need for Washington to lead the way here, I think, because otherwise, the thousand flowers will bloom, but there will be a lot of the landscape that is barren.

Chairman SARBANES. Yes.

Senator SCHUMER. And my guess is that the poorer districts, where it is needed the most, will have the most difficult ability in getting this done. So the question is, what are the carrots? What are the sticks? What is the appropriate Federal role other than exhortation? For whoever on the panel who would like to take a shot at that one.

Mr. SWYGERT. Well, Senator, as you well know, one stick that comes to mind very quickly is the stick that has been used as it relates to mortgage lending generally in order to avoid red-lining. And the Federal Government has been very aggressive over time, as have the State governments, in addressing this issue. Although I am not suggesting some analogous circumstances exist, or should be utilized, there are examples that one can turn to.

I would think, to echo my colleague on my left, that a strong program of public-private partnerships with some form of incentives, however the private side might be incentivized to support both grade school, middle school, and high school programs.

There has to be, just as many local companies and corporations and financial institutions of all sorts, whether credit card issuers or not, who have all sorts of activities related to their communities. We need to come up with some ways and means to incentivize them to do this as well, not just clean up the playground, not simply paint the day care center, not simply to, as important as it is, to assist the elders. But also to use some of their bright and clever people to design curricula, although it may be locally-based curricula, which is not such a bad thing, to assist local grade and middle school teachers in terms of both handouts and actual classroom instruction because, as you say, the last thing a local superintendent wants is more Federally-mandated curriculum content. They just do not have the resources, or at least, certainly, I think the reaction or the reception would not be terribly positive.

Ms. MOLINARI. Let me just say, Senator, that, obviously, that is the most difficult question I think we face today is recognizing the relationship between the Federal and the States with regard to education and the curricula.

However, I do think, obviously, you went a long way in the education act by providing the carrot, which is some Federal monies for incentivizing some programs that can be, if you will, taken on the road to the rest of the States.

I do think that the notion should be further explored of a potentially national commission that is private and public to raise the visibility and touch the States.

I see Senator Carper here from Delaware. I would not want the Federal Government to interfere with the work that Delaware has done in so many ways in promoting financial literacy. And one of the things that they have done most recently along with the State of Wisconsin, under the auspices of the Governor, is creating a task force of public-private educators, parents, business people, to come up with suggested curricula to evaluate the need in those States. And these task forces really will be those small, little engines that can, in fact, not only drive the material, but also certainly the public relations that can continue to create the interest.

Senator SCHUMER. Thank you.

Chairman SARBANES. We will just hear from Steve and then we will yield to Senator Carper.

Senator SCHUMER. Yes. And I would just ask unanimous consent after Steve that any other comments in writing, because I wanted to hurry up and let Tom get in here.

Mr. BROBECK. Senator, I think that a national commission is an idea that is worth exploring. But it will not be effective in our opinion unless it is given sufficient resources to conduct adequate research, a literature review of the research that has been undertaken to date, perhaps new research looking at the effectiveness of existing programs or proposed programs, and a commission or some other kind of body. And we fully support participation by responsible corporate groups, educational leaders, nonprofit organizations, as well as the Government. But it seems to us that the Government has to take the lead because you, more than anyone else, have concern, objectivity, and resources.

Chairman SARBANES. Fine.

Senator SCHUMER. Thank you, Mr. Chairman.

Chairman SARBANES. Thank you very much, Senator Schumer.

Senator Carper.

STATEMENT OF SENATOR THOMAS R. CARPER

Senator CARPER. Thank you, Mr. Chairman.

Welcome. It is nice to see you all today and especially nice to see Susan. Thank you for your kind words about Delaware.

We had a hearing yesterday——

Chairman SARBANES. Actually, the kind words were said about Delaware when you were not in the room as well.

[Laughter.]

I just wanted to assure you of that.

Senator CARPER. Thank you. I mentioned yesterday our State Treasurer, Jack Markell, who is doing very, very good work in these vineyards that you all are working in, too. So, we are grateful.

As Governor of Delaware for the last 8 years, we focused in my State and in virtually every other State to put in place rigorous academic standards of what we expected students to know and be able to do.

Most States adopted somewhat different standards, but we focus on standards in math and science and English and social studies, for the most part—math, science, English, and social studies.

The schools that are doing the best job in terms of raising student achievement and making sure that students are learning the things that they need to do in math and science and English and social studies, are ones who have found ways to align the curriculum and their classroom with the standards that have been adopted. So that the lesson plans, the materials, the texts are compatible and consistent with the standards that have been adopted. Some of the most exciting work that has been done is using the Internet to bring the outside world into the classroom.

Our boys are now 11 and 13. But maybe 2 years ago when my youngest boy was in the 4th grade, I got up one morning and I went in to wake him up about 6:30 a.m. He is a kid who likes to sleep. He was up. He was up and his computer was on. I said, Ben, first, what are you doing up? And what are you doing with your computer on? He said, I am following the Iditarod. I said, you are following what? He said, I am following the Iditarod, this dog race up in Alaska. Most people have heard about it now. It is over a thousand miles long.

And what his clever teacher had done was find a way to use the Iditarod and use the Internet to make that come alive for her students. They used the Iditarod for a period of a couple of weeks in order to, teach geography, teach geology, teach weather, teach mathematics, and to work on reading and writing skills.

Everyone picked a dogsled driver. So, they had a team that they were rooting for. They had to create an award to give to one of the other dogsled drivers, one of the students in their class. They had a banquet and had Alaskan food. It was really quite something.

There is a great need in Delaware schools and in other schools around the country to discover Iditarod-like events which we can use to make real our standards in math, science, English, and social studies that are fun, that are interesting, that may involve technology and bring the outside world in.

I think those of us in this room, at this table, but the rest of us as well, to the extent that we can work in those vineyards—and this is not for the Federal Government to fix, but this is one where we can all have a role and we all can do something. And I would just encourage us to take our energy and our interest and to focus it in that direction toward that purpose.

That was not a question, but just some insights from an old Governor who cares a lot about these things and now, thanks to Ben, knows a thing or two about the Iditarod.

Thank you, Mr. Chairman.

Chairman SARBANES. Well, you have been an enormously helpful panel and we look forward to staying in touch with you as we try to find some way to give an additional impetus to this issue. I think it is a very important, long-run issue and we want to stay with it. Thank you all very much for coming.

Mr. SWYGERT. Thank you, Mr. Chairman.

Mr. BLANDIN. Thank you.

Chairman SARBANES. The hearing is adjourned.

[Whereupon, at 12:00 noon, the hearing was adjourned.]

[Prepared statements, response to written questions, and additional material supplied for the record follow:]

PREPARED STATEMENT OF SENATOR PAUL S. SARBANES

Today, we hold our second hearing on the state of financial literacy and education in the United States. We are very pleased to have such a distinguished panel of witnesses, all with significant expertise on this subject.

We began our exploration of this issue yesterday, when we heard from Treasury Secretary O'Neill, Federal Reserve Board Chairman Greenspan, and SEC Chairman Pitt. Their testimony underscored the urgent need for improved financial education in America. Yesterday, one witness observed in response to the Committee's questions, that the problem of financial illiteracy in this country is one of "epidemic proportions." Each of their agencies is actively engaged in efforts to improve Americans' financial understanding, and I commend each of them for their commitment to this issue.

Of course, as I said yesterday, financial literacy is not a magical solution that will solve all the problems consumers face in making financial decisions. We obviously need a framework in which this takes place that also includes strong legal protections, vigorous enforcement, and best practices in the industry in providing responsible credit alternatives.

Nonetheless, financial education can go a long way toward preparing consumers to make decisions that will be in their long-term financial interest. As was noted yesterday, the costly consequences that inadequate financial education can have, include such difficulties as:

- Increasing reliance on the high-cost fringe-banking sector by those who find themselves closed out of mainstream banking institutions.
- Predatory lending, when people are persuaded to borrow on terms they do not fully understand and cannot afford.
- Accumulation of dangerous amounts of credit card and household debt.
- Inability to save, to build a nest egg.
- Inability to plan for a secure retirement.

I indicated yesterday that I think we need a national strategy to bring the public and private sectors together to address the problem of financial illiteracy. The commitment of yesterday's witnesses to improving financial education gives me some confidence that we can undertake increased coordination and cooperation on this issue at the very highest levels of the Federal Government.

Today, we will hear from representatives of the private and nonprofit sectors, as well as from a representative of State government. We had far more requests to testify than we could accommodate, and frankly, I am gratified that there are so many organizations and groups working on this issue; it is a testament to the growing awareness of the important role financial literacy plays in helping people make the financial choices necessary to give them the opportunity to succeed in our society.

Our panel today covers the broad spectrum of issues related to financial literacy and education, from school-aged children to young people who are handling credit for the first time, first-time mortgage borrowers, and those who are trying to save enough for retirement. I believe the testimony we will receive this morning will help to inform our development of a national strategy to address this critical issue, and I look forward to continuing to work with each of them as we move forward.

PREPARED STATEMENT OF SENATOR DANIEL K. AKAKA

Mr. Chairman, thank you for convening this second hearing on financial literacy. I thank the witnesses for appearing today. I look forward to your testimony as we continue this national dialogue on financial literacy.

In the wealthiest country in the world, we must increase the ability of citizens of all ages and backgrounds to manage their resources, participate in the workforce, make wise investments, and become better informed about public policy. All Americans need to have the necessary skills and information to prepare for a secure financial future.

The current economic recession highlights the importance of financial literacy. American families are now facing an enormous amount of financial stress. The Department of Labor reports that 7.9 million Americans were unemployed in January. These unemployment statistics do not include those whose hours and pay have been reduced. In Hawaii, bankruptcy filings for the third quarter of 2001 were 20 percent higher than in 2000.

It is obvious that financial stress is not solely caused by a lack of financial literacy. There are many factors that can cause financial difficulty, including the bankruptcy of an employer or a reduction in tourism due to the September 11 terrorist attacks. However, having or knowing how to acquire financial knowledge can prevent or reduce the consequences of a difficult financial situation. Increased education about basic economic concepts will help people to make better financial decisions and increase opportunities for participation in today's global economy.

Today's hearing will feature organizations on the front line of financial education. I look forward to your recommendations on how we can increase financial literacy.

Mr. Chairman, thank you again for convening these hearings.

PREPARED STATEMENT OF SENATOR DEBBIE STABENOW

Thank you, Mr. Chairman. It is good to be back here for a second day of hearings on financial literacy. I am glad that yesterday we were able to begin to lay out the problem with the help of Chairmen Greenspan and Pitt, as well as Secretary O'Neill. I think it is clear that there is a consensus that something needs to be done.

I know today that we are going to hear from a diverse array of groups who have been working very hard to combat financial illiteracy. Their work is to be commended. Too often educational outreach like this goes unappreciated. Reaching the financially illiterate is not simple. Many in society are intimidated by financial services and are too embarrassed to get help. Others do not fully understand the financial planning mistakes they are making and the true costs of those decisions. Others, simply wrapped up in their busy lives, never take time to assess their financial situation, and consequently they lose thousands of dollars unnecessarily to their creditors. I hope as we examine this issue today, we can build off of the findings discussed yesterday. We know the problem is severe. The question is: What do we do about it?

There is a wealth of information out there, but, as I said, it is not always reaching the communities most in need. In particular, the Internet is a wonderful resource, but those with the most limited financial skills often are doubly impaired because they lack access to the web. This digital divide is something that we must work to bridge.

We must also look at language barriers as well. For many consumers, the language of financial services already sounds like a foreign language. Just imagine what it is like to take that confusing foreign language of interest, A.P.R.'s, yields, fees, capital gains, et cetera, translate it into plain English and then translate it into Spanish or Arabic or Russian. As a Nation of immigrants, this is a challenge to which we should pay close attention.

Finally, I hope that our witnesses will give us some insight as to what they think the role of Government is in addressing this problem. We obviously have an obligation to pass and enforce strong laws and regulations. Furthermore, I can envision a role for our Government in promoting education, but in many ways, educational efforts are often most successful when they are done at the grass roots level. And, they are often most successful when they are done in a sustained way. These are difficult and expensive challenges, indeed.

Thank you, Mr. Chairman, and I look forward to hearing from our witnesses and I welcome their insight.

PREPARED STATEMENT OF SUSAN MOLINARI

NATIONAL CHAIRPERSON

AMERICANS FOR CONSUMER EDUCATION AND COMPETITION

FEBRUARY 6, 2002

Thank you, Congressman Dreier, for that kind introduction. Before I begin my testimony, I would like to recognize Congressman Dreier's efforts to improve financial literacy among our young people. He has been at the forefront of this effort for several years, beginning in the 105th Congress, where he introduced a House Resolution *Expressing Support for Personal Financial Literacy Programs* and culminating with this year's passage of the *No Child Left Behind Act.* Congressman Dreier was instrumental in ensuring that financial literacy programs were included and fully funded in the *No Child Left Behind Act.* This legislation earmarks $5 million specifically for financial education. I commend him for this accomplishment and applaud his dedication to improving financial literacy.

Chairman Sarbanes, Ranking Member Gramm, Members of the Committee, I am Susan Molinari and I am Chairperson of Americans for Consumer Education and

Competition (ACEC). I want to thank you for this opportunity to testify and participate in this dialogue to improve our Nation's financial literacy. Teaching our young people to manage their finances should be as much a part of their curriculum as teaching them math or grammar. It is a subject that will affect them throughout their lives and will impact their ability to purchase a home, raise a family, and prepare for retirement.

Financial literacy forms the foundation that supports such American Dreams as homeownership and a secure retirement. Sound financial skills are crucial to avoiding the pitfalls that result in many of our citizens—particularly young ones—getting into financial hot water or becoming victims of charlatans who prey on the financially illiterate. Quite simply, being financially literate is essential to controlling, rather than being controlled by one's financial circumstances throughout life. And as Federal Reserve Board officials have pointed out, mastery of these financial ABC's by consumers is essential to the smooth and efficient functioning of our free market economy.

These hearings bear witness to the fact that you and your colleagues, Mr. Chairman, share the view of many of us in the financial community, that the sweeping education bill which President Bush recently signed into law is a beginning—a first and important step—a down payment if you will, toward the financial educational accounts of the Nation's young people. This law marks the first time that a Federal law has specifically allocated funds for financial literacy. It makes available some $385,000,000 for local innovative education programs. Among the 27 programs that qualify for this funding are "Activities related to financial literacy skills (including the basic principles involved with earning, spending, saving, and investing)." Senator Jon Corzine championed this provision in the Senate. Senator it was an honor to work with you and several of your colleagues on this legislation including Senators Enzi, Akaka, Jeffords, Harkin, and Kennedy. Congressman John Boehner (Chairman of the House Education and the Workforce Committee) Congressman Dreier and Congressman Pomeroy led the way in the House.

I am honored and grateful to be here, on behalf of ACEC, to answer the five most frequently asked questions regarding the importance of financial literacy courses.

Question One

How bad is the problem? Let's look at the bottom line. Here is a study that caught my eye—in a Lou Harris study testing basic economic principles:

- Adults received 57 percent.
- High school students scored 48 percent.
- Half of the adults and two-thirds of the students did not know that the stock market provides a venue for people to buy and sell stocks.
- Only 54 percent of adults and 23 percent of students knew when Government spending exceeds its revenue, a deficit is created.

ACEC sought to add to the data and we reported last year that 82 percent of high school seniors surveyed failed a personal financial quiz. We tested them on real life questions such as interest rates, loans, etc. According to the Norton Bankruptcy Law Advisor, individuals 25–34 declaring bankruptcy have risen from 417,510 to 464,647.

Question Two

So now that we have established the problem, the next question is why are we suggesting that these problems be solved at the blackboard rather than at home by the parents? While we may be great parents, we may not be great investors and savers:

- Fifty-six percent of U.S. households have failed to save enough for retirement.
- Fifty-three percent of Americans report that they often live paycheck to paycheck.

And remember the first Lou Harris poll I cited, parents, as well as teenagers flunked! Moreover, a VISA USA survey revealed that 81 percent of parents want solid personal finances taught in schools because they want their children better prepared to manage money than they were.

Question Three

Should we ask our teachers to assume one more responsibility in preparing our children for the future?

I would answer that as we raise the next generation to be successful do we not have an obligation to train them to deal responsibly with success? For when they are not adequately taught, retirement plans are not funded, medical plans are not paid, bankruptcies are absorbed by consumers one way or the other and our economy is negatively impacted.

Question Four

Do financial literacy courses work?

Students, like those at Woodrow Wilson High School's Academy of Finance here in the District of Columbia, offers insight into the value of personal financial classroom instruction. Whereas just 146 of the 801 seniors taking ACEC's 2001 personal financial quiz were able to achieve a passing grade, all of Wilson's 12th graders passed. They did so after just one semester of personal finance instruction that included everything from borrowing money to estate planning. Similarly, the National Endowment for Financial Education's High School Financial Planning Program (HSFPP) made a significant difference in the financial skills of students taking the course work. A survey of teens who completed HSFPP in the 1997–1998 program found that nearly half (47 percent) knew more about credit costs and nearly two-fifths (38 percent) knew more about investments. The knowledge gained also brought about important behavioral changes in the teens. Nearly two-fifths (37 percent) improved their skills for tracking spending, and nearly half (45 percent) began saving or began saving more. More importantly, according NEFE, teens taking the Financial Planning Program retained what was taught to them and used these practices in their daily lives.

Teachers can incorporate financial literacy curriculum into their applied math or economic courses simply by accessing the Internet. ACEC has prepared a course that can be downloaded from its website *www.acecusa.org.*

Question Five

Let me conclude with one more question: Can we afford to teach financial literacy courses? We cannot afford not to!

The poet e.e. cummings once said that, "I am living so far beyond my income that we may also be said to be living apart." That might be funny were it not for the fact that too many Americans have the same relationship with their financial life. Working together to improve the financial literacy of our young people we can reunite consumers and their income so that they may live comfortably and productively under the same roof.

PREPARED STATEMENT OF STEPHEN BROBECK

EXECUTIVE DIRECTOR

CONSUMER FEDERATION OF AMERICA

FEBRUARY 6, 2002

I am Stephen Brobeck, Executive Director of the Consumer Federation of America. For three decades, our organization and I have personally sought to promote effective financial education. In our opinion, there has never been a greater need to advance this education. So, we commend you, Mr. Chairman, and your Committee for organizing these hearings. Hopefully, they will focus national attention on consumer financial literacy and the most effective educational strategies for improving this literacy.

This testimony begins by arguing that the financial education needs of the least affluent and well-educated Americans deserve special attention, in part because recent changes in the financial services marketplace have increased the financial vulnerability of these households. The testimony then outlines five important principles for effective financial education. The last of these principles stresses the importance of a comprehensive plan for increasing financial literacy, which probably cannot be developed and implemented without effective Federal leadership. The testimony concludes by suggesting that appropriate regulation provides a necessary complement to financial education.

Lower-Income Consumers Need Special Attention

We cannot think of a large population with greater financial education needs than the tens of millions of the least affluent and well-educated Americans. Because these individuals lack financial resources and often are charged high prices, they cannot afford to make poor financial choices. But because of low general and financial literacy levels, they often have difficulty making smart financial decisions, in part because they are especially vulnerable to abusive seller practices.

In 1998, 37 percent of all households had incomes under $25,000. With the exception of older persons who had paid off home mortgages, these households had accumulated few assets. In 1998, according to the Federal Reserve Board's Survey of Consumer Finances, most of these least affluent households had net financial assets (excluding home equity) of less than $1,000. Moreover, between 1995 and 1998, a time of rising household incomes, the net worth of lower-income households actually declined.

Households with low-incomes and assets cannot afford to make unwise financial decisions simply because they have few discretionary financial resources. Failing to adequately budget expenditures may pressure these consumers into taking out expensive credit card or pay day loans. Mistakenly purchasing a predatory mortgage loan could cost them most of their economic assets.

These households also need to make smart buying decisions because they tend to be charged higher prices than more affluent families: Higher homeowner and auto insurance rates because they live in riskier neighborhoods; higher loan rates because of their low and often unstable incomes; higher furniture and appliance prices from neighborhood merchants that lack economies of scale and face relatively high costs of doing business; and higher food prices in their many neighborhoods without stores from major supermarket chains.

Lower-income families are also faced with higher prices for basic banking services. Partly because of high minimum balance requirements to open accounts and avoid fees, these households tend to pay high prices for checking services, or they do their banking at check-cashing outlets where check-cashing fees typically are at least 2 percent of the face value of checks. These families also lack access to basic savings options.

Lower-income households also are charged higher prices because their low general and financial literacy levels make effective product searches difficult and expose them to seller abuse. Low-incomes are highly, and increasingly, correlated with low-education levels, and these low levels are closely associated with low general and financial literacy levels. In our comprehensive 249 question test of the Nation's consumer knowledge, conducted by the Educational Testing Service in 1989, lower-income households answered fewer than one-half of the questions correctly. If the functionally illiterate and marginally literate members of our sample population had not had the option of having questions read to them, this percentage of correct answers would have been much lower.

Consumers who have difficulty reading are unlikely to understand the fine legal print in ads and contracts. Those with limited mathematical skills often do not understand percentages that express the key cost and yield indicators, respectively, for credit and savings products. For example, research shows that only about three-fifths of consumers understand and use the most important index of credit costs, the annual percentage rate or APR, and that nonusers tend to have low-incomes and education levels.

Lower-income households with low literacy levels are especially vulnerable to seller abuse. Consumers who do not understand percentages may well find it impossible to understand the costs of mortgage, home equity, installment, credit card, pay day, and other high-cost loans. Individuals who do not read well may find it difficult to check whether the oral promises of salespersons were written into contracts. And those who do not write fluently are limited in their ability to resolve problems by writing to merchants or complaint agencies. Consumers who do not speak, read, or write English well face special challenges obtaining good value in their purchases.

More Available Credit Has Increased Financial Education Needs

Over the past decade, the financial vulnerability of low- and moderate-income households has increased simply because of the dramatic expansion of the availability of credit. Throughout the last century, consumers were exposed to widespread and persistent marketing of goods and services. Yet, they were insulated to an extent from the potentially adverse effects of this marketing by the financial constraints of their incomes and savings. Most of the credit extended to households took the form of first mortgage loans and installment loans, both of which were secured by the property purchased and amortized in fixed, regular payments.

During the 1990's, lenders greatly eased these financial constraints by significantly expanding credit available to consumers and by marketing this credit aggressively. Since this credit tended to be open-end and carry a high price, it exposed consumers to greater financial risks than did the closed-end loans that had earlier dominated consumer credit markets.

The loans that subjected the greatest number of Americans to financial risk were made with credit cards. From 1990 to 2000, fueled by billions of mail solicitations annually and low minimum monthly payments of 2–3 percent, credit card debt outstanding more than tripled from about $200 billion to more than $600 billion. Just as significantly, the credit lines made available just to bank card holders rose to well over $2 trillion. By the middle of the decade, having saturated upper- and middle-class markets, issuers began marketing to lower-income households. By the end of the decade, an estimated 80 percent of all households carried at least one credit card.

Independent experts agree that expanding credit card debt has been the principal reason for rising consumer bankruptcies. These insolvencies were still precipitated by unexpected major expenditures or income losses. However, many of those experiencing these new financial burdens or losses would have been able to manage if they had not been carrying large credit card debts. Contrary to the perception of many, the annual incomes of typical Chapter 7 bankrupts average well under $30,000.

Also worrisome has been the expansion of high-priced mortgage loans and stratospherically priced smaller consumer loans. In the 1990's, creditors began to aggressively market subprime mortgage loans carrying interest rates greater than 10 percent and higher fees than those charged on conventional mortgage loans. By 1999, the volume of subprime mortgage loans peaked at $160 billion. Mortgage borrowers in low-income neighborhoods were three times more likely to have subprime loans than mortgage borrowers in high-income neighborhoods. A significant minority of these subprime borrowers would have qualified for much less expensive conventional mortgage loans. And a minority of these borrowers were victimized by exorbitantly priced and frequently refinanced predatory loans that "stripped equity" from the homes of many lower-income households.

The 1990's also saw explosive growth in predatory small loans—pay day loans, car title, pawn, rent-to-own, and refund anticipation loans—typically carrying effective interest rates in triple digits. The Fannie Mae Foundation estimates that these "loans" annually involve 280 million transactions worth $78 billion and carrying $5.5 billion in fees. The typical purchaser of these financial products has income in the $20,000 to $30,000 range with a disproportionate number being women.

Principles for Effective Financial Education

There is no clear consensus about how to effectively provide financial education, especially to those who have completed their secondary education and to those with low literacy levels. However, our own research and programs, as well as those of others, suggest five principles on which successful financial education programs should be built.

Seek behavioral change, not just improved knowledge. An important threshold question is how one defines the purpose of financial education. Is the goal simply to increase financial literacy—to expand consumer knowledge about the financial services marketplace and how consumers can best utilize this knowledge? Or, is the goal, more fundamentally, to improve the quality of consumer financial decisions—to help ensure that consumers not only have adequate knowledge, but also successfully apply this knowledge in decisions about spending, saving, and the use of credit?

We strongly believe that behavioral change should be our most important financial education goal. After all, the principal reason for the growing focus of attention on financial literacy is the fact that the financial decisions of many consumers are viewed as unwise. These decisions may relate to poor spending decisions, in particular, spending beyond one's means. They may pertain to poor savings decisions, such as not accumulating sufficient savings or concentrating these savings either in cash or in highly speculative investments. Or they may relate to poor credit decisions such as unsustainable borrowing at very high prices. Perhaps nothing has increased our interest in financial education more than the growth, over the past decade, of consumer purchases of predatory mortgage and consumer loans.

Deciding to focus on the quality of consumer financial decisions means that evaluation of financial education programs should examine their behavioral effects, not just increased knowledge levels. The most sophisticated efforts to measure these impacts, such as recent research on financial education mandates and savings accumulation published in the *Journal of Public Economics,* do just this.

Make certain to include "attractive" useful knowledge that can be easily applied by consumers making financial decisions. It is sometimes assumed that the only effective financial education includes explanations of how the economy and markets function. That knowledge, in our opinion, is extremely important for Americans to have—we would support mandatory economic education for young people—but chiefly because it is essential to an informed citizenry. Consumers also need practical information about household budgeting, consumption, use of credit, and saving. Particularly for adults, knowledge about these subjects should be the focus of financial education.

What this knowledge includes will depend somewhat on the time and interest of targeted consumers. But we feel strongly that this knowledge should always include relatively short, simple messages containing built-in motivators about how to meet financial needs and attain financial wants. Many consumers will never take a financial education course or workshop, or even read a lengthy pamphlet. Concise, powerful messages can be communicated most easily to millions of Americans, particularly if the same messages are disseminated by Government, nonprofit, and business "financial educators."

In the early 1990's, after forming the Consumer Literacy Consortium, 25 Government agencies, business groups, and consumer organizations spent 2 years researching and developing 66 messages, related to 28 products, on how shoppers could save money. The typical motivators in these messages are potential dollar savings that result from applying the tip, for example: "You can save more than $100 a year in fees by selecting a checking account with a low (or no) minimum balance requirement that you can, and do, meet." Or: "You can reduce credit card fees, which may add up to more than $100 a year, by getting rid of all but one or two cards, and by avoiding late payment and over-the-credit limit fees." For several years, this publication has been by far the most popular pamphlet distributed for a fee by the Federal Government's Consumer Information Center. To date, 1.4 million copies of the publication have been requested from the CIC and the Consortium.

Address values as well as knowledge. Financial literacy is a necessary but insufficient condition for sensible financial decisions. Consumers must also desire and make the effort to apply this knowledge in this decisionmaking. Many consumers are greatly influenced by product marketing that may create wants which they try to satisfy by purchasing all the products that their incomes and credit lines permit. For these individuals, financial planning is usually not a high priority. Interestingly, "spenders" and "savers" can be found in every income group. Our research shows that, despite modest discretionary incomes, a significant number of lower-income households manage, during their lifetimes, to accumulate six-figure wealth. Our research also reveals that a number of high-income families build little wealth.

Our America Saves campaign illustrates how financial education can seek to communicate values as well as knowledge. This campaign is directed at low- and moderate-income households who save little and are convinced that they lack the ability to save and build wealth. An important goal of our efforts is, through knowledge about who saves, how to save, and the power of interest compounding, to persuade consumers to consider saving more of their incomes. But through mass advertising and encouragement from those organizations with which potential savers are affiliated—notably, employers, primary financial institutions, and churches—we also try to persuade these individuals to value saving more highly. Then when fellow employees, customers, and congregants begin saving, there is additional encouragement to shift priorities from spending to saving. For two decades, this social marketing approach has been used with much success in developed and developing countries to persuade individuals to change health and safety behaviors.

Provide opportunities to learn by doing as well as by studying. Traditional classroom/workshop pedagogy may be sufficient for increasing knowledge levels but not for changing behaviors. To improve the quality of financial decisions, educators may also need to teach students how to function in the marketplace through actual or simulated participation. This participation can take the form of budgeting of personal expenditures, maintaining checking accounts, or making regular savings deposits. But it could also include using "monopoly money" to invest in the stock market or purchase services from a "classroom bank."

Focusing on the behavioral effects of financial education seems especially appropriate for low- and moderate-income consumers. We want assurance not just that these individuals "know" how to budget, open a checking account, and avoid high-priced loans, but that they actually succeed in doing so. Some of the most successful financial education programs serving lower-income households—National Foundation of Credit Counselors' member credit counseling, Individual Development Accounts, Cooperative Extension's Money 2000 program, and America Saves—closely link education to successful budgeting, debt repayment, and savings deposits.

Develop a comprehensive plan for increasing the financial literacy of all Americans. While many worthwhile financial education programs exist, they are not well-coordinated, effectively reach only a small minority of the population, and do not reflect any broad, compelling vision. What is most needed is a comprehensive needs assessment and plan to guide and inspire financial educators and their supporters. At worst, such a plan would help ensure that the efforts of individual organizations were more cost-effective. However, a comprehensive plan could also convince a broad array of Government, business, and nonprofit groups to work together to try to persuade the Nation to implement that plan.

A comprehensive plan should include, at minimum, the following elements: First, a rigorous assessment of financial education needs. Second, selection of those populations with the most pressing needs that financial education would help meet. Third, evaluations of existing programs to develop the most promising, cost-effective strategies for meeting the needs of these targeted populations. Fourth, organizing broad-based societal support to implement these strategies. Fifth, at each stage of implementation, evaluating the success or failure of these strategies.

The Federal Government Must Take Leadership

We believe that financial education can dramatically improve only through support from a broad array of public and private institutions. Yet, it is unlikely that any comprehensive plan could be developed and win broad support without leadership from the Federal Government. Accordingly, the hearings today represent a major step forward in making financial education an important national priority. Yet, this should only be the first step. The Congress and the Administration should support the development of a plan, build support for this plan, and then help implement it.

A promising second step would be a major study of the Nation's financial education needs, vulnerable populations, and the most effective financial education programs to meet the needs of these groups. This study should go well beyond typical GAO and CRS reports or those from existing financial agencies using current resources. We suggest that those Federal entities with the greatest interest and knowledge of financial education select leading researchers to undertake this research, that the researchers be advised not only by Federal agencies and Congress but also by a committee of leading financial educators, and that Congress appropriate at least $1 million to undertake this project. Frankly, if the Federal Government were not prepared to spend such a trivial amount on such evaluation and planning, we would question its commitment to financial education.

One topic that the researchers and their advisors should consider is whether it would be cost-effective to create a new Federal Office of Financial Education to implement any recommendations of the study. If adequately funded, that office could go well beyond a review of existing research and programs to undertake new research and test new programs. It could also be given responsibility for communicating regularly with, and even help strengthen, the network of financial educators. This network not only could provide the office with useful advice, possibly through a formal advisory committee, but also could help mobilize support for the implementation of any comprehensive financial education plan.

Financial Education Is Not Sufficient But Still Necessary

For decades there has been a very vigorous debate in Washington and around the country about the relative merits of education and regulation to solve societal problems. In our view, both approaches are necessary and complementary. In the financial area, regulation should proscribe socially destructive practices (including financially reckless practices, as well as consumer deception and fraud), insist that markets be as transparent as feasible (chiefly through adequate reporting and disclosures), and enforce related rules. The recent collapse of Enron highlights the importance of effective regulation both for individuals and the whole economy.

Even in an effectively regulated financial marketplace, however, education is essential to ensure that consumers have the ability to make rational decisions in relatively dynamic markets filled with a broad array of complex products. After all, most regulation only sets minimum standards or requires effective disclosures. It is up to consumers to utilize the disclosures and other information to attain good value in their product purchases. Only education can help ensure that consumers undertake money management, consumption, use of credit, and saving in effective ways. If they do, they and the entire society will benefit because individual economic decisions, and the economy, will become more efficient and productive.

PREPARED STATEMENT OF H. PATRICK SWYGERT

PRESIDENT, HOWARD UNIVERSITY

APPEARING ON BEHALF OF

HISTORICALLY BLACK COLLEGES AND UNIVERSITIES

FEBRUARY 6, 2002

Chairman Sarbanes and distinguished Members of the Senate Banking Committee, good morning. My name is H. Patrick Swygert and, as the 15 President of Howard University, I am delighted to be here in support of the Committee's initiative to further promote financial literacy. The current deficiency in this regard is, indeed, one of the most under reported, yet critical, problems plaguing our communities. I am grateful to you, Mr. Chairman, and to the other Members of the Committee for recognizing the magnitude of this problem, and for taking the initiative to resolve it by holding these hearings. I am especially honored to be in the company of such a diverse group of distinguished panelists, including yesterday's panelists of leading financial experts: Chairman Greenspan, Secretary O'Neill, and Chairman Pitt.

I especially appreciate the invitation to speak on behalf of higher education, because I truly believe that, as educators, we have an inherent obligation to educate, nurture, train, and prepare our students for life's many challenges, and to help mold them into tomorrow's great leaders.

This morning, I would like to provide some insight into the significance of youth-oriented financial literacy from a university perspective.

About Howard University

For nearly 135 years, Howard University has been educating students and preparing them for the important leadership positions and social responsibility in an increasingly complex world. Our mission as a comprehensive, research-oriented, predominantly African-American university is to provide an educational experience of exceptional quality at reasonable cost to students of high academic potential. Particular emphasis is placed upon providing educational opportunities for African-American men and women, and for other historically disenfranchised groups. Furthermore, Howard University is dedicated to attracting, sustaining, and developing a cadre of faculty who, through their teaching and research, are committed to producing distinguished and compassionate graduates who seek solutions to human and social problems in the United States and throughout the world.

Howard University is very unique in its diversity, and we value that diversity. We are diverse in our community of faculty, staff, students, and alumni who reflect the global community. Our fields of study and scholarship are equally diverse. We recognize that such diversity is a critical component of the American way of life and freedom.

Many of our students have gone on to make significant contributions to this Nation and to the world. They include a former Supreme Court Justice, jurists at every level of the judicial system, mayors of cities, a former Governor of Virginia, numerous national and State congressional representatives, Cabinet Secretaries, Nobel laureates, United Nations Ambassadors and world-renowned lawyers, historians, musicians and artists, sociologists, psychologists, theologians, and physicians.

Why Financial Literacy is Important to the Communities With Significant Minority Populations

Traditionally, Historically Black Colleges and Universities (HBCU's) have played a pivotal role in enhancing and empowering communities through education. We are often pillars in our respective communities, and have well-established relationships and the necessary infrastructure in place to implement consumer education and a financial literacy curriculum. Promoting financial education for our youth is consistent with our core values.

Historical Disadvantage

The persistence of racial inequality from a socioeconomic perspective has been well-documented (Darity and Myers, 1998). African-Americans have historically remained secondary to White Americans on almost every measure of economic well-being. For example, the median-income for White households in 1999 was $54,904 compared to that of African-American households, which was $30,439 (Bureau of Labor Statistics 2001). In December 2001, the unemployment rate for White Americans was 4.9 percent, compared to a rate of 9.9 percent for African-Americans.

The Wealth Gap

The wealth gap between the minority and White households is significant and persistent.

- The average American household had a net worth or wealth of $71,670 in 1998.
- White households had an average net worth of $94,800, an amount six times that of African-American households at $15,500 (Straight 2002).

We have the opportunity to narrow the wealth gap by empowering consumers with sound financial knowledge and skills to effectively manage their money, and to improve their credit. The benefits of this knowledge are intended to expand personal finance opportunities, including homeownership.

Homeownership plays a big role in decreasing the wealth gap. Home equity alone makes up about 44 percent of the wealth distribution. In December of 2001, the U.S. Department of Commerce released homeownership rates for the fourth quarter.

- White households had a homeownership rate of 74.4 percent.
- Black households had a homeownership rate of 48.1 percent, which is 26 percentage points lower.
- The homeownership rate of lower-income households (with family income less than the median-family income) is 53 percent. This is lower than the national homeownership rate of 68 percent.

To increase homeownership among minorities and low-income families, we need to deploy financial education curricula that will be uniquely designed to address their needs.

Mortgage denial rates for African-American applicants as compared to White applicants continue to be significantly high.

- In 2000, the denial disparity ratio for African-American applicants was 2.02, meaning that they were more than twice as likely as White loan applicants to be denied a loan (CLC Compliance Technologies 2001).
- In the 1990's, we witnessed the tremendous growth in subprime lending for mortgages, and consumer and auto finance paper. These transactions carry onerous terms, like excessive finance charges, unnecessary insurance coverage, high interest rates, repayment penalties and other debt traps. Frequently, African-Americans and other minorities are targeted for these loans (Lindsey 1999).

This exploitation of minority consumers may be due to a variety of factors. It is a very complex issue. We have the opportunity to narrow the wealth gap and to mitigate impaired credit by empowering current and future consumers with sound financial knowledge.

Credit Issues

A notable change in consumer financial services over the past few decades has been the growth of the use of credit cards, both for payments and as sources of revolving credit. From modest origins in the 1950's as a convenience for the wealthy, credit cards have become ubiquitous financial products held by households across all economic strata. (Durkin 2000).

- In 1998, bank-type credit cards and outstanding balances amounted to a family average of $4,073 dollars. It is significant that 68 percent of the families surveyed had one or more credit cards.
- At the lowest-income level, the average balance was $2,240 and 28 percent of the families surveyed had one or more credit cards.
- At the highest income level, the average balance was $5,232 and 95 percent of the families surveyed had one or more credit cards.

In short, credit card use and outstanding balances are up. This raises concerns about whether consumers fully understand the cost, and whether credit cards have encouraged widespread deficit spending, particularly among those least able to pay. Financial education can help resolve these concerns and level the credit playing field by preparing those least able to pay, including students and many African-Americans, make informed financial decisions.

Impact on Students

Our students are particularly vulnerable to the enticement of credit card predators. The Government Accounting Office (GAO) performed a study in 2001, which found that one-third of students had credit cards before they entered college, and another 46 percent acquired them during their first year. Other recent reports and surveys have shed even more light on the plastic invasion (Nellie Mae 2000, Manning 2000, and Warren 2001).

- Seventy-eight percent of college students have at least one credit card; many students have four or more credit cards.
- The average credit card debt among undergraduates was $2,748 in 2000—a 46 percent increase from 1998.
- Nine percent of students carried a balance exceeding $7,000.
- In 1998, 81 percent of college students had obtained their first credit card by the end of their freshman year.
- The number of young Americans between the ages of 18 and 25 who declared bankruptcy in the 1990's nearly doubled from 60,180 in 1991, to 118,000 in 1999.
- In January 2001, young adults accounted for 7 percent of the Nation's personal bankruptcies.

The Public Interest Research Group surveyed 460 students last year and found the following:

- One-third of the students applied for a credit card at an "on-campus table." Of those, 80 percent cited "free gift" as the reason for applying.
- Fifty percent of students obtained their cards through the mail. Another 15 percent obtained cards at on-campus tables and 10 percent over the phone.
- Fifty percent of the students with cards always paid their balance in full, 36 percent sometimes did, and 14 percent never did.
- Forty-eight percent of students with one or more cards pay late fees, and 7 percent had a card cancelled due to missed or late payments.
- Only 19 percent of students were confident that their school had educational resources to learn the responsible use of credit.

If used responsibly, credit cards allow students to build up credit histories that facilitate increased access to credit in the future. However, if college students have not learned financial management skills in their secondary education or from their parents; and if they misuse their credit cards or mismanage their credit card debt, the disadvantages can far outweigh the advantages.

Role of Institutions of Higher Learning in Promoting Financial Literacy

In order to protect their students from unnecessary debt accumulation, all learning institutions have an obligation to properly educate them on consumer credit, and the dangers of credit card debt.

Howard University is already addressing the national financial literacy problem as it relates to African-Americans and other minorities. In partnership with Freddie Mac, Howard and four other HBCU's (Benedict College, Clark Atlanta University, Florida A&M University, and St. Augustine's College) are participating in the CreditSmart program, which seeks to develop a comprehensive, classroom-based consumer education curriculum.

Students are provided with an overview of credit and credit management; insight as to how lenders access credit histories; and the key steps to achieving financial goals. The curriculum's mission is designed to increase financial literacy by enhancing successful life-long money management skills.

Howard University has deployed CreditSmart in numerous workshops, and in a range of existing business and finance courses. We have also completed a CreditSmart training video, and scheduled television appearances to promote the program in the Washington metropolitan area.

Other Organizations

It is refreshing to see other organizations attack the problem of financial illiteracy head on. Howard University's strategic partner, The Fannie Mae Foundation, has developed a Personal Finance Initiative that prepares people for homeownership by providing free educational materials on credit, budgeting, and the homebuying process; and through key partnerships with organizations that assist consumers with money management issues. The Foundation has collaborated with several organizations to develop personal finance education programs, including a partnership with Home Depot and Consumer Credit Counseling Services to develop a replicable workplace education program; a partnership with the Faith Center for Community Development to provide financial education through faith-based institutions; and, a partnership with the First Nations Development Institute to help Native American communities develop financial skills.

Investing for Success, cosponsored by the National Urban League, the Coalition of Black Investors–Investment Education Fund, and the Investment Institute Education Foundation is a special investor education program designed for the African-American community. I commend the program for its mission to strengthen the understanding of middle-income African-Americans about opportunities to invest and build wealth; demystify the world of investments and the jargon that too often obscures it; contribute to realistic expectations about the risks and rewards of investing; and encourage long-term financial planning that can support the efforts of African-Americans to save for their children's education and secure their retirement.

Although I am confident that the efforts of Howard University and the host of other institutions and organizations with similar goals will yield benefits, I believe that the real power to address this issue uniformly rests with the legislative authority. The establishment of a nationwide strategy that will protect and educate our citizens is, indeed, worthy of a collective, nonpartisan effort that will have a lasting impact on generations to come.

Should the Committee have any questions regarding financial literacy programs at Howard University, our CreditSmart project manager and Professor of Finance, Dr. Debby Lindsey, has accompanied me here today.

Thank you, Mr. Chairman.

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PREPARED STATEMENT OF DON M. BLANDIN

PRESIDENT, AMERICAN SAVINGS EDUCATION COUNCIL

FEBRUARY 6, 2002

Chairman Sarbanes, Ranking Member Gramm, and Members of the Committee, I am pleased to appear before you this morning to testify on the status and importance of financial literacy and education in America. My name is Don Blandin and I am President of the American Savings Education Council (ASEC)—a coalition of private- and public-sector organizations that undertakes initiatives to raise public awareness about what is needed to ensure long-term personal financial independence.

ASEC works through its partners to educate Americans on all aspects of personal finance, saving, and wealth development, including credit management, college savings, home purchase, and retirement planning. ASEC develops and distributes educational materials, all of which are available in hard copy and on the ASEC websites: *www.asec.org* and *www.choosetosave.org.*

ASEC was launched in July 1995 as a result of discussions between representatives of the U.S. Department of Labor and the Employee Benefit Research Institute to take the savings message to the American public. ASEC is a program of the EBRI Education and Research Fund (EBRI–ERF), a 501(c)(3) nonprofit, nonpartisan public policy research organization based in Washington, DC. We do not lobby or advocate specific policy recommendations.

As President of the ASEC coalition over the past 6 years, I have had the unique privilege and opportunity to witness firsthand the growth and evolution of financial education in America. I can say with great assurance that an increasing number of public- and private-sector organizations are committed to the mission of helping Americans to save and plan for their financial future. Although progress has sometimes been very slow, we are confident that by continuing to build coalitions of organizations that are committed to this common mission of teaching Americans to save, we will achieve more success at a faster rate.

Today, I would like to give you a birds-eye view of financial literacy education in America and address some of the challenges we face as we move forward. I would also like to take this opportunity to highlight a few initiatives that ASEC has undertaken in the past few years. As the Committee knows, the need is obvious: Studies have shown that the United States has the lowest national savings rate in the industrialized world and that many Americans are not saving adequately for their retirement, let alone be fully prepared for unexpected life events such as medical emergencies. With increasing concern over public programs such as Social Security and Medicare, there is a need, more than ever, for individuals to take responsibility in planning and saving for their long-term personal financial independence.

Personal Finance and the Rush to Competence: Financial Literacy Education in the United States

In an effort to provide you with the most updated and comprehensive overview of financial literacy education in the United States, I would like to highlight some findings from a national field study conducted by the Institute for Socio-Financial Studies (ISFS) and commissioned and supported by the Fannie Mae Foundation entitled, *Personal Finance and the Rush to Competence: Financial Literacy Education in the United States.*

The study was done to assess major trends in financial literacy education for adults and to learn the challenges program managers and educators face in trying to educate their constituencies. The research also identified the strategies and practices that are the most effective in helping Americans to better understand money management.

The study found that the 90 personal financial education programs they surveyed were very diverse. The financial literacy education programs were broken into these main sectors: community-based (32 percent); Cooperative Extension Service (27 percent); workplace (20 percent); faith-based (9 percent); community college (8 percent); and military (4 percent). The main reasons these organizations gave for offering financial education programs fell into four categories: (1) empower participants to take charge of their financial lives; (2) help participants get out of or avoid financial problems; (3) comply with regulations or requirements imposed by an outside authority; and (4) meet an organizational goal (that is military readiness, increased stewardship, increased employee satisfaction or productivity).

Financial education topics that were most frequently taught fell into these categories: budget and money management; saving/investing; credit and debt; 401(k) investing; financing education; and financing health care.

Program leaders and managers identified the following challenges as those they faced during the design, implementation, and operations stages of their programs: (1) having inadequate resources to design, evaluate, revise, or expand programs; (2) inexperience in sociocultural aspects of program design, marketing, and evaluation; and (3) the need to attract or expand programs to reach many more participants than they currently do.

What also emerged from the study were solutions found by other program managers that addressed these various challenges. Following is a list of the seven most effective strategies and practices in personal financial education today: Clear mission statement; targeted outreach; adequate resources; successful evaluation and follow-up; easy access to program; relevant curriculum; and dynamic partnering.

The research from the financial literacy study was collected in better financial times, but one can argue that there is an even greater need for basic financial education facts today. Here are some additional recommendations from the study:

- Urge more employers to offer personal finance courses in the workplace (it is the best venue for reaching out to most people), and provide public policy initiatives that offer incentives to those employers who do so.
- Increase public and philanthropic support for financial education by faith-based and other community-based organizations, since they provide a comfortable learning environment for many people.
- Incorporate socioculturally sensitive teaching methods in financial education materials and curricula to address different communities.
- Utilize a life-planning approach when teaching about finances to encourage individuals to think more proactively about their future.
- Make financial education for older Americans a national priority (that is, daily money management, avoiding scams and other forms of financial abuse, alternative sources for health care, home care, medication, etc.).

According to a recent conversation EBRI staff had with the Institute for Socio-Financial Studies, one concern that needs to be addressed is the ability to sustain programs over a period of time. Unfortunately, few programs have the resources and support they need to be more than a one-time effort or to reach more than a fraction of the people they need to reach.

Impact on Lower-Income Households

The lack of financial sophistication or awareness by lower-income consumers translates into significantly lower participation in the mainstream financial system. Another report by the Fannie Mae Foundation titled *Financial Services in Distressed Communities* highlights the fact that between 10 and 12 million households in the United States have no relationship with a traditional bank or savings institution. This population, also known as the unbanked, pays many times more for access to routine financial services than the typical American family.

Unbanked households are more likely to rely on check cashiers, pay day lenders, rent-to-own establishments, and other alternative or "fringe" financial services providers whose interest rates can average from 300 percent to more than 1,000 percent on an annualized basis. Moreover, these institutions are growing exponentially in the Nation's most impoverished and distressed communities. And over-reliance on these alternative financial services firms significantly undermines the ability of unbanked households to accumulate assets and build wealth.

The report points out that while many factors lead unbanked households to rely on excessively priced financial services, poor choices is a leading reason. As a result, greatly increased financial education for lower-income households, particularly those living in distressed urban and rural communities, is essential.

Despite these somber findings, some organizations are addressing this very important issue. According to the National Association of Federal Credit Unions (NAFCU), credit unions across the country are making a national effort to reach out to underserved communities through their own local programs. San Antonio City Employees Federal Credit Union (CECU) is just one example. CECU uses its financial knowledge and experience of its staff to prepare and teach basic financial courses for the city's Adult Basic Education and GED Preparation Program.

The Second National Summit on Retirement Savings

In light of recent events in the news regarding 401(k)'s and retirement planning, I want to remind everyone that the second National Summit on Retirement Savings is scheduled for February 27–March 1, 2002. In 1997, the Savings Are Vital to Everyone's Retirement (SAVER) Act was passed in Congress and signed by the President. As part of the bill, the first national summit was held on June 4–5, 1998, in Washington, DC. The summit, jointly convened by the President and the bipartisan leadership of Congress, strived to increase public awareness of the importance of retirement planning and to identify ways to promote greater retirement savings by all Americans.

This year's national summit should offer a very compelling and enlightening look at the future of retirement savings in America. Additional information on the 1998 National Summit on Retirement Savings can be found at: *www.saversummit.org.* For information on the upcoming Summit, see *www.saversummit.dol.gov.* The SAVER legislation (in .pdf format) is available for your review at *www.saversummit.org.*

Since the 1998 SAVER Summit, ASEC and its partner institutions have participated in numerous efforts to increase public awareness about savings and retirement planning. The selected initiatives outlined below have attempted to achieve many of the goals expressed in the SAVER Act, including: (1) coordinating with public- and private-sector organizations to work together and share resources to support various public education campaigns; (2) getting involved with local and State-level organizations; (3) involving the media in helping inform the public about retirement savings; and (4) urging employers to sponsor retirement plans and educate employees about the importance of retirement savings.

Delphi Survey

EBRI contracted with Mathew Greenwald & Associates (Greenwald), Inc., to conduct a Delphi survey to evaluate ideas generated by delegates to the first National Summit on Retirement Savings held on June 4–5, 1998. Specifically, these ideas focused on ways to increase Americans' retirement savings and enhance the retirement income security of today's workers. The results of the survey have been the foundation for various action steps undertaken by ASEC over the past few years.

In order to develop the questionnaire, EBRI provided Greenwald with a categorized list of the ideas generated at the summit. Greenwald then incorporated these ideas into a questionnaire asking respondents to rate each idea according to the respondent's perception of its priority for further action. For the second round of the study, respondents were presented with the same list of ideas, ranked within each category according to the results of the first round, and asked to rate each idea again according to its priority. The third round of the study again presented respondents with the same list of ideas, ranked according to the results of the previous round (but no longer within categories), and asked them to rate each idea a final time. Forty-one percent of summit delegates responded to the first round of the survey. The second round had a delegate response rate of 22 percent. Forty percent of summit delegates responded to the final round of the survey.

The Top Twenty

Table 1 presents the top 20 ranked ideas by the percentage of summit delegates rating each a high priority. While the rankings vary somewhat by each survey round, they also show some surprising consistency. "Educating about the benefits of starting to save early" is the top-ranked idea by delegates in the final two waves of the survey. This signals that delegates believe that an educational campaign with this idea as one of its central messages should be the top priority for anyone seeking to implement ideas from the national summit.

Seven of the ideas ranked among the top 10, and 13 of the ideas ranked among the top 20, also concern education. "Educate people on the costs of retirement" is the second-ranked idea, while "develop financial planning curriculum for high schools and colleges" is ranked 4. A delegate priority is also to "develop an on-going, funded, public awareness program to create a culture of saving and thrift" (ranked 8). There also appears to be a sentiment that such a campaign should involve "different messages targeted at different groups, such as people at risk, young people, low-income people, savers vs. nonsavers, ethnic groups, and high/low education levels" (ranked 10). According to delegate responses, a priority should also be to "encourage the use of payroll deductions" (ranked 3) and to "increase availability of payroll deductions and direct deposits for IRA's and/or other (retirement) savings vehicles" (ranked 9).

Three of the ideas ranked in the top 20 directly concern the high priority that should be placed on the education of children and youth. "Developing a financial-planning curriculum for high schools and colleges" is ranked 4, while "institute education projects that start at a young age" is tied for 13 place and "encourage financial literacy in the schools through public-private partnerships" is ranked 18. In addition, educating employers, specifically on how to set up low-cost plans, is also a priority for summit delegates.

Choose to Save®

EBRI and ASEC's Emmy-award winning *Choose to Save®* (CTS) education program was cited by delegates to the 1998 National Summit on Retirement Savings as the type of campaign that should be conducted throughout the Nation. Based on the findings of the RCS, this program provides first-time savings information and also customizes the financial planning message to different "savings personalities."

Underwritten by Fidelity Investments in the Washington, DC test market, *Choose to Save®* includes educational brochures, radio, and TV public service announcements (PSA's) in primetime, newspaper ads and outdoor displays, and ongoing news coverage through our DC media partners—WJLA–TV (an ABC affiliate), WGMS Radio, and WTOP Radio. Although the program stresses the seriousness of the savings message, it uses humor and positive examples to help people overcome their reluctance to address financial issues.

For more information, and to see and hear the TV and radio education spots, visit the *Choose to Save®* website at: *www.choosetosave.org.* In addition, CTS PSA's are shown on military bases and ships worldwide. The Public Sector CTS campaign, launched in October 1998, aims to increase participation in State and local government (Sec. 457) deferred-compensation plans. ICMA Retirement Corporation (RC), the National League of Cities, and the Government Finance Officers Association underwrite the program. The CTS program is now in its 5th year.

PSA's are an integral component in the CTS campaign. The goal of showing the PSA's is to raise the general savings awareness level among viewers. The CTS PSA's have been disseminated nationally through a partnership with Goodwill Communications, as well as the U.S. Treasury Department, and the U.S. Social Security Administration.

Some interesting stats from the first national CTS PSA Campaign television broadcast package that was launched in July 2000:

- 1,100 television broadcast stations
- 35 networks/NAB closed circuit
- 600 cable stations
- 181 broadcast stations; 14,945 plays
- 221 cable stations; 35,363 plays
- Broadcast value as of July 2001: $4.9 million.

Additional stats from the second CTS PSA Campaign television broadcast package launched in August 2001:

- 229 cable stations; 12,393 plays
- Radio diskpak distribution: $407,773 (as of January 2002). It also features a spot in Spanish.
- 253 radio outlets in 179 cities: 28,266 plays
- Broadcast value as of January 2002: $5 million airing nearly 9,000 spots in 149 cities spread through 49 States.

Table 1. Top Twenty Ideas Among Delegates

[Ranked by percentage rating each a high priority]

Rank		First Round	Second Round	Third Round
1	Educate about the benefits of starting to save early.	2	1	1
2	Educate people on the costs of retirement.	1	5	2
3	Encourage the use of payroll deductions.	3	3	3
4	Develop financial-planning curriculum for high schools and colleges.	16	2	4
5	Provide simple, user-friendly, easy-to-understand information on retirement savings.	10	6	5
6	Encourage portable models.	8	10	5
7	Educate employers on how to set up low-cost plans (as part of a national public awareness campaign).	4	4	7
8	Develop an on-going, funded, public awareness program to create a culture of savings and thrift.	5	6	8
9	Increase availability of payroll deductions and direct deposits for IRA's and/or other savings vehicles to encourage savings (that would not be accessible till retirement).	10	8	9
10	Develop an education campaign that includes different messages targeted at different groups: people at risk, young people, low-income people, savers vs. nonsavers, ethnic groups, and high/low education levels.	13	9	10
11	Educate employers on how to set up low-cost plans (as part of opportunities for plan expansion).	25	19	11
12	Position "lifetime savings" campaign as opposed to "retirement"—which does not register for young people.	43	27	11
13	Encourage long-term investing.	16	15	13
14	Institute education projects that start at a young age.	8	16	13
15	Simplify the message.	14	33	15
16	Use automatic enrollment/negative consent to raise 401(k) participation.	27	12	16
17	Raise profile of retirement savings plans when they are offered.	6	13	17
18	Encourage financial literacy in the schools through public-private partnerships (that is, "adopt a school" programs).	32	16	18
19	Provide more education for workers on an ongoing basis.	28	21	19
20	Translate retirement benefit statements into estimated monthly income statements at retirement, to make these statements more meaningful to workers.	16	11	19

Choose to Save® Forum on Retirement Security and Personal Savings

On April 4–6, 2000, the Choose to Save® Education Program hosted a Forum on Retirement Security and Personal Savings in Washington, DC. The forum brought together key representatives in the private, public, and nonprofit sectors to share expertise and best practices encouraging long-term, routine saving, planning, and investing by individuals. The two principal topics of the forum, covered in both plenary and breakout sessions, were: (1) increasing retirement planning and retirement program sponsorship and participation and contributions at all income and age levels, and (2) minimizing the leakage of savings from the retirement system as more defined benefit and defined contribution plans pay lump-sum distributions.

Forum participants addressed the importance of creating a national environment that encourages personal savings and investment for retirement, and focused attention on actions and "best practices" that companies and organizations could replicate and use on their own. At the end of the forum, delegates were presented with a menu of initiatives that emerged from the previous day's breakout sessions. Out of the many initiatives that surfaced, the delegates then reranked the top five initiatives (six in practice, since there was a tie for the no, five spot), after a period of discussion on their relative merits and shortcomings. The final-rank ordering was:

1. Create a national media campaign to raise public awareness.
2. Promote negative election as a default design feature.
3. Promote consumer financial literacy in K–12.
4. Promote financial planning tools and websites through SSA benefit statement mailings.
5. Promote preservation/rollover through the use of waivers recognizing foregone future accumulations.
6. Require automatic rollover of lump sums as a default design feature.

Annual Retirement Confidence Survey

The year 2002 marked the 12th year that EBRI, ASEC, and Greenwald have undertaken the *Retirement Confidence Survey (RCS)* and the 5th year for the Small Employer Retirement Confidence Survey (SERS). The 2002 surveys have just been returned from the field, and the results from the 2002 RCS will be presented at the SAVER Summit later this month. The RCS has asked certain key questions over these 12 years that have tracked trends in retirement confidence and retirement planning behavior for much of this time. I would like to focus on just a few of the highlights from last year's surveys.

In general, the 2001 RCS found that retirement confidence had declined during the year, with fewer nonretired individuals engaging in retirement planning and savings activities than in recent years. First, the percentage of nonretired individuals who have tried to calculate how much they will need to accumulate to ensure a comfortable retirement decreased from 51 percent in 2000 to 46 percent in 2001. And the percentage who said they tried to do this calculation declined even further, to 39 percent, when workers were first asked about their knowledge of the various components that go into this type of calculation. Second, the proportion of workers who say they have personally saved for retirement has also gone down, albeit only slightly. In 2001, only 7 in 10 workers said they have personally saved for retirement, as opposed to 3 out of 4 workers in 2000.

With these trends in mind, it should not be surprising that the workers were less likely in the year 2001 to say they were on track in terms of planning and saving for retirement than they were in 2000. In 2000, 38 percent reported they felt they were on track, while in 2001 only 33 percent felt they were on track in their financial preparation for retirement. At the same time, the proportion saying they are a lot behind schedule increased from 29 percent to 34 percent. This sense of being behind schedule may be a result of rather small amounts that American workers have thus far accumulated for retirement. Half of workers have saved less than $50,000; 2 in 10 say they have saved nothing at all for retirement. The average amount for retirement increases with age, of course. But still only a quarter of the workers age 45 and over have saved at least $100,000.

The increase in the number of workers who feel they are behind schedule in preparing for retirement is no doubt linked to the turnaround in confidence in having a financially secure retirement. After 5 years of steady increase the proportion of workers who are confident that they will have enough money to live comfortably in retirement dropped from 72 percent in 2000 to 63 percent in 2001. Other indicators of confidence also fell in 2001 after several years of steady increase.

- In 2000, 77 percent of workers said they were confident they were doing a good job of preparing financially for retirement. In 2001, it dropped to 70 percent.
- Similarly, 84 percent were confident of having enough money to take care of basic expenses in 2000; only 78 percent were confident in 2001.
- Sixty-six percent were confident in 2000 of having enough for medical expenses, compared with 58 percent in 2001.
- And more than 51 percent of working respondents to the 2000 RCS were very confident of having enough to pay for long-term care, compared with 44 percent of working respondents in 2001.

The decline in confidence was not spread evenly across the working population. Workers ages 35–54 and those with household incomes of $35,000 to $75,000 experienced the biggest declines.

One area where confidence has not declined this year is in Social Security and Medicare, despite the large amount of press concerning the financial health of these two systems. Confidence in these programs has continued to increase from the lows recorded in 1995, although a majority of workers continue to remain not confident. Confidence that these programs would continue to pay benefits of value equal to today's went up in 2001 by 6 percentage points to 34 percent for Social Security and 4 percentage points to 39 percent for Medicare.

On another issue of importance, the 2001 RCS found that clear differences remain between American workers as a whole and minority workers on retirement planning and saving. African-American and Hispanic Americans tend to have lower levels of confidence in their financial prospects in retirement and lower levels of retirement planning and saving. Among workers:

- Forty-five percent of Hispanic Americans and 54 percent of African-Americans were confident of having enough money to live comfortably in retirement, compared with 63 percent overall.
- Sixty-two percent of Hispanic Americans and 69 percent of African-Americans were confident in having enough money for basic expenses, compared with 78 percent overall.
- Twenty-nine percent of Hispanic Americans and 29 percent of African-Americans say they tried to figure out how much money they will need to save to live a comfortable retirement, compared with 39 percent of all workers.

As a "best practice" example on this specific issue, I want to highlight the *Investing for Success* program, an ongoing investor education partnership between the Investment Company Institute Education Foundation (ICIEF); the National Urban League (NUL); and the Coalition of Black Investors–Investment Education Fund (COBI–IEF).

The program is designed to promote greater understanding among middle-income African-Americans about the benefits of long-term investing. To date, investor education workshops have been held in cities throughout the country. The *Investing for Success* program offers free personal finance workshops nationwide, conducted by African-American investment professionals. Those who are unable to attend a workshop can visit *www.icief.org* for all the materials in an interactive, multimedia format. In addition, based on the success of the program, the ICIEF is developing a Spanish-language *Investing for Success* web course that will offer similar investor education opportunities to the Hispanic community.

Youth and Money

Young people today are bombarded with messages to spend, yet the average student graduating from high school lacks even the most basic money management skills (that is, balancing a checkbook, understanding compound interest, etc.) that can help him or her to make sound financial decisions. Too often, we hear stories of parents bailing their children out of debt—even before they have had a chance to bring home their first paycheck.

It is imperative that children be taught about personal finance at an early age so that they can develop the skills and knowledge they need to have to be financially responsible adults. Helping individuals prepare for long-term financial security needs to begin in the home—by parents. The earlier good savings behavior is taught to children, the better planners, savers, and investors America will have in the future.

Last year, ASEC cosponsored, along with EBRI and MGA, the *2001 Parents, Youth & Money Survey,* underwritten by the TIAA–CREF Institute. The survey was a follow-up to the *1999 Youth & Money Survey* finding that 94 percent of surveyed students look to their parents for financial education. As the primary teachers of money management, parents have a major impact on the financial attitudes and habits—positive or negative—that their child develops.

The *2001 Parents, Youth and Money Survey* found, however, that while a majority of parents feel confident about their understanding of financial matters, many of their actions and behaviors contradict this self-assessment. For instance, 55 percent of parents roll over credit card debt each month. When asked where they would put or advise their child to put $5,000 to save for education or some other long-term goal, 58 percent do not identify specific long-term investment vehicles such as mutual funds; rather, more than one out of three parents cited low-yielding certificates of deposit (CD's), savings accounts, and savings bonds. Finally, fewer than half (45 percent) of all parents say they make a budget and stick to it most of the time.

The *2001 Parents Survey* shows that many parents are missing day-to-day opportunities to engage their children in conversations about money management, and provides some ideas for parents to help kids become savvy savers and consumers. One of the reasons for undertaking the survey was to help parents and children recognize the enormous value of understanding everyday financial basics, as well as to motivate financial service providers, K–12 teachers, financial advisors, and youth leaders to develop, provide, and employ tools and resources to strengthen family financial literacy.

In conjunction with the *2001 Parents Survey,* ASEC and the TIAA–CREF Institute have created the following tools to help educate parents and kids about financial matters: "Money Talk" pamphlet series, Youth & Money Poster, Interactive Savings Goal Calculator, and Piggy Bank Wrapper. All tools are available on the ASEC and TIAA–CREF Institute websites at *www.asec.org* and *www.tiaa-crefinstitute.org.*

One question that is often asked is how effective are financial education classes in schools? A 2001 study done by Stanford University entitled, "Education and saving: The long-term effects of high school financial curriculum mandates," attempts to answer that question. The paper explains that between 1957 and 1985, 29 States adopted legislation that required secondary schools to offer some kind of "consumer" education. Fourteen States specifically required that the schools cover topics related to household financial decisionmaking (that is, budgeting, credit management, investing, etc.). The goal of the curricula was to ensure that the students gained practical financial knowledge and skills that they could later use in their adult lives.

The study abstract says, "The evidence indicates that mandates have raised both exposure to financial curricula and subsequent asset accumulation once exposed students reached adulthood. The estimated effects are gradual, probably due to implementation lags." These findings support the work of organizations such as the Jump$tart Coalition for Personal Financial Literacy, whose objective is to encourage curriculum enrichment to insure that basic personal financial management skills are attained during the K–12 educational experience.

ASEC is a founding organization of the Jump$tart Coalition and is represented on its board of directors. ASEC helped to develop the coalition's savings and investing guidelines, which include teaching students about the importance of income, money management, savings and investment, and spending. More information can be found at *www.jumpstart.org.*

A post September 11, 2001 survey report released yesterday by Certified Financial Planner Board of Standards shows the consequences of young people not learning to manage their finances. Young people today are more focused on managing and reducing debt than they were in 1999. Among individuals ages 20–39, 47 percent list managing and reducing debt as a current financial goal, second only to building a retirement fund. By comparison, 39 percent of that group listed it as a current financial goal in 1999.

What this means is that young people are turning away from other critical facets of the economy, CFP Board's survey shows. Interest in home purchase/renovation as a current financial goal has declined, and interest by the younger generation in vacation/travel also declined from 40 percent in 1999 to 33 percent in 2001. By contrast, those nearing retirement (ages 55–69) showed an increased interest in travel with 45 percent listing it as a current financial goal, up from 41 percent in 1999.

Finally, on a more upbeat note, I would like to bring the Committee's attention to an excellent example of a public- and private-sector partnership aimed at educating America's youth about finances—*Money Math: Lessons for Life.* In response to the country's low financial literacy rates among teens, the U.S. Treasury Department Savings Bonds Program, the Jump$tart Coalition for Personal Financial Literacy, and the Center for Economic Education (University of St. Louis, MO)—along with 17 other partners—developed a supplemental middle school math curriculum that teaches important personal finance skills to students in grades 7 through 9. *Money Math* lesson topics include income, saving, taxes, and budgeting.

The four lessons included in the curriculum are available online at *www.savingsbonds.gov* and at *http://coach.dosomething.org.* Both the web-based lessons and print materials are available for free. To request a paper copy of *Money Math,* send an e-mail to *moneymath@bpd.treas.gov.*

Conclusion

Unfortunately, no matter how you look at the statistics, the bottom line is the same—many Americans are not saving enough for their future or taking control of their current financial situation. Individuals need to know that responsible money management is not rocket science, but the financial cost of *not* starting to save today can have a serious impact on their financial well-being 10, 20, or 30 years down the line.

America is the land of opportunities, but many Americans are opting out of their opportunity to build wealth by overspending, carrying excessive credit card debt, and not participating in their company's employment-based retirement plans. Fortunately, many of us here are in a position to make a difference and educate Americans about the importance and urgency of planning financially.

ASEC is a national educational effort supported by public- and private-sector institutions that are fully engaged and committed to educating Americans about the need to save, invest, and plan for retirement and other important life stages. We have been down a road and made significant progress, but we have also faced some turns in our path.

But in the end, I return to my thoughts at the beginning of the testimony about the importance of coalition building. Organizations in both the private and public sectors must collaborate on all levels to help educate Americans about the importance of taking control of their financial future. By combining and leveraging our comprehensive networks and resources, we have a better chance of reaching people that none of us would be able to reach alone.

Mr. Chairman and Members of the Committee, I thank you for the opportunity to speak to you today on this important topic. I would be pleased to take questions now, and to respond to written questions following the hearing.

PREPARED STATEMENT OF ESTHER "TESS" CANJA

PRESIDENT, AARP

FEBRUARY 6, 2002

Good morning, Chairman Sarbanes, Ranking Member Gramm, and other distinguished Members of the Senate Banking Committee. My name is "Tess" Canja. I am President of AARP. I appreciate this opportunity to offer our views regarding the status of personal financial literacy and education in America—offered in support of the Committee's examination of options for developing a national strategy. With a membership of over 35 million midlife and older persons age 50 and over, we consider the work being undertaken by this Committee regarding financial literacy to be critical in its focus and in its timing.

If there is a positive aspect of the debacle known as "ENRON"—where thousands of employees and retirees have lost most of their retirement savings—it is the realization that it is in our national as well as our individual interest to make an effort to learn about, understand clearly, and strive to protect the openness and fair play of the investment process. Enron's collapse also has shed some much needed light on a simple, fundamental truth—that Social Security's guaranteed, defined benefits will be even more important to future retirees than they are to today's retirees.

For our part, we at AARP continually work to weave personal financial literacy into the fabric of all our program and service offerings. To be certain, developing effective financial literacy programs and services should not be viewed by anyone as a substitute for clear and strong oversight and enforcement of investor protection laws and regulations.

About a decade and a half ago (1987), E. D. Hirsch published his thought provoking book on *Cultural Literacy*. His was a slender volume, with the subtitle: "What Every American Needs To Know." Hirsch helped to spawn a national debate over what he argued was an absolute as well as a comparative decline of literate knowledge in the United States. This debate continues today, and your hearings reflect one important aspect of that debate—a concern over the *status and need* for personal financial literacy and education in America.

Complicating the challenge of developing a "civic-based" financial literacy strategy for adults, as well as curricula for primary and secondary education, is that there are today a wide variety of commercial initiatives being promoted as unbiased financial literacy services that have—in reality—a "conflicted agenda." The objective of many of the latter type of literacy campaigns is to market new products and services and systems of service delivery.

We believe that promotional initiatives can be very useful in the introduction of new and of better financial services. And we understand that the use of creative marketing techniques is an essential program and service requirement necessary to increase the public's awareness of their need to become more financially literate—and to make citizens aware of available resources and assistance. However, we see a need for a coherent and coordinated national strategy for making available a well-researched and well-evaluated progression of financial literacy programs and services. This strategy should be targeted at the life-spanning needs of busy adult Americans—and the orientation of the programs should be independent of ulterior commercial motivations.

Senator Sarbanes, in inviting me to testify today you requested that I share with the Committee an overview of what AARP has been learning about the status of, and the need for financial literacy and education among midlife and older Americans (those we generally identify as being 50 or over). AARP has long been active in efforts to assist midlife and older Americans improve their prospects for achieving personal financial security. In this regard, we have been active in conducting research,[1] designing, testing and providing financial education and counseling services to our members, and to the broader midlife and older constituencies we aspire to serve.[2] Currently, we are engaged in an effort to:

- Assess the magnitude of the problems of insufficient savings among adult Americans.
- Identify and review research on the status of mature adult financial planning and management as it relates to savings and financial security.
- Analyze existing savings education programs, focusing on those that have been formally evaluated.

General Patterns of Saving and Investment [3]

A recent research report by AARP has identified four basic pillars of retirement income security for the 21st century:

- Social Security.
- Pensions and savings/investments.
- Healthcare insurance coverage.
- Earnings from working during one's "retirement" years.[4]

This same research report reveals that Americans age 50 and older:

- Controlled two-thirds of all household wealth in the Nation in 1998.
- For most of these families, home equity made up the largest percentage of the total—except for the very wealthiest.

However, in an independent analysis of 1994 Health and Retirement Study data, prepared for AARP and released in 2001, a team of researchers at Colorado State University found that low levels of savings and high levels of personal and real estate debt are serious problems for many households nearing retirement.[5] The net effect, the analysts conclude, is that many households have relatively little wealth to rely on for retirement income.

These findings raise important policy questions about how to improve the retirement income prospects for all Americans. One important component is surely to increase their financial literacy.

The Marketplace and Pace

There has been a sustained trend of greater popular participation in the stock markets, and an increasing reliance on these investments for retirement income. Approximately one-half of American households own stock either directly or through mutual funds. According to the Investment Company Institute, investors that are 65 and older own 17 percent of mutual funds. Nearly 40 million American households with incomes under $55,000 own mutual funds.

According to the Census Bureau, more than 28 million Americans over age 65 rely to some extent on investment income to meet their living expenses. Three-quarters of older persons depend on investment income to meet 25 percent or more of their income. This trend is likely to accelerate as the baby-boomer generation ages and defined contribution pension plans replace defined benefit pension plans. According

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[1] See, with reference to the interaction of computer and financial literacy, the "AARP National Survey on Consumer Preparedness and E-Commerce: A Survey of Computer Users Age 45 and Older," March 2000.

[2] For example, the AARP Andrus Foundation, in a joint venture with the National Center for Women and Aging at the Heller Graduate School at Brandeis University, has created a website (*www.FAAR.org*) that provides direct access for researchers, practitioners, and journalists, to the latest research on economic security, retirement income and consumer expenditures issues. FAAR refers to "Financial Aspects of Aging Research." Also, AARP's own website (*www.aarp.org*) has a venue for "web financial resources" that offers assistance in finding financial information, financial planning, consumer watchdog, work smart, wise spending, etc.

[3] AARP has sponsored a number of studies detailing with different aspects of savings and investment behavior for those age 50 and over. Some of the most recent reports include: How Americans Save (July 1998). Do Baby Boomers Save and, If So, What For (June 1999). The Impact of Pay Inequality, Occupational Segregation, and Lifetime Work Experience of the Retirement Income of Women and Minorities (September 1999). Pension and IRA Coverage Among Boomer, Pre-Boomer, and Older Workers (February 2000). Patterns of Dissaving in Retirement (August 2000).

[4] The first issue of a new AARP series: "Beyond 50: A Report to the Nation on Economic Security" (2001) concludes that traditionally, the structure of retirement security has been thought of as a "three-legged stool." Now, because one-fifth of the aggregate income of Social Security beneficiaries derives from wages, earnings from employment merit consideration as a pillar of retirement security.

[5] See: "Risk Preferences and the Investment Decisions of Older Americans," June 2001. The views expressed in the study are for information, debate, and discussion, and do not necessarily represent formal policies of AARP.

to the 1998 Federal Reserve Survey of Consumer Finances, 18 percent of American households have defined benefit plans, while 33 percent have defined contribution (401(k) and 403(b)) plans.

Interrelated with this trend of greater popular participation has been an explosion of information about investing, the stock markets, the economy, and personal finance. The policy debate over the future of the Social Security program and its benefits has provided additional focus for AARP's members and the American public as a whole—those just starting their working careers, as well as those anticipating or in retirement—regarding the nature and risks of private investment.

And to be certain, the playing field is not level for all investors. Large institutional investors (that is, pension and mutual funds) have the resources to retain their own independent market analysts. For most individuals interested in investing, the ability to deal with the complexity of and choices in the stock markets begins with the challenge of interpreting and assessing investment quality rating systems—no mean task.

A Measure of Investor Knowledge and Vulnerability

AARP commissioned a national telephone survey and analysis of consumer behavior, experience, and attitudes by Princeton Survey Research Associates.[6] Interviews with 1,504 adults aged 18 and older were completed in November-December of 1998. This was during a period in which the stock market had been soaring. Four questions were asked to provide a general indication of the level of investment knowledge possessed by this sample of consumers. Responses to these questions were grouped into three age categories: Younger respondents (age 18 through 49), midlife respondents (age 50 through 64), and older respondents (age 65 and over).

The questions were:

- Do you think most full-service brokers and financial planners are paid based on the quality of the advice they offer and how much their clients earn, or based on the amount and type of investments they sell to their clients?
  —Only fifty percent (50 percent) of older respondents correctly indicated that the amount and type of investments sold to their clients was the basis of their pay.
  —While over two-thirds of midlife and younger respondents (68 percent and 67 percent respectively) answered correctly.
- As far as you know, if you lose money in a mutual fund you invested in at a bank, will the FDIC, that is, the Federal Deposit Insurance Corporation, cover your loses?
  —Only forty-two percent (42 percent) of older respondents (aged 65+), knew the statement to be false (the remainder answered incorrectly, indicated they did not know, or refused to answer).
  —While fifty-one percent (51 percent) of those respondents in midlife (aged 50–64), were correct.
  —Fifty-seven percent (57 percent) of the younger respondents (aged 18–49) were correct.
- Next, do "no-load" mutual funds involve no sales charges or other fees?
  —Only 30 percent of older respondents knew that the statement was false.
  —While 36 percent of those in midlife answered correctly.
  —Forty-one percent (41 percent) of the younger respondents answered correctly.
- And finally, when an investor diversifies his investments, does his risk of losing money increase or decrease?
  —Only twenty-six percent (26 percent) of older respondents correctly indicated that their risk of losing money would decrease.
  —While forty percent (40 percent) of those in midlife answered correctly.
  —Slightly fewer, thirty-eight percent (38 percent), of the younger respondents answered correctly.

For all respondents, only 11 percent of this sample of consumers correctly answered all four of these basic questions, while 25 percent correctly answered three of the four questions. Among consumers under the age of 65, 12 percent answered all four questions correctly, while only 6 percent of the age 65 and older consumers could do so.

The responses to our simple set of investment questions are worrisome. Today the individual investor confronts a market characterized by multiple and increasingly complex investment choices, a proliferation of information sources of uneven and un-

[6] See: "Consumer Behavior, Experiences and Attitudes: A Comparison by Age Group," March 1999.

certain quality, and links the customer into a trading system designed for convenience and efficiency. However, the growth in the proportion of Americans investing in the stock market appears not to be supported by a corresponding knowledge about fundamental product features, charges, and risks.

Seeking a Baseline for a Literacy Strategy

In April 2001, AARP contacted with Ipsos–NPD to conduct a study of persons age 50 through 59 to gain more information about their interests, preferences, and behaviors (from a sample composed mostly of baby boomers nearing retirement age). The questions relate to financial planning and management.[7] Among the key findings of this unpublished survey:

- *How they rated financial topics to learn about:*
  —Respondents were given a list of 22 financial topics and asked to select five that they consider most important to learn about. More than 6 in 10 (62 percent) say that Social Security benefits are important to learn about. Roughly half as many consider knowing how much money they will need in retirement (39 percent), sources of retirement income (39 percent), saving for retirement (30 percent), or pension benefits and 401(k)'s (29 percent) as important topics to learn about.
  —No more than one in four picked any of the other topics, listed here in descending order in which they were selected as being among the top five: Investing (24 percent), savings (22 percent), tax strategies (21 percent), interest in inheritance issues (20 percent), home-based business (14 percent), estate planning (14 percent), debt management (14 percent), financial planning (12 percent), IRA's (11 percent), home equity or reverse mortgages (9 percent), investment terms and concepts (8 percent), changing careers or career management (8 percent), and paying for education (7 percent).
- *Preferred formats for receiving financial information:*
  —For each of the twelve financial topics about which they were asked, the largest percentage of the respondents expressed a preference for receiving written information.
  —Only 3 to 7 percent preferred computer disks, workshops or seminars, audio or videotapes, or web-based formats, large print or Braille.
- *Levels of confidence in a financially secure retirement:*
  —Roughly 2 in 10 respondents say they are either extremely (5 percent) or very confident (14 percent) that they will have enough money to live comfortably throughout their retirement years. Roughly 4 in 10 (42 percent) say they are somewhat confident in a financially secure retirement, while a similar percent (39 percent) say they are either not too confident (22 percent) or not at all confident (17 percent).
- *Levels of involvement with various financial planning activities:*
  —The largest percentage of respondents say they have read their Social Security statement in the past year (56 percent). One-third (33 percent) say that they have contributed to a 401(k) or other similar employer retirement plan while roughly 2 in 10 say that they have determined their net worth (22 percent), or reviewed their pension information (20 percent).
- *Media, individual or organizational sources of financial information:*
  —When asked how they receive media information about financial issues, over half (54 percent) say they get information from newspapers, while slightly fewer (47 percent) say they get such information from television. Four in 10 respondents note that they receive financial information from print brochures (43 percent) and from magazines (42 percent), while roughly one-fifth get information from the Internet (21 percent), from books (20 percent), or from the radio (19 percent). Only 4 percent report that they receive financial information through computer software or videos.
  —Respondents were also asked what individuals or what organizations provide financial information to them. Four in 10 say banks or other financial institutions (44 percent) or Government programs or agencies (41 percent). Roughly one-third of the respondents say that their financial planner (33 percent), family or friends (32 percent), and their employer (32 percent) provide financial information to them. Between one-fifth and one-quarter of the respondents say they receive information from financial services companies (21 percent) and insur-

[7] Response to the mailed questionnaire was 57 percent (N = 1,932 responses out of 3,400 surveyed).

ance companies (25 percent). Less than 1 in 10 respondents say they receive information from national financial organizations (8 percent), religious organizations (5 percent), and community groups or clubs (3 percent).

- *The most trusted source for financial information:*
  —Respondents were asked to select their *one* most trusted source of financial-related topics. Nearly one-third (32 percent) of respondents pick a well-known financial expert or professional, while slightly less than one-quarter selects a local financial professional (24 percent) or AARP (23 percent). Only 3 percent of the respondents pick an insurance company.

Lifelong Learning

Complementing the Ipsos–NPD survey are the results from a survey that AARP contracted for with Harris Interactive Inc., in September 1999, to explore how and why people over 50 years of age learn about new things.[8] This research examines typical learning motivations, learning interests, and the life-event contexts in which learning takes place. In brief, the survey findings suggest that lifelong learning experiences that would likely hold the most appeal for mature adults include subjects that are:

- Personally meaningful.
- Taught in environments which provide a direct learning experience.
- Allow adults control over all aspects of the learning process.
- Are not too expensive.

The findings also indicate that mature adults prefer methods that are:

- Easy to access.
- Require small investments of time and money to get started.
- Allow learning to begin immediately.

Lessons to Explore

A number of potential program guidelines have surfaced, derived from the limited survey and literature review reported above, that suggest further exploration and testing. Ideally, financial literacy programs should:

- Have a close linkage to basic literacy skills.
- Be based on clear and focused learning objectives and standards.
- Emphasize demystifying financial products and services.
- Engage people to learn when they are most receptive, that is, when they are:
  —Near key life stage events.
  —Approaching the time for making a choice/selection of a financial service or product.
- Last, the credibility of the program, and therefore its effectiveness is enhanced if:
  —Traditionally respected sources of information are the source or sponsor of the program.
  —There is (affordable and ready) access to a choice of programs and services.
  —A navigation (referencing) strategy is in place for making this information known and current.

Conclusions

It is premature to conclude too much regarding how best to address the inadequate state of financial literacy among adults in this country. Because of changing work patterns, a rapidly growing population of retirement-age Americans, increasingly complex financial products and services and greater personal responsibility for managing one's own finances, the demand for "nonconflicted" financial literacy programs and services will continue to grow. This modest projection assumes that there will be an increased awareness and expectation by an alerted public that, by necessity, we must become more self-reliant.

At the same time, it is worth repeating our concern that support for adult financial literacy should not be viewed as a substitute for a clear and strong oversight and enforcement of investor protection laws and regulations.

We look forward to working with you, Chairman Sarbanes, and Members of the Senate Banking Committee, on both fronts—strengthening investor protections and strengthening the investor.

Thank you for this opportunity to testify before you today. I would be happy to answer any questions you may have.

[8] See: "AARP Survey on Lifelong Learning," July 2000.

PREPARED STATEMENT OF RAUL YZAGUIRRE

PRESIDENT AND CHIEF EXECUTIVE OFFICER

NATIONAL COUNCIL OF LA RAZA

FEBRUARY 6, 2002

Introduction

My name is Raul Yzaguirre and I am President of the National Council of La Raza (NCLR). NCLR is a private, nonprofit, nonpartisan organization established in 1968 to reduce poverty and discrimination and improve life opportunities for Hispanic Americans. NCLR is the largest national Hispanic constituency-based organization, serving all Hispanic nationality groups in all regions of the country through our network of 277 affiliate community-based groups and regional offices.

NCLR established its Economic Mobility Initiative several years ago in an effort to address the economic issues faced by Latino working families. An important element of this project is to explore the financial and economic security of the Nation's Latino families, and to develop and propose clear public policy measures to improve the ability of Latino families to move more successfully into the ranks of the American middle class. With this charge, NCLR committed itself to focusing on an array of issues not traditionally viewed as "Latino issues," such as savings and investment, retirement security, pension coverage, homeownership, tax policy, and financial literacy, and general issues of asset accumulation and wealth-building for American families.

In light of this, I appreciate this opportunity to appear before the Committee today to share with you what we have learned about the economic security of the Hispanic community and the role that financial literacy and education could play in improving the economic status of U.S. Latino families.

My comments focus, in particular, on where Latino families are positioned in today's economy and how improved financial literacy is especially important to Latinos and to the Nation as a whole. I will also outline some key issues in financial education which are relevant to the Latino community and highlight "elements of success" with respect to education strategies. Finally, I call for a national partnership among Government, the financial services industry, and community groups to focus both on providing effective financial education to those who want and need it and eradicating financial illiteracy within the Latino community.

Background

In recent years it has become clear that the economic well-being and financial security of families is no longer simply predicated on one's income from work, but rather on the net worth, or wealth, of a family or household. The Federal Reserve recently reported that over the last decade overall household wealth nearly doubled from $21 trillion in 1990 to about $40 trillion at the beginning of 2001. It also reported that about 80 percent of this growth was attributable to capital gains, a substantial amount of which was due to the strong performance of the stock market. Thanks, in large part, to a vibrant financial services market—made more asset-friendly by favorable Government intervention—American families have become wealthier and more financially secure than Americans in previous decades, even though their income has grown at a more modest rate. Today, more American workers have robust employer-provided pension plans, Individual Retirement Accounts (IRA's), stocks, and bonds, and many have seen the value of their homes grow exponentially in recent years.

Today, there are 35.3 million Hispanics in the United States; 1 in 8 Americans are Latino. We are more than 1 in 10 workers, 1 in 5 students, and are a vital part of the economies of States, cities, and communities across the country. The number of Hispanic-owned businesses has continued to rise dramatically, and Latinos now have a buying power that exceeds $450 billion annually. The evidence shows that Latinos made serious contributions to the record economic growth experienced across the Nation in the late 1990's with both their hard work and consumer spending. Latinos, especially the Hispanic men, continue to work at high levels, which has led to rising median income and to falling poverty for many Hispanic families in recent years.

That said, as the Nation continued its transformation toward an asset-based economy, most, though not all, Latinos have been left behind. Recent data show that the median Latino family net worth actually decreased in the middle of the last decade to $3,000 in 1998. In 1998, Latino family net worth was just 4 percent of the average net worth of non-Hispanic white families ($81,700), a ratio of *27 to 1*. And when home equity is taken out of the equation, we find that Hispanic families have a median financial wealth of *zero* compared to $37,600 for the average non-Hispanic white family.

Although there is a small but significant share of Latinos doing well financially in the United States, today, Hispanic families are the least likely of all Americans to own a home, have employer-provided pension coverage, and save or invest in the stock market. While Latinos have experienced gains in income in recent years thanks to their hard work, the average Latino family appears to be no more financially secure than they were in the early 1990's. Not only have many Latinos failed to climb the economic ladder and attain the "American Dream," but without assets far too many remain extremely vulnerable economically to job loss—a concern that has materialized in recent months.

However, lower net worth for Latinos has less to do with lack of interaction with financial service providers than with the limited types of providers, services, and products available to Latinos. To be sure, the gulf that exists in asset accumulation and wealth among American families can be attributed largely to distinctions in income and education. But disparities in net worth persist even when access, income, and education are not factors. A considerable problem is the relatively narrow scope of providers and even more limited kinds of products that meet the distinct financial and economic needs of Latino families. In addition, many Latinos are unaware of the full range of products available in the financial services market, and many often do not have the benefit of adequate information. These factors effectively limit the ability of Latinos to become more economically mobile and help to keep Hispanic families prey to unscrupulous agents and providers who offer high-cost products that effectively eat away at the financial security of families.

In view of demographic trends and the increasingly important role that Latinos are playing in the U.S. economy, ensuring that Latino workers and families can reach their full economic potential, unimpeded by elements in industry such as discrimination, is critical to the future prosperity of the Nation. An important means of opening up the doors of economic opportunity and financial security to more Latino workers is improvements in financial literacy and more financial education opportunities for Hispanic families.

Financial Education

As a practical matter, a basic understanding of how the financial services industry operates helps workers and their families make more informed choices about how best to progress economically. Even a modest degree of financial literacy helps families to stay away from harmful personal debt, fight discrimination, avoid predatory practices, and invest wisely and purchase and accumulate assets. But for Latinos, financial education and improvements in literacy are especially important to begin the process of purchasing and accumulating assets. For some Latinos it is a matter of more effectively understanding the particular ebbs and flows of the financial services industry in the United States and determining which are the most useful and cost-effective services and products. But for most Latino families, most of whom are native-born, low participation in financial markets can be largely attributed to a lack of familiarity with financial institutions and the process of building wealth.

For most Americans, including some Hispanics, financial knowledge is simply passed down from one generation to the next. And because the process of maintaining assets often naturally leads to greater knowledge and literacy, those Americans born into families with assets have the easiest road to a relatively secure middle-class life. Accordingly, financial education services tend to be more vital to those workers and families who have some means but no experience with assets—a circumstance that best characterizes the position of many Latinos in the market today. Clearly, although financial education alone is insufficient to narrow the wealth gap significantly between Hispanic and non-Hispanic families, it is a necessary component of any antipoverty and asset-building strategy. As such, good quality, well-developed, financial education programs targeted to Latinos offer enormous economic benefits for families, the industry, and the Nation.

Elements of Successful Programs

There are a variety of financial literacy and education programs currently operating across the country targeted to Latinos. These programs range from those with a focus on consumer protection to those targeted toward helping Latinos purchase homes. Notwithstanding the volume of financial education activity, it remains unclear what specific model or approach works best for Latinos. That said, there are detectable elements of success.

First, successful financial education and outreach programs tend to be both sophisticated and responsive to nuances among Latinos. The Latino community is extra-ordinarily diverse. Financial education programs that have not recognized the sig-nificant, distinguishing characteristics between Latinos and non-Latinos, or even between native and foreign-born Latinos, have often proven unsuccessful. For this reason, especially, translating materials directly from English to Spanish often fails to elicit the hoped for response.

Second, successful financial education programs for Latinos have tended to link education to an actual product or service. As a general rule, the promise of actually engaging in saving and purchasing of a product at the end of a specified period have provided strong incentives for Latinos to take time to attend classes and ask questions.

Third, financial education programs that are delivered by a group the community knows and trusts, and which is culturally sensitive, are often successful. Evidence suggests that for Latinos the best vehicles for such strategies are community-based organizations that already have strong relationships with the community and provide a range of social services for Latino families. Such strategies provide culturally relevant materials and training that directly link Latino families to appropriate wealth-building products.

There are two noteworthy programs that combine these elements: The Individual Development Account (IDA) program and homeownership counseling programs. The IDA program is a Federally supported program that matches the savings of low-income families in accounts that are held by financial institutions. The IDA's are de-signed to provide financial incentives for savings and asset accumulation among low- and moderate-income people. As part of this program, account holders must attend mandatory financial education classes, often provided by a community-based organization. Besides providing basic finance and budgeting information, many classes are structured around issues related to the asset development activities a person chooses to pursue. The act of saving and the promise of an asset at the end of the process has offered a strong incentive for Latinos to attend and participate in these financial education classes. Preliminary evaluation studies have found that Latinos save at higher rates than other IDA participants.

Also, the Federally supported homeownership counseling programs offer another model for effective financial education. A number of NCLR affiliates provide prepurchase counseling, both to people who are ready to buy a home and to people who are just starting the process of saving for their first home. The education and assistance are effective for both groups because they are working toward a goal and the information provided is directly linked to achieving that aim. These programs are geared to serve the distinct needs of the local community population, promise a product or service, and are delivered by an agent that the community trusts.

Conclusion

While more information is needed about best practices and approaches to improving financial literacy, we do know that the such measures are only useful insofar as they result in material improvements in the asset levels and financial security of Latino families nationwide. For this reason, approaches to this issue must be comprehensive but also sophisticated and responsive to the nuances of the Latino community. It is also clear that there are existing models that should be a central part of the solution and offer good insights into how best to address the financial education issues of Latinos. For instance, any approaches must include a national partnership among the financial services industry, community groups, and Government which can work on determining effective strategies and then help to implement various programs and policies that will address these financial literacy concerns.

The Government can play an important role by taking public policy measures to foment financial education efforts. The IDA program is still a relatively modest demonstration project.

Moreover, the program has failed to take serious steps to include Latino community-based providers and, as a result, this program does not serve many Latinos, even though studies show Latinos to be ideal participants. NCLR recommends expanding the existing IDA grant program to $500 million and including a clear intent to target such programs to serve more Latinos.

The homeownership counseling program is also a modest program, even though it is proven to be highly successful for Latinos. NCLR recommends expanding this program to $35 million this year. Creating initiatives that entice the financial industry to play a role in providing services, education, and opportunities for underserved communities would do a great deal to reach millions of people and increase financial literacy. For our part, advocates and community groups are here to provide the services. We are committed to reaching out to the community and providing the education to underscore the importance of financial literacy and the opportunities it presents.

Finally, the financial services industry has an important role as well. It should make the effort to learn about the Latino community and become involved by partnering with community-based organizations. Distrust of banks and financial institutions is also common among many Hispanics. Some Latino immigrants have deposited money in banks in their home countries only to have it lost when the bank went out of business or devalued because of a weak economy. Such personal experiences lead some Latinos to prefer whatever is perceived to be safest to the possibility of a profitable rate of return. Again, further exacerbating the problem is the failure of most banks and other financial institutions to reach out to the Latino community, especially in a way that addresses these concerns. Yet by educating Hispanic immigrants about the financial market in the United States, especially if the teacher is a trusted member of the community, Latino families can begin to gain familiarity with and confidence in these institutions.

Increasing financial literacy is an important goal and an endeavor in which we must all embark together. It is important for the country that *all* Americans understand the financial market and have the opportunity to participate fully. I thank you for allowing me to speak here today, and I look forward to working with you in the future to help make all American families financially secure.

PREPARED STATEMENT OF DENISE VOIGT CRAWFORD

TEXAS SECURITIES COMMISSIONER

TEXAS STATE SECURITIES BOARD

FEBRUARY 6, 2002

Chairman Sarbanes, Ranking Member Gramm, and Members of the Committee.

I am Denise Voigt Crawford, the Commissioner of the Texas State Securities Board and Chair of the Investor Education Section of the North American Securities Administrators Association, Inc. (NASAA), a nonprofit association of securities administrators from the 50 States, the District of Columbia, Puerto Rico, Canada, and Mexico. I am also a Trustee of the Investor Protection Trust (IPT), a nonprofit trust devoted to investor education.

I am pleased to appear before you today to discuss the importance of financial literacy and education in America. Texas is a recognized leader in this area, and I am pleased to have the opportunity to share our experiences and suggestions with you.

Status of Financial Literacy and Education in the United States

On average, the general public is financially illiterate. That may sound harsh, but unfortunately it is true. Despite numerous, well-intentioned efforts over the last few years to increase investor knowledge, recent surveys on financial literacy are finding nearly the same dismal results that were found in surveys 5 or more years earlier. Does this suggest that no amount of investor education will improve the situation? I think not. Instead, it demonstrates that we must be smarter about how we provide the information, motivate people to want to learn, collaborate, and coordinate our efforts.

As a Nation, we have only recently recognized our financial literacy education shortcomings. In response, many groups have taken action, developed initiatives and programs, and offered their services to various segments of society. Governmental agencies have recognized that an important component of fraud prevention is investor education. State securities regulators, the "local cops on the beat," are responsible for investor protection and education at the local level. Nonprofit entities and public service organizations are finding an endless need for their services. Industry participants realize that educated investors are more savvy and less likely to be disappointed with their investment decisions. The need for a better educated populous becomes more apparent daily, and with this recognition there is a disturbing awareness of the multitudes of investors who are ill-equipped to make critical financial decisions for their lives.

WE ARE A NATION OF INVESTORS

The Texas Example

From modest beginnings, Texas has grown to be a major market and is eagerly sought out by national and international securities issuers. The dollar volume of securities registrations and filings processed in Texas in fiscal year 2001 was approximately $330 billion. (This number does not include, for example, sales of exchange-listed securities and other securities sold pursuant to exemptions.) The dollar volume in the Texas securities market now exceeds the combined deposits of all banks, savings and loans, savings banks, and credit unions in Texas.

The Texas experience mirrors what has, to varying degrees, occurred throughout the United States. Over the last 10 years, the United States has been transformed into a Nation of investors. Over half of all Americans are now invested in the securities markets. Many individuals have become investors because they participate in employer-sponsored 401(k) programs. At year-end 2000, about 42 million American workers held 401(k) plan accounts with a total of $1.8 trillion in assets. As most Americans have become investors, attention has focused on making sure students are prepared for the credit card offers they will receive upon going to college, preventing investors from being defrauded, making sure that individuals are financially prepared for retirement, and ensuring that Americans have a basic understanding of the principles of saving and investing, as well as preserving their accumulated wealth.

We no longer have the comfort we experienced during the passbook-savings years of our childhoods. Our current standard of living and our plans for the future are increasingly tied to the ups and downs of the markets, and the variety and complexity of investment options can be overwhelming even to those with some degree of financial knowledge. In addition, the markets and the investment products are constantly changing. Today, it takes knowledge of financial literacy basics just to keep up.

Importance of Financial Literacy and Education

INVESTORS WHO LACK KNOWLEDGE ARE SUBJECT TO UNWISE CHOICES

Without basic financial education, investors are less savvy in making important financial choices. For example, with an increasingly mobile workforce, many people will, upon changing employers, be asked whether they should roll over their retirement account into the retirement plan of their new employer or cash it out. To someone who is 30 years old and has built up several thousand dollars through automatic payroll deductions, the prospect of using this “nest egg” for travel, a new car, or even to purchase a home, might be a strong temptation. Without a fundamental understanding of the time value of money, the compounding factor in savings, tax penalties for early withdrawal of retirement funds, and an appreciation for what this nest egg will mean to his overall retirement plan, he may choose to cash it out. Unfortunately, this is a common mistake.

Take the example of a middle-aged married couple, with a working father and a stay-at-home mom. If the father becomes disabled on the job, then receives a significant settlement, in the absence of strong investment knowledge, the money might all be used for immediate needs, rather than assuring that an adequate amount is invested so that the family can live off of the income and still have retirement funds for their later years.

Another example is of a person who has worked all the way up to retirement, building a retirement account through her employer, then, at retirement, is offered a lump sum settlement. Like the first example, it may sound like a lot of money to her. She may want to spend some on home improvements, her children, et cetera. If she does not understand and appreciate that she will need income from the investment of her retirement funds, she may find herself over 65 years of age and unable to pay her bills.

There is one additional example you may have seen in the press lately: Professional athletes. The U.S. Securities and Exchange Commission (SEC) has been investigating an investment adviser whose smooth-talking mannerisms engendered the trust of several sports figures who lost millions in a scam. Another scandal involves a former teammate-turned-investment counselor who swindled his friends by talking them into investing in his failed business, then using their funds for personal purposes. Such well-paid, high-profile investors are seemingly easy targets because they often come from modest beginnings, they do not have the time to manage their own investments, and often are all too trusting of people they know through previous relationships.

In each of these examples, understanding the need to invest is only the first consideration. They should have knowledge of who to invest with, how to check out the background of their investment professional, and how to participate in their investments by reviewing account statements and changing investment goals and risk tolerances as their life situations evolve and change.

WITHOUT BASIC EDUCATION, INVESTORS ARE MORE SUSCEPTIBLE TO FRAUD

What follows is a compilation of examples from the records of the Texas State Securities Board, describing Main Street investors and how they lost their investments to investment fraud. These stories exemplify the importance of educating investors to help protect them from being defrauded.

Just last month, a Texas court convicted an unregistered agent who sold approximately $300,000 worth of viatical certificates in Texas. Her employer, a Florida-based company, sold over $115 million in viatical certificates. Ultimately, a Texas judge sentenced her to 9 years in prison for selling securities without being registered as a securities dealer or agent, but there was no restitution—there rarely is in this type of case.

The financial literacy concept that was lacking here is the knowledge to call a securities regulator and check out the legitimacy of the promoter, the company, and the securities. Had investors done so, they would have found out that the company and agent were not registered and that should have been a red flag.

In another situation, investors were offered a "Prime Bank/Debenture" deal, marketed as a "little known secret" ostensibly unavailable previously because of an "exclusive trading program" having to do with blocking and leveraging of funds. Over the past 3 years, State regulators have brought actions on behalf of more than 41,000 people nationwide who invested at least $470 million in prime bank scams.

A financial literacy concept that might have helped here is that there is no such thing as a "prime bank" and any investments offered by such a promoter are entirely fictitious.

In Texas, we investigated another case in which investors pooled money to invest in speculative trading in "foreign currencies" that the promoter promised would capitalize on the momentum in the marketplace via minute-by-minute currency trading. The promoter also promised that the funds invested were protected against loss through "clever hedging" strategies. However, whenever investors tried to "cash-out" they were told the money was "lost." The amount was approximately $50 million. The promoter was sentenced to a total of 84 months in prison but much of the investors' money was lost.

The financial literacy concept that was lacking here is the need to review account statements carefully and consider them in light of actual market fluctuations.

With the volatility of the stock market in recent months, investors have looked for safer places to put their money. Elderly investors have been encouraged to buy higher yielding "callable" certificates of deposit (CD's). Investors are not always aware that these days not all CD's are created equally. A number of these "callable" CD's are callable only by the issuer. Cases across the Nation demonstrate that investors in their 1970's and 1980's were sold CD's with 10 to 20 year maturities. One retiree was persuaded to invest more than $100,000 of her 97 year old mother's money in three callable CD's with 20 year maturities.

The financial literacy concept missing here is that buying a CD from a dealer is different from buying a CD at the issuing bank. Commissions, availability of FDIC insurance, ultimate ownership of the CD, and the age and risk tolerances of the investors are important factors to understand and consider before investing in brokered CD's.

If these investors had been educated on investing, they would not have been so vulnerable. In each of these cases, the investors could have contacted licensing and regulatory agencies to determine if the security they were offered and the brokerage firm and its agents were appropriately registered and, if the firm or agents had ever been registered, they could have had access to the disciplinary histories.

By simply visiting the website of a State or Federal securities regulator, they would have learned about prime bank scams, callable CD's, and currency exchange schemes, and would have armed themselves with revealing questions to ask the program promoters.

DIRECT EDUCATION TO CURRENT AND PROSPECTIVE INVESTORS

In order to address the vast need for investor education, we must recognize the challenge of directing our efforts toward the varying audiences: (1) young people, who are finishing high school and headed toward their first job or to college; (2) young married couples, beginning their careers and planning to buy a home, and planning for their children's education and for their own retirement; (3) middle-aged persons trying to meet their retirement goals in the limited number of work years ahead of them; (4) retirees who have built their nest eggs and are beginning to take active roles with their investments; and (5) surviving spouses, lawsuit award winners, lottery winners, "baby boomers" and others who are expected to inherit or otherwise come into significant funds and are ill-equipped to properly manage the funds for their future use.

Which group has the greatest need and how much effort should be directed toward each of them? We find ourselves with an overall financial literacy crisis in part because the learning curve is long, due to the absence of financial education at the primary level. These days, people have to manage their own money yet they often do not have the necessary background to do it wisely. We must act upon the realization that we will never overcome this deficiency without incorporating financial literacy into our education systems. We simply cannot leave Americans unable to save and invest wisely.

RECOMMENDATIONS FOR IMPROVING FINANCIAL LITERACY AND EDUCATION

State and Federal Legislative Efforts

The Texas State Legislature in 2001 added investor education as an official duty of the Securities Commissioner. New Section 43 of the Texas Securities Act expressly recognizes the importance of investor education initiatives to inform the public about the basics of investing in securities, with special emphasis placed on prevention and detection of securities fraud. The Legislature recognized the need to provide such education to Spanish-speaking individuals as well by requiring that materials developed and distributed in connection with investor education programs must be published in both English and Spanish.

It was recognized that this function would cost money, of course. Rather than providing tax payer funding to accomplish this objective, the Texas Legislature directed me to use my best efforts to collaborate with public or nonprofit entities with an interest in investor education. We hope that these collaborative efforts will result in greater investor awareness, as the Legislature intended.

Some other States have investor education provisions in their securities statutes and the number is rising. These statutes provide for various funding mechanisms, but all share a common goal of educating the public on personal finance and creating greater awareness of the dangers of securities fraud. Some, like Texas, were directed to establish public-private partnerships to carry out their programs. However, money needed to support these State investor education initiatives is still sorely lacking.

In Congress, the recent passage of H.R. 1, the No Child Left Behind Act of 2001, which provides authorization for a personal finance grant program, may be a source for assistance to States for investor education initiatives aimed at public schools. NASAA is currently reviewing this legislation to assist the States in assessing the opportunities created by this Act. We are appreciative of this legislation and of other efforts in Congress to address the problem.

NASAA, Financial Literacy 2010 and the Investor Protection Trust

State securities agencies, through the North American Securities Administrators Association (NASAA), have developed questions for investors to ask before committing capital to any investment; straightforward information about mutual funds; and a list of ways to spot fraudulent investments and con artists. In 1999, NASAA created a section that is coequal with its enforcement, broker-dealer, and investment adviser sections, to focus on investor education. I have had the honor of chairing this section since its inception. Today, the NASAA Investor Education Section consists of the following Project Groups: Affinity Based Outreach, Ethnic Based Outreach, FL 2010, Investor Education Coordination, and Online Trading Awareness. Members of these project groups are drawn from the staff of State securities agencies across the United States.

NASAA promotes an Investor Education Month in April of each year. Events are planned to bring investing issues to the attention of the general public and the month is a kick-off for other such projects that go on throughout the year. A variety of activities such as presentations in public schools, senior centers, and retirement communities are conducted and Governors routinely issue proclamations to increase the public awareness of the events. President Bush issued several such proclamations as Governor of Texas and last year he issued a written statement from the White House commending participants in Saving and Investing Campaign Month and urging all Americans to take action to secure their financial futures. Due, in part, to such high-level support, we see a growing public interest each year and our goal is to establish these activities as part of everyday life in America, not just a series of events that happen once a year.

NASAA and its members joined forces with the Investor Protection Trust (IPT), a nonprofit trust devoted to investor education, the National Association of Securities Dealers–Regulation, Inc. (NASD–R), and the National Institute for Consumer Education to launch an ambitious program, FL 2010 (formerly, Financial Literacy 2001), to teach the basics of finance to high school students across the country.

We know that the young people of today soon will begin making personal finance decisions that will affect the quality of the rest of their lives. They will be compelled to make critical decisions about earning, spending, saving, and investing their money. However, very few American teenagers today have the tools they need to make these important choices. FL 2010 was launched in 1998 to help combat the widespread financial illiteracy among the next generation of American savers and investors.

Financial Literacy 2010 Campaign Features

- State-customized teaching guides that have been shipped to more than 40,000 high school teachers throughout the United States. The FL 2010 program includes two teaching guides, one geared toward general business or consumer education teachers and one focusing on the unique needs of high school economics teachers. Each of the two guides includes units that can be used together or on a stand-alone basis. State-customized information provides local and statewide information on investment education and protection.
- Training sessions. Through the end of 2001, a network of more than 100 State securities agency officials and volunteers had conducted more than 350 training workshops at State and national education association conferences. In the first 3 years of FL 2010, an estimated 8,500 teachers took part in the training.
- Teacher support through a website (*www.fl2010.org*) and newsletter published three times a year.

The project has been enormously successful. In Texas, we have distributed guides to more than 1,000 high school teachers. Many States have had similar success. For the most part, high school teachers have worked financial education into the final semester for high school seniors, as they focus on issues such as financing a college education, choosing a job, getting married, and so on.

FL 2010 is but one example of a way to reach audiences where they are most reachable. The public schools provide us with a great opportunity, but we need to do much more. More resources are needed and this is a ripe area for public-private partnerships.

Coordination of Investor Education Efforts

Now that significant participants in the securities and financial industries have recognized the need for financial education, many efforts have been undertaken to develop more savvy investors. Similar to the programs described above, genuine efforts are being made by governmental bodies, by nonprofits, and by private and public organizations. The States, individually and through NASAA, have multifaceted education efforts. The SEC and NASD–R have programs. The American Savings Education Council, the AARP, the National Council on Economic Education—to mention only a few—all have on-going efforts to increase the public awareness of the need for financial planning and investor education programs.

Every investor can benefit from financial education. However, instead of every educational effort attempting to reach every need, perhaps a division into focus groups, similar to what has been done at NASAA, would be more successful overall. I envision an action plan for attacking the problem at deliberate points, with specific objectives that are quantifiable, toward the final goal of having an educated investing public.

The ability of investors to make wise, informed choices is a major assumption and is the cornerstone of a capitalistic economy. Investment fraud drains the economy of needed resources and can instill fear, not only in those defrauded, but also in the millions of other Americans who learn about it. The ability of consumers to buy what they need throughout their lives provides markets for the goods we produce and the services we provide. A stifling debt load or uninformed planning can preclude that ability. Financial concepts touch every facet of every life in this great Nation and the financial health of our families is a prerequisite to the health of our markets and our economy.

While financial education in the classroom is a necessity, that alone is insufficient. Financial professionals in the Government arena, the securities, banking and insurance industries and in the accounting and legal professions must work tirelessly and together to make the knowledge we each have, from our unique perspectives, readily available to the public. We are on the right path, but the journey has been slower than we would like.

Elected officials have a unique perspective as well and can help. The scheduling of the hearings this week have already helped to raise public awareness. Individually, you and your staffs can participate in national saving and investing month activities and can encourage your own State to sponsor and/or fund such activities as well. As a Committee, you have access to numerous financial professionals who would be happy to participate in any activities you may choose to initiate.

Working together, we have the expertise needed to reach the goal of a financially literate populace. It is our hope that, working together, we can find creative ways to reach every American.

Thank you for the opportunity to testify before you today.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR AKAKA FROM H. PATRICK SWYGERT

Q.1. Why have bankruptcy filings by those under 25 years of age increased by 51 percent from 1991 to 1999?

A.1. It appears that the increase in bankruptcy filings among this age group is largely influenced by increases in the level of borrowing for post-secondary education and credit card debt, coupled with modest/zero income. Credit card companies have been overly aggressive in pursuing students for credit cards: They often visit college campuses with credit card applications, enticing students with offers of free gifts and easy credit. By the time the student graduates, he or she has often "maxed out" the cards and have the additional burden of student loans. Although some parents incur the debt, many do not.

Q.2. According to the General Accounting Office, the average college graduate leaves school with an average of $19,400 in student loans. This combined with credit card debt can place a large burden on recent graduates. What debt management services are currently available for recent college graduates?

A.2. Last year, the Society for Financial Education and Professional Development (SFEPD) launched a series of debt management seminars which have been conducted at Historically Black Colleges and Universities during their Freshmen orientations. Debt management training is also offered through most college and university financial aid programs. Additionally, the U.S. Department of Education and various lenders offer repayment plans that correspond to the student's income.

RESPONSE TO WRITTEN QUESTION OF SENATOR AKAKA FROM ESTHER "TESS" CANJA

Q.1. As life spans increase, what should we be doing to help Americans adequately prepare for the extended length of retirement?

A.1. Improving well-being among those 50 and older begins logically with improving the adequacy of economic resources. However, Americans have been consistently undersaving for retirement and other purposes for over a decade. Trends in retirement income (including less generous public and private pensions, preretirement distributions from 401(k) plans and demographically driven reforms to Social Security) suggest an ever-increasing need for higher rates of personal savings.

An increasingly mobile and competitive workforce requires much more education, at all ages, about what income needs in retirement are likely to be and how workers can meet them. AARP supports strengthening public policies that encourage people to save for their retirement and that ensure the preservation of such funds for retirement. Such policies should more strongly emphasize educating Americans of all ages—through schools, colleges, religious institutions, workplaces, and other avenues—on the importance of lifelong saving.

RESPONSE TO WRITTEN QUESTION OF SENATOR AKAKA FROM RAUL YZAGUIRRE

Q.1. For States such as Hawaii, with significant numbers of recent immigrants, what can be done to encourage the unbanked to develop a relationship with a financial institution?

A.1. There are several important steps that can be taken. One, encouraging partnerships between community-based organizations (CBO's) and financial institutions would be beneficial. For example, CBO's serve as great vehicles for delivering financial education to immigrant groups by helping them to understanding what options are available for financial industry participation, as well as helping them gain trust in these institutions where it may be lacking. These partnerships can also work to foster an Individual Development Account (IDA) or similar type of savings program. Two, it is equally important that financial institutions be encouraged to create products conducive to the needs of immigrants, many of whom are low-income. This could involve offering low-cost and starter checking accounts; remittance and fee-based check cashing services; and access to low-cost money orders and deposit-secured emergency loans for those whose credit histories may be flawed or nonexistent. It is also very important that banks and their tellers understand what types of identification are required—and which kinds are not—in order to open an account. For example, banks are not required by law to obtain their customer's Social Security numbers, and Individual Tax Identification Number (ITIN) is acceptable. Finally, financial institutions must start marketing their products and services to immigrant communities. This involves opening branches conveniently located for immigrant customers, offering materials that are culturally sensitive and in the appropriate language, and hiring employees who are a part of and understand the needs of the immigrant community.

STATEMENT OF ADAM J. BASS

SENIOR EXECUTIVE VICE PRESIDENT
AMERIQUEST MORTGAGE COMPANY

FEBRUARY 6, 2002

I appreciate Chairman Sarbanes and the Committee's attention to the critical issue of financial literacy and submit the following testimony on behalf of Ameriquest Mortgage Company. Ameriquest Mortgage Company is one of the Nation's largest retail subprime lenders. Headquartered in Orange, California, and operating in more than 220 offices in 33 States, we provide affordable loans to homeowners who have credit needs but imperfect credit profiles. We assist our customers in utilizing their most important asset—their homes—to obtain affordable credit and meet their personal financial commitments.

Ameriquest commends the efforts of the organizations that testify before the Committee today to provide Americans opportunities to enhance their financial knowledge and skills, particularly in the area of homeownership. We believe mortgage industry professionals can and should join the push to end unscrupulous lending and play a leading role in enhancing financial literacy. Ultimately, we think it is in the lenders' best business interests to do so. We are convinced that only knowledgeable borrowers are in the best position to negotiate their loans and skillfully manage their financial resources in order to protect their homes.

In an ideal world, every consumer would obtain a solid financial foundation before entering into a money transaction. However, many Americans have not had the opportunity to learn such information at home, school, or work. This lack of financial education, combined with a slumping economy, has contributed to a skyrocketing consumer debt load that is growing beyond that encountered in any previous recession. The country's financial woes necessitate, now more than ever, the need for increased financial literacy.

Among the many facets of financial literacy—learning to properly balance a checking account, understanding one's credit score and its implications, identifying smart investment opportunities, etc.—perhaps the most important and profitable financial know-how concerns homeownership. As a hallmark of "the American Dream" and the highest-capital consumer investment, owning one's home can be an overwhelming responsibility, and getting to that point can be even more of a challenge. Consumers purchasing first mortgages and those refinancing current ones all face a complex web of decisions, which they can navigate successfully only when equipped with adequate knowledge of borrowing basics.

Our business philosophy "Do the Right Thing" conveys a commitment to customer service, which goes beyond providing the financial means for borrowers to refinance their homes and obtain credit. We view each financial transaction as an opportunity to educate borrowers and ensure they have full and complete information concerning all loan features before they make binding decisions.

The terms of a loan contract should always be a matter of negotiation between the borrower and the lender. But in order for this negotiating process to produce fair results, borrowers must be fully informed about the nature of the products being offered. Only when armed with the understanding of the terms and commitments involved in the transaction can the borrower make his or her own decision about whether or not to accept a loan, and upon what terms.

While we are proud of our history of honestly and fairly making credit accessible to underserved markets, we understand that not all lenders do business in such a manner. The growing concern regarding the use of so-called "predatory" lending calls for a renewed commitment to financial literacy training.

Borrowers must understand basic fair lending principles and be able to recognize the warning signs of illegal abusive lending practices, such as "bait and switch" sales tactics, and those practices, which are technically legal but sometimes applied in a way not fully understood by the borrower. To ensure our customers do not bear the potential risk associated with such practices, Ameriquest simply does not offer them with any of our loan products.

While legal and conducted by some lenders, as a matter of corporate policy and practice, Ameriquest provides:

- NO single premium credit life insurance to borrowers.
- NO soliciting refinance of a borrower's loan within 24 months of its origination.
- NO loans with mandatory arbitration clauses.
- NO loans with balloon payments.
- NO negative amortization loans.

In our own effort to promote financial literacy, Ameriquest supported the formation of the Consumer Mortgage Education Consortium (CMEC) in 1996 in conjunction with three leading Washington DC-based civil rights organizations—the Leadership Conference of Civil Rights, the Nation's oldest and largest civil rights coalition; the National Fair Housing Alliance; and the National Association of Neighborhoods. CMEC was founded to stimulate the availability of home loans for all Americans and to promote a better understanding of loan products and lending processes through national workshops and the creation of a how-to workbook for advocates and consumers.

Ameriquest asked our CMEC partners and other key community group allies, including the Association of Community Organizations for Reform Now (ACORN), to identify their principal concerns regarding subprime lending activities. While Ameriquest had long ago addressed many of those concerns, we developed and implemented an official set of company "Best Practices." These fair lending guidelines ensure that our borrowers receive top quality service and fair treatment and are able to make intelligent, informed decisions about their credit needs.

Our "Best Practices" include a pledge to communicate with our borrowers in plain English, using clear language and familiar terms they understand. We provide each customer simple-to-read disclosure documents that clearly identify all of the important terms of the loan using phrases such as:

- your interest rate is;
- you have a prepayment charge of; and
- your total fees are.

The document also contains a list of cautionary tips to ensure that borrowers do not unwittingly make unwise decisions including:

- borrow within your income and budget;
- do not be pressured into signing documents you do not understand;
- shop around;
- be advised that the price of the loan or other loan terms might change by the time of closing; and
- maintain a good payment record prior to the loan closing.

Copies of these documents are attached for your review.

Ameriquest makes HUD-certified credit counseling available to all borrowers and encourages them to utilize it prior to loan closing and during the rescission period. Contrary to the industry standard of a legally mandated 3 day rescission period, we provide a one-week, post-approval period during which borrowers can shop our loan and evaluate, with the help of a credit counselor, whether our loan is best for them.

After customers obtain a loan from Ameriquest, our Servicing Department welcomes new borrowers immediately by phoning them to verify basic loan information and to ensure that they understand the loan terms, payment amount and payment date. These welcome calls allow us to promptly identify and to rectify origination-related problems.

In short, all of our "Best Practices" empower consumers to make the right choice for them. We use them because it is the "Right Thing" to do, and frankly, we believe our business benefits from them, too. We benefit from having borrowers who fully understand the financial responsibility involved in taking out a loan with us, and who are therefore better prepared to pay their mortgage. We also benefit from having fully informed, loyal borrowers who exhibit financial confidence and recognize that they have been treated fairly.

Ameriquest commends the Committee for focusing attention on the dangers of financial illiteracy and the need for heightened efforts to increase America's money smarts. Ameriquest believes there is no more important lesson in life than learning to achieve financial security. We remain committed to educating our customers and to advocating national education programs to help consumers make better informed home mortgage decisions. We hope to have the opportunity to work with you to further financial literacy for all Americans.

Thank you very much.

UNDERSTANDING YOUR LOAN

Application Number: Date:

Dear

A LOAN SECURED BY YOUR HOME IS AN IMPORTANT TRANSACTION. You should be fully informed about the terms and conditions of any mortgage loan that you obtain from us. **While it can vary, the average time to process a loan application is thirty days.** Please maintain a good payment record on all of your outstanding obligations during this time.

The enclosed documents are not a commitment to make a loan to you or an approval of your loan application. The estimated costs and terms of your proposed loan are based on the information we have obtained as of today. The costs and terms of any loan we might ultimately approve may be different. We will notify you by telephone if there are any such changes and you can then decide whether you wish to proceed with your application. Included among the enclosed documents are the following:

- **ARM Disclosure and Consumer Handbook on Adjustable Rate Mortgages.** If you applied for an Adjustable Rate Mortgage ("ARM") loan, these documents explain the operation and risks of ARM loans, and describe how and to what extent the interest rate and monthly payments can increase.
- **Good Faith Estimate of Settlement Costs.** This provides an estimate of the fees and costs you will pay in connection with your loan.

All the documents and disclosures you receive are important. Please pay particular attention to these, which you will receive at closing:

- **Promissory Note**: This shows the amount of debt you will incur, plus the interest rate and repayment terms.
- **Interest Rate, Payments Due, Fees Paid and Prepayment Penalty**: This document spells out the terms of your loan, including the amount of your monthly payments, the interest rate and fees, and whether your loan includes a penalty for early repayment.
- **Truth in Lending Disclosure**: This shows the Annual Percentage Rate and Finance Charge for your loan along with other important cost and terms information.
- **HUD-Settlement Statement**: This shows all closing costs and how the proceeds of the loan are distributed.
- **Mortgage/Trust Deed**: This makes your real property security for the loan and says that if you do not meet your loan payment obligations, you can lose your home through foreclosure and the sale of your property.

A loan "closing" will be held to complete the transaction. If you want, you can have an attorney, credit counselor or other representative come to the closing with you. You'll be given your final loan documents and disclosures to review and sign. **Don't feel rushed. Don't rely on any representations that are not in writing. Take your time. Ask any questions you have.** If you do not agree with or understand something in a document, tell the person conducting the closing immediately. **Don't sign any document unless and until you have received an explanation you**

understand and you determine you are willing to agree to be bound by the contents of the document. **Do not let anyone pressure you** into obtaining a loan. **Consult with other lenders,** including banks and savings and loans, to confirm that the terms we offer are acceptable to you. Mortgage counseling from an independent HUD-approved agency can help you understand a loan offer, assess your credit situation and decide what loan is best for you. We recommend that you use it. **Counseling is available free of charge at a HUD-approved counseling service in your area. To find a counseling service location near you, please call HUD at the following toll free number: 1-800-569-4287.** In addition, please feel free to call us toll free at to discuss any questions concerning your loan or the documents you have received.

If, under Federal or state law you are entitled to cancel the loan for any reason during the three business days following closing, **you can cancel your loan with at no cost during the one week period beginning on the day you sign the loan documents.** During that one week period, please take the loan documents to a credit/loan counselor, attorney, or other knowledgeable advisor to help you make your final decision about the advisability and appropriateness of the loan. If you desire to cancel, you must notify us in writing by either mailing or faxing your "Request to Cancel" to us at the address shown on the Request to Cancel form.

Thank you for applying to for a mortgage loan. We look forward to serving you.

BORROWER(S) ACKNOWLEDGEMENT AT CLOSING

I hereby acknowledge that: 1) I received and read this notice prior to my loan closing; 2) it was reviewed with me again at the loan closing; 3) I understand what is written above; 4) I have received a complete set of my final loan documents on the date set forth below; 5) I am aware that I may cancel my loan for any reason within the one week period.

Date	Signature
Date	Signature
Date	Signature
Date	Signature

INTEREST RATE, PAYMENTS DUE
FEES PAID AND PREPAYMENT PENALTY

Loan Number: Borrower Name(s):

The loan you are signing today is a variable/adjustable rate loan.

The loan will start out as follows:

- The loan will last for a **total of** **months.**
- **The amount you are borrowing, the** principal balance, **is $**

  .

- **It will have an** initial interest rate **of** **% and an initial** monthly payment

  due **for the first** **years of:**

  Principal and Interest Payment: $
  Amount of Escrow Payment: $
  Amount of Total Payment: $

- After years, the interest rate you will be charged will likely go up

  and the principal and interest due monthly will increase

  impacting your total monthly payment.

- Thereafter, every 6 months the **interest rate and payments due will be adjusted,** based on changes in the LIBOR index rate, except that the interest rate will never go below %, and will never go above %.

- will charge you a total of $

  in fees and points to get this mortgage loan. **These fees include $**

  which is paid directly to , and $

  which will be paid to others for services or fees charged in connection with your loan. These fees will be financed **and are included in the loan's principal balance shown above.**

- **This loan has a prepayment penalty equal to 6 months interest, if you pay off or refinance this loan within the first years.** You should review your Note for the exact terms of the prepayment penalty.

By signing below, I/we hereby acknowledge reading and understanding all the information disclosed above, and having received a copy of this disclosure on the date indicated below.

Borrower	Date
Borrower	Date
Borrower	Date
Borrower	Date

TESTIMONY SUBMITTED
BEFORE THE U.S. SENATE BANKING, HOUSING, AND URBAN AFFAIRS COMMITTEE TO
U.S.SENATOR PAUL S. SARBANES, CHAIRMAN
ON THE DEVELOPMENT OF A
NATIONAL STRATEGY TO PROMOTE FINANCIAL LITERACY AND EDUCATION

TESTIMONY SUBMISSION TITLE:
"TOWARDS NATIONAL FINANCIAL LITERACY–
A STRATEGIC INVESTMENT IN
ENTREPRENEURIAL CULTURE AND DEMOCRATIC CAPITALISM"

Presented By:
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On behalf of the National Foundation for Teaching Entrepreneurship (NFTE) I am honored to present the following testimony, **TOWARDS NATIONAL FINANCIAL LITERACY– A STRATEGIC INVESTMENT IN ENTREPRENEURIAL CULTURE AND DEMOCRATIC CAPITALISM"**

The mission of NFTE is to teach entrepreneurship to low-income young people, ages 11 through 18, so they can become economically productive members of society by improving their academic, business, technology and life skills. NFTE's strategy for achieving this mission is to partner with schools, universities and community-based organizations; create innovative, experiential curricula; train and support teachers and youth workers; and provide alumni services.

The comprehensive state of being entrepreneurially and financially literate is one we must promote and advance for all Americans. I am pleased to offer testimony today on behalf of the 55,000 young people NFTE has introduced to entrepreneurship via our 2,800 Certified Entrepreneurship Teachers in 43 states and 14 countries.

NFTE's 15 years of existence has been supported by the private sector through generous support of over 1,000 private-sector sponsors, including "million dollar level" donors: Goldman Sachs Charitable Foundation, Shelby C. Davis Foundation, Charles G. Koch Charitable Foundation, and Microsoft Corporation.

NFTE's university partners include Babson College, Carnegie Mellon University, European Business School of London, Georgetown University Graduate School of Business, University of Iowa Center for Entrepreneurship, Stanford University Graduate School of Business–Center for Entrepreneurship, Teachers College at Columbia University, University of Tampa Sykes Graduate School of Business, and Yale University Graduate School of Management.

Our statewide partnerships include Governor Jeb Bush and the Florida State Department of Education via *Entrepreneurship Florida*, Governor John Rowland of Connecticut, through the Governor's Council on Economic Competitiveness and Technology, the Mississippi and Kentucky State Departments of Education, and Youth Entrepreneurs of Kansas.

Internationally, we are coordinating activity via NFTE UK, based in London, NFTE Belgium and getting many inquiries from across the European Union. NFTE has also established Program Partnerships in India, Argentina, Africa and El Salvador. In 2002, NFTE teachers worked with an estimated 15,000 students in the U.S.A., 300 in the UK, 100 students in Belgium, 100 in Argentina, 25 in El Salvador, 25 in South Africa, and over 1,000 in India.

The essence of our democratic capitalistic society lies squarely on the shoulders of each generation of productive, responsible and business-competent Americans. We cannot take for granted financial knowledge, entrepreneurship, wealth creation or nation building in any generation. Federal Reserve Board Chairman Alan Greenspan recently stated at the Ninth Annual Economic Development Summit,

In our economy, the three principal means for household asset accumulation are:

- *Home ownership,*
- *Small business ownership, and*
- *Personal savings.*

We must redouble our efforts today in order to assure our future strength by doing all we can to reinforce this nation-building agenda referred to by Chairman Greenspan is brought to scale.

NFTE's contribution to this agenda is through its entrepreneurship education initiatives that enable America's young people to develop a context and experiential ability to understand the "what," "when" and "why" of money and wealth creation and the "how to" in the entrepreneurial process. President Bush has challenged us to leave no child behind and Congress has recently passed an historic education act in response to that call. If we succeed in empowering every child, especially those living in poverty, with an entrepreneurial outlook, NFTE believes that they will never let themselves be left behind. If we are successful in attaining this vision, we will be assured that our future adult citizens will be better practiced in "the why" and "the how" of building up personal wealth via productive behavior including increased rates of personal savings and asset ownership. More thoughtful financial analysis will lead to more positive choices in personal finance. In essence, many more Americans need to learn how to "say no" to alluringly destructive predatory credit. And as our impact and success in shifting personal behavior goes to scale, we will see that even later in life, the retired adult will be more empowered with the understanding on how best to use personal wealth in the most beneficial manner.

In 1834, then Senator Daniel Webster said, "Commercial Credit is a reflection of man's trust in man. Commercial Credit is one of the greatest inventions of modern man and is most useful only in the most advanced societies of the world that are self-governing. Commercial credit is the vital air of the modern economy and has produced more, a thousand times more national wealth than all the mines in the world."

Given the challenges we face today with issues surrounding financial literacy, including use of commercially available credit, this hearing could not be more strategic or timely. We at NFTE stand ready to offer our entrepreneurial education services to the nation as part of a national strategy for financial literacy.

NATIONAL FINANCIAL LITERACY – A STRATEGIC INVESTMENT IN ENTREPRENEURIAL CULTURE AND DEMOCRATIC CAPITALISM

About our work with Governor John Rowland of Connecticut and his Council on Economic Competitiveness and Technology, the Governor made the following strategy statement:

Connecticut's future depends on the vitality of its cities. And the future of Connecticut's cities is inextricably linked to the future of the young people who live there. In the NFTE program, students learn mathematics by working out return on investment, gross profit, net profit, unit costs and more, and by selecting and following stocks. They hone reading skills by using the program's curriculum and workbook, and by reading the The Wall Street Journal *and other publications. They improve written and oral communications skills by preparing a business plan, composing letters and memos, developing advertising materials and PowerPoint presentations, and making formal presentations about their businesses. They use technology in a number of ways, including completing BizTech, an Internet component of the NFTE program developed and sponsored by Microsoft.*

One of America's leading educators had the following to say about where our educational strategies must take us if we are to have thriving cities. Dr. Rudy Crew, former Chancellor of the New York City Public School System (which serves a million students, employs 120,000 and has a budget of some $10 billion) spoke about the essential role that NFTE plays in nation building:

The work of NFTE is clear, well documented and easy to follow. What NFTE is about is offering a comprehensive response to the increasing call for student adequacy across critical areas, including academic achievement, occupational readiness – including dress and language, personal strength and civic morality. NFTE is clear about these adequacies and is an important force for an American conversation concerning the urgency of bringing these reality-based adequacies to public school systems that have either lost them, don't remember them, don't know how to institutionalize them. Currently the American conversation in Education is only about numbers. How many kids got the right test score? How many students by what percentile in what quartile have moved? That, in my opinion, is not the most significant conversation that should be going on. NFTE is actually onto a new conversation that's critical to America's future.

Assume that public schooling has a formal purpose. And that purpose is to create a knowledge base, a skill set and a way for students to translate that skill set into a set of personal adequacies. It is essentially about what each student will be able to do after formal schooling is completed. It is about successfully transitioning from school to work. NFTE has a model that addresses this formal purpose about as well as it is ever going to get; and frankly better than anything else out there. What public education is about is empowering both the academically gifted as well as the challenged to go into our very complex adult world with an ability to identify and climb through the window of opportunity.

There is that same range of students who, thanks to NFTE, are able to see themselves as being smart enough, good enough, and practiced enough to succeed in life. This is a powerfully leveraged price to pay for nation building. I'm not talking about students just feeling good. I'm not talking about just coming in and patting them on the head and passing them on with social promotion of just some jargon about business. I'm talking about where NFTE students actually have a set of skills of the likes of which, in a very vigorous and open economy, they can play out their skills and play out their dreams.

In the 30,000 hours we have spent working on this issue over the past 15 years, NFTE has become convinced that financial literacy and entrepreneurial behavior is something that can be nurtured, advanced and systemically offered. For, just as we as a nation at one point joined together to rid our people of the scourge of polio, so too, if given the tools and the national will, we can work towards universal financial and entrepreneurial literacy. And our nation, built on the principles of democratic capitalism, will be the stronger for it.

In preparing my testimony, I thought it would be helpful to review some of the basic concepts that bring us here today.

What Is Finance?

The original concept of finance is traced back to the Middle English word *finaunce*, which means end, settlement, and payment. It is the ability to manage funds, assets, wealth. What does finance mean to us today? It is the ability and behavior of every citizen and their ability to set up a savings and checking account, establish gainful self-employment or traditional employment; an ability to secure and properly manage a personal or company credit card; an ability and motivation to lease or own a car and/or a home, and an ability to establish and survive on a retirement plan.

What is happening today? There are many citizens who are unbanked, underemployed, unemployed and ill-prepared for retirement. This trouble extends also to those enrolled in higher education. Associated Press writer Martha Irvine reports that college graduates today are facing crushing debt. The General Accounting Office says students are graduating with an average of $19,000 in student loans and substantial credit card debt. This is causing an increase in students dropping out of college as well as a record number of bankruptcies filed by people under 25, totaling 94,717 in the year 2000 alone!

What is Wealth?

The original concept for wealth is found in the Middle English word *welthe*, which means well-being and riches. Author Ayn Rand said, "Wealth is the product of man's capacity to think." We are here today to begin the exploration of what we should encourage our citizenry to think about, act on and, in essence, be happy about.

Interestingly, the American Economics Association has been studying the link between money and how we feel, as indicated by our level of happiness. While there is a strong link between money and happiness, according to Economist Andrew Oswald of the University of Warwick, there is also the challenge that society's ability to generate increased wealth may not necessarily translate into happiness for many of us, unless we earn wealth faster than others or we continue to earn more and indulge more in order to keep the pace of our income and our demands on a par.

The challenge we face among many segments of our society today is that personal demands and "wants" continue to drive our consumption without being matched by wealth-creation capacity; hence, we are now seeing alarming increases in personal debt per capita and personal bankruptcy filings across the nation. California economist Richard Easterlin discovered this issue more than 25 years ago through his research findings, which indicate that even when American society gets "richer," people are not becoming more content with their lot in life. So, in our effort to promote financial literacy, we would also do well to elevate the conversation in our society about what it is to be wealthy—both quantitatively as well as qualitatively, materially as well as spiritually. The definition of "wealthy" indicates that those who are rich have an abundance of what is valued. Through entrepreneurial education, which includes numerous theoretical and practical exercises in budgeting, savings, compounding interest, the "Rule of 72" and the present and future value of money, we have a chance to shift the mindset of our citizens and encourage them to build an asset base and create value and wealth in society in far more constructive and enduring ways.

What is Literacy?

The condition of being literate, especially in the ability to read and write; to be knowledgeable and a well-informed and educated person. Being financially literate is only the first step. Educational research identifying the stage of when "learning" actually occurs has developed a concept known as the "zone of proximal development."

This zone is established when you have a student, teacher, curriculum, and practical problem/application to address. At NFTE we have seen the powerful combination of theory with practice. In the end, financial literacy must lead to an increased capacity to be self sufficient via accumulation of wealth vs. debt, personal engagement and fulfillment in the marketplace vs. alienation, and an ability to define socio/economic values that drive personal choices and daily behaviors.

What is Strategy?

Simply put, it is concentrating your energy in one direction, driven by a compelling vision that is guided by a clear mission, and made possible by effective planning and teamwork that results in wise and effective actions. Our vision, mission and strategy that we develop today and in the months to come must be guided by a desirable "theory of change," new outcomes that we attain. Dr. Carol Hirschon Weiss, in *Evaluation Review* 21, No. 4, 1997, reveals that "*a theory of change is a systematic and cumulative study of the links between activities, outcome, and contexts of the initiative.*" In essence, whom do we wish to empower, what do we choose to incentivize and provide to which target audiences for what expected outcomes?

What is the vision we see and the mission we must undertake to actualize our strategy?

We must have a clear vision. I believe we, as a nation, generally share a hope for a more productive and responsible citizenry. The mission of national financial literacy could, specifically, be an increase in the number of productive and fiscally responsible citizens in America, as defined by a number of economic measures that constitute personal components relating to our community, state and national Gross Domestic Product indicators.

For example, Chairman Greenspan indicated in his remarks aforementioned at the Annual Economic Development Summit, that *small business accounts for 50% of private gross domestic product in our economy and is an important vehicle for significant numbers of minority families to accumulate assets.*

At NFTE we believe that becoming productive and responsible is the essence of entrepreneurship. The foundation of this productivity and independence is financial literacy. The skills, attitude and mindset of an entrepreneurially capable person is illustrated in the words of NFTE Curriculum and Education Policy Advisor Dr. Howard Stevenson, of Harvard University Graduate School of Business, as set forth in *Harvard Magazine*, March-April, 2001: "*Having entrepreneurial skills– balancing opportunities with the resources and skills needed to realize them– is a way of managing that is necessary to compete in a world of great complexity and rapid change.*"

What tactics should we use to achieve this strategy?

First, we must align our energies across many of the 60-plus federal agencies and hundreds of state agencies that share an interest in this agenda. Later on in this testimony I will be recommending a number of initiatives that could be taken that can save money, align energies, and create a greater impact and awareness of appropriate financial behavior.

Second, if we are seeking to achieve significant behavioral change we must carefully define who needs our support, when, why, and how. I believe that universal entrepreneurial literacy addresses many of the urgent trends that have unified those who are here today. Some advocates for improved financial literacy say that students should learn about financial responsibility from their parents. This is important, but what of the millions of students who do not have financially responsible parents? Students learning about it from their teachers through organized curricula and syllabi must supplement our commitment to financial literacy. We have seen our students then reach and teach their peers and family.

I have often seen this happen in the lives of NFTE students, both here and abroad. In fact, in the first quarter of 2002, a major report affirming the critical role of the teacher, a role championed by NFTE, has been put forth as part of a new economic and education policy in the United Kingdom!

Appointed Manager Sam Woods, of Her Majesty's Department of Treasury and The Chancellor of the Exchequer, recently released the "Howard Davies Review" and recognized NFTE for its policy influence by stating:

Teachers are now at the center of the proposal in this country for the delivery of enterprise learning as per the NFTE model. This approach was quite controversial in the United Kingdom as to the extent to which teachers and schools should be involved in enterprise learning delivery and while hotly debated during the course of the Review, the final conclusion was that teachers are a critical part of the picture. And what had been seen of NFTE both in the UK and the US was extremely helpful in convincing us that this was a practicable position. All our young people will now get a chance to take part in enterprise activities...that would certainly encompass the activities of the NFTE programme. This Review will provide NFTE with a fantastic opportunity in this country.

In a paper recently published by Harvard University's *Kennedy School Review*, Angie Datta, "Filling the Education Gap by Teaching Enterprise Skills," found that:

Entrepreneurship programs have raised the levels of basic skills of participating students. One reason is perhaps because this type of learning is typically highly experiential and collaborative – qualities that require additional teaching resources, and engage students to a higher degree...The NFTE program provides an excellent example demonstrating the power of teaching business education and entrepreneurship programs...By focusing on entrepreneurship as a way to synthesize and reinforce basic skills, we can shore up the leakages that exist in the education system...By learning more about the process involved in establishing and sustaining a business, students quickly realize that there are avenues for low interest loans and seed money...The climate for change is ripe in the U.S.A. to implement a program such as "Teaching Entrepreneurship"...<u>It is imperative that the Federal Government play a role in giving schools and communities the resources to equip young people with the skills and energy and enterprise necessary to succeed in life</u>. Education in the U.S.A. must be recast to include ways that reach out to high school students to promote basic skills learning in a practical context. For many, the American education system has failed to develop adequate capabilities in math, reading and analysis. Teaching personal enterprise and entrepreneurship in low-income areas, both in rural and urban schools, is a proven technique that has worked in the U.S.A. and overseas.

Chairman Alan Greenspan, in his speech at the Ninth Annual Economic Development Summit also lends a perspective on the importance of education efforts:

Educational and training programs may be the most critical service offered by community-based organizations to enhance the ability of lower income households to accumulate assets. Indeed analysts have shown that a comprehensive understanding of basic principles of budgeting and saving, at the start, increases household wealth in later years...Financial literacy campaigns help prevent vulnerable consumers from becoming entangled in financially devastating credit arrangements and addressing abusive lending practices that target specific neighborhoods or vulnerable segments of the population and can result in unaffordable payments, equity stripping, and foreclosure.

Gaining a perspective on budgeting and savings is an important element of the NFTE program within the experiential context of a small-business model that a student designs and operates.

We want sound financial decision-making. We want wise credit management and better personal and household debt management. We want to stop heinous scam artists who prey on many of our fellow citizens. We want to increase the number of successful mortgage borrowers. We want our senior citizens to live their golden years with dignity. We want to give our citizens the chance to pursue opportunity and succeed in life. We want to engage and enroll the unbanked in a more secure national banking system. These objectives are attainable if we have the will to commit the resources (public and private) to achieve this, over a generation; through many key initiatives being reviewed today, especially entrepreneurship education that includes financial literacy.

A strong society demands and requires a complex harmony of the highest and best functioning of all societal forces within the private and public sectors–including the civic, educational, governmental and entrepreneurial sectors, in order to achieve progress for all. What I am advocating here today is that families, communities and nations be strengthened through a call to action to attain universal financial and entrepreneurial literacy, thereby yielding increased rates of effective business practice, wealth creation and personal wealth management.

THE IMPORATANCE OF ENTREPRENEURIAL CULTURE DEVELOPMENT

In his 2001 Inaugural Address, President Bush spoke of the United States as a New World, a slave-holding society that found its greatness by becoming a servant of freedom. He said that the grandest of ideals is that everyone belongs, deserves a chance, and that no insignificant person was ever born. He noted that while many of our citizens prosper, others doubt the promise. He challenged us to work together to transcend doubt by building a single nation of justice and opportunity. President Bush called for us to be true citizens. And he emphasized that every child must be taught these principles of citizenship and to uphold them in order for the future to be better. He challenged us to reward effort and enterprise and to look at ourselves and agree that children at risk are not at fault and that persistent poverty is unworthy of our nation's promise. I believe that national and global wealth creation should be our focus and that this hearing is profoundly important in accelerating this vision.

For just as we have effectively joined together in the past to end the scourge of certain diseases, we can band together to grow more effective, stronger free markets and provide the opportunity of ever-greater wealth creation for more citizens of the world. By doing so we will slowly transcend the scourge of poverty and economic social injustice. The contribution that NFTE seeks to make to this great effort is to contribute to the coming "Age of Entrepreneurial Enlightenment and the Pedagogy of the Entrepreneur."

I'm sure that the ideas of Adam Smith, the free-market champion from Edinburgh, and Dr. Paulo Freire, the champion of education for the poor in Central and South America, intersect here at this hearing. Some two hundred years ago, Smith wrote in *Wealth of Nations* about the power of free markets and entrepreneurs. Decades ago, Dr. Freire wrote a powerful book titled *Pedagogy of the Oppressed*. In it, he concluded that education was the great liberator of the masses and that the highest form of the power of education must, in the end, result in the promotion of "ownership opportunity" for the poor.

Today, more than ever in this global economy, it is knowledge, insight and an ability to make effective actions occur that really matters. And reading, writing, arithmetic, entrepreneurship and information technologies are now globally relevant and mission-critical. For, in the end, if we here today are effective, we will pass on to our children and their children stronger households, communities, states and a more prosperous, secure nation.

It has been said that NFTE is a wonderful overnight success that took 15 years. Similarly, in January '2001 the British think tank DEMOS (a key contributor of ideas that have framed Prime Minister Tony Blair's agenda), worked with NFTE USA and NFTE UK to craft an educational vision for "Enterprise Learning for the UK" and I am happy to report that, within the next five years, half of all state-funded school students will be getting an enterprise experience influenced by the NFTE program model. Recently, NFTE was one of only 16 organizations across the United States invited to advise the United States **Senate Committee on Small Business** on the appropriate role of the federal government in promoting entrepreneurship in America. We were the only high-school-focused entrepreneurship and teacher training organization invited. This government advisory role built on participation in the

U.S. Department of Labor's USA/EU Summit on Entrepreneurship, held in 1999, in which NFTE was the sole practitioner organization amid 60 policy advisors from the USA and the European Union. This spring, the **U.S. Department of Education**, with the support of Senators Arlen Specter and Rick Santorum, selected NFTE and its cutting-edge, Internet-based BizTech curriculum, and "NFTE University" teacher certification programs as worthy of support from the Fund for the Improvement of Education in America. This enabled NFTE to launch **ENTREPRENEURSHIP PENNSYLVANIA** as the first federal/state/private entrepreneurial education partnership in United States history, hosted by Carnegie Mellon University, and starting with 26 of the "best of class" educators and youth workers from the state's most challenged communities with the objective of training over 1,000 youths in the next 12 months.

Recently, the **Boys and Girls Clubs of America**, **4H**, **YMCA** and **Future Business Leaders of America** "curriculum juries" each selected NFTE as their entrepreneurship curriculum content provider. In May, 2001, NFTE's "BizTech" Internet based entrepreneurship curriculum sponsored by Microsoft was featured at **the first national summit on Technology Enhanced Entrepreneurship Education for Graduate and Undergraduate University Entrepreneurship Educators,** sponsored by the E.M. Kauffman Foundation. In addition, BizTech has been certified as qualifying for college credits from the State University of New York -- Empire State College Distance Based Learning Network. And, in national youth entrepreneurship competitions, NFTE students, as prepared by their NFTE Certified Entrepreneurship Teachers, simply excel.

Why do we do this? It is our firm belief that entrepreneurship education assures increased individual freedom by empowering individuals with an ability to make more informed and responsible choices in the voluntary creation and exchange of value via the recognition and pursuit of opportunity. And, from a national security interest, the very future of our nation's communities and cities rests on our collective ability to expand the number of young members of our communities who are more productive and responsible. This is the NFTE mission. It is nation building; it is simple and clear, and its activities contribute to the bedrock of democratic capitalism.

In our dialogue today it is interesting to note the evolution of markets and entrepreneurship. Adam Smith, in The *Wealth of Nations*, recognized three different types of economic organizational systems. They are primarily: Command, Traditional and Free Market economic systems.

The **command economy** is one where a king, emperor, dictator, or planning board determines the allocation of production and resources as well as in effect the distribution of income. The **traditional economy** is one in which centuries-old habits of production (primarily agrarian) are strictly followed, often reinforced by some type of physical or socio/economic force. Today, this type of economic organization can be found in many less-developed nations in the world. The **free market**, as summarized by Dr. Edward Ryan in *Liberty, Virtue, and Happiness – The Story of Economic Freedom in America,* means that each of us has the liberty to take up any occupation, start any business, to operate an enterprise in a reasonable manner to produce any product or offer any service and charge any price, and keep the reward of effectively meeting consumer needs–wages, interest, rents and profits--in essence to perform any action based on financial literacy, and to act freely with personal will and passion.

As we ponder the issue of financial literacy here in America, it might be helpful to take a few moments to review key findings that have occurred on a global level. Harvard economist Jeffrey Sachs has reported that "market reforms" alone will not reduce the wide gap in living standards between the rich and poor nations. *Business Week* reporter Gene Koretz reports on Sachs' views in a recent article concerning the pervasive impact of climate on economic development.

For example, of 30 nations classified by the World Bank as high-income, only two, Hong Kong and Singapore, are located in hot, steamy climates. In 1992, output per capita in temperate climates averaged four times the level of tropical ones. Whereas in 1820 the gap was a mere 30%, before the peak of the Industrial Revolution. What has then created this "tropic of poverty"? Tropical regions face two ecological handicaps: 1.) low agricultural productivity due to depleted soil caused by heavy rain, crop pests and parasites, and 2.) a high rate of disease caused by a highly effective transmission vector of insects and bacteria. In addition, World Bank–financed "temperate farming practices" that have been exported to the tropics simply aren't working.

Temperate zones have a 50% grain productivity gain per acre and a 52% lower infant mortality rate when adjusted for income-versus-tropic zones. Poor nutrition, high infant mortality, high fertility to replace lost children, all drain energy from productive activities.

What are we to do? Sachs has found a glimmer of hope in studying Hong Kong and Singapore. Control disease and diversify economies from agriculture to export–oriented manufacturing. But Sachs also notes that many sub-tropical nations lack the resources to tackle massive agricultural, health, and ecologically based problems.

What are we to do? We can, first of all, start with education and market experiences that shift human behavior to effective engagement in local markets.

In another recent study, World Bank "insider" William Easterly has written a study *The Elusive Quest for Growth: Economists' Adventures and Misadventures in The Tropics* (MIT Press) that claims "International development agencies have failed miserably in their campaign to rid the world of widespread poverty, even after distributing billions of dollars in aid over the past half century." Easterly's book provides a devastating analysis of how the World Bank and other agencies have failed to turn poor countries into rich ones. Infrastructure loans and grants were " an investment fetish that should be laid to rest. Debt forgiveness has failed and for those countries with increasingly educated workers there are few opportunities." However, Easterly ends his analysis with few solutions and little to move forward with except the comfort of confirming that past efforts have failed to achieve a net gain. His conclusion, unfortunately, provides little direction: "Trekking through the tropics trying to make poor nations rich raises more questions than it answers."

So it is documented that many current government policies, coupled with regional environmental challenges, are achieving very little in alleviating the issues of global poverty, despite spending billions of dollars. What are we to do?

It is interesting to note that the World Bank book review mentioned above ran in the August 27, 2001, collector's edition of the *Industry Standard*, the ".com" industry magazine of record that provides "Intelligence for the Information Economy." Interestingly, also featured in this issue was an ominously titled article, "Days of Reckoning," which reported on the loss of trillions of dollars of wealth due to the ".com" meltdown.

Why do I call this the collector's edition? The week *Industry Standard* ran the article on the World Bank's failures, Industry Standard filed for bankruptcy protection and closed its doors! So, from these insights of environmental influence, World Bank misdirection, and ".com"/".gone" trends, what are we to do?

I think the only thing we can do is follow the advice of Lao Tsu from centuries ago: "Go to the people, live among them, start with what they have, build on what they know and when the best leaders leave, the people will say they have done it themselves." Those who can survive can also thrive. One of the few hopes of mankind is to change, inspire and promote more productive human behavior. I believe that the time has come: local communities around the world are ready for and in need of an Entrepreneurial Culture.

Federal Reserve Chairman Alan Greenspan echoes this in a recent statement:

It is essential that the opportunity to start an enterprise is open to anyone with a viable business concept. We must continue to seek ways to promote the creation and expansion of viable firms by lowering barriers to funding and financial services. To the extent that market participants discriminate, consciously or, more insidiously, unconsciously, capital does not flow to its most profitable uses and the distribution of output is distorted. In the end, costs are higher, less real output is produced and national wealth accumulation is slowed. By removing the non-economic distortions that arise as a result of discrimination (and consequent financial illiteracy), we can generate higher returns on human capital and other productive resources.

An entrepreneurial culture promotes a personally productive and responsible lifestyle. The Culture of Entrepreneurship brings with it traditions, beliefs, values, attitudes, morals, interests, lifestyle, an innovative and opportunity-obsessed, problem-solving skill set, value exchange, private property rights and voluntary trade. It provides rich alternatives to destructive choices. In addition to public health and civic spirit, one of the few hopes we have is to create a new Entrepreneurial Generation that can be self-directed, empowered, locally innovative and productive.

So how are we to do it? How are we to create an entrepreneurial culture? Our belief is that many Americans facing difficult financial circumstances develop survival skills and street smarts, or simple common sense, which positions them as potentially gifted players in the game of business ownership and long-term asset development.

The Roman leader Maximus said, "How we live our lives will echo through eternity." At NFTE, we believe that a culture and generation can be consciously empowered through effective entrepreneurship education. The NFTE saying is that a great teacher effects eternity. A person who enrolls in a NFTE teacher certification experience has the opportunity to undergo a most profound, heroic pathway.
Joseph Campbell's, A *Thousand Faces of a Hero*, teaches us that there are three critical steps to becoming a hero. Most of us in this room want to be heroes, but we became busy with other efforts or lost along the way.

We also weren't aware of the three steps that one must take to become a hero:

1) Depart from the comfortable .
2) Gain enlightenment through struggle.
3) Return to teach others.

We at NFTE are extremely thankful that heroic teachers, and the sponsors who made their enlightenment possible, have committed to the hero path. Einstein said that compound interest was one of the wonders of the world. The NFTE curriculum reviews this concept in great detail. But I am here to tell you that, if you think compound interest is a wonder, just wait until you see entrepreneurship students affecting their peers. This is what I call the concept of "compounding lives". What a NFTE Teacher has, is an ability to build a generation of entrepreneurs and promote a culture of entrepreneurship.

Again, culture of entrepreneurship is about a specific way of viewing the world; a view that is opportunity-obsessed not current condition-depressed. It is a "skill and will mindset" not a doubting, despairing mindset. It is a language about possibility, value creation and voluntary exchange, not a code for scarcity and pessimism. It is an experience that has a positive outcome and is not just meaningless training for education's sake. Joining the Culture of Entrepreneurship helps an individual belong to the community in a new and profitable way—economically, intellectually and spiritually.

NFTE students, with an entrepreneurial view of the world, gain meaning and joy through the use of their creativity, imagination and innovative energies because they are no longer a numb participant in antiquated education experiences that were tragically designed as visionless silos of knowledge. These silos are highly fragmented, often disconnected from the real world and in the vernacular of many students "irrelevant and boring". Shouldn't our collective struggle be about setting a new expectation, thereby creating the ultimate National Standard for education: It is about helping our students becoming productive and responsible, economically and socially sufficient in a democratic capitalistic society.

Entrepreneurship Culture is a set of personal, family and community values. It is an attitude towards life, an attitude in life that comes together in a behavior that creates a better world by improving the condition of a single human psyche, which understands that "doing well" includes "doing good."

Before I became CEO of NFTE, I was an entrepreneur. In my current role, I view myself as an Entrepreneurial Educator. In the early 80's I was inspired by the following insight from George Gilder's *Spirit of Enterprise*. He wrote:

It is the societal entrepreneurs, creative men and women of production, meeting human needs, who know the rules of the world and the natural laws of the universe and God. Thus they sustain the world by investing themselves in a worthy cause so that they may make a difference. They are the heroes of life. From their knowledge of surviving past failures, they forge new successes. In accepting and then avoiding the dangers of risk, they achieve security for many. In embracing continual change and challenge, they help to ensure social and economic stability and viability for us all.

On personal reflection, as a teenager and as a young adult completing college, I simply didn't know many people who owned businesses and never really understood the power of the word "entrepreneur." I was told early on to be good in school; do well in school and someone will give you a job. I came to discover that through working in 17 different part, and full-time jobs, launching five small business ventures and consulting with 40 companies from 12 industry segments, that it was the power of viewing the world as an entrepreneur that mattered most. And it could be done in the private, public or independent sectors. The process of entrepreneurial thinking is a real key to personal joy and empowerment. And this view and way of life is useful in any human endeavor—hence our need for a sense of urgency and pursuit of opportunity at this hearing.

A close friend and NFTE Board Member, Dr. Stephen Spinelli of Babson College, Director of The Arthur M. Blank Center for Entrepreneurship, really provides some insight on this:

Entrepreneurship is more than just starting new businesses. It is a way of thinking, learning, behaving that links knowledge with actions that create new ventures or turn tired firms into vibrant companies. And anyone can get started by building a bridge between entrepreneurial learning and doing. For example, at NFTE, the aim is for students to achieve economic self-sufficiency and we give them the essential tools to start right now toward achieving that goal.

Around the globe it is indisputable that we are entering an "Age of Entrepreneurial Enlightenment." As recently as 1978 there were no undergraduate or graduate majors in Entrepreneurial Studies anywhere in the world. The current best-selling defining text worldwide at the graduate business school level, *New Venture Creation,* by Dr. Jeffry Timmons, was repeatedly turned down by academic publishers. The reason, quite simply, was that everyone "in the know" knew there wasn't a market for this "entrepreneurship" concept. And very little was being studied, researched, written or championed on entrepreneurship anywhere in the world.

Today, there are hundreds of universities and colleges offering doctorates, masters, and undergraduate degrees, and hundreds of grammar and high schools offering courses in entrepreneurship; many utilizing the NFTE curriculum and requiring city-wide student participation.

NFTE has used the model of the development of the Age of Enlightenment. We have gathered key data on the entrepreneurial process and have determined how best to teach it and when to teach it. We have also taught others to teach it in various program models, including experiential, rote, critical thinking, budgeting, core academic exercises, field study, and a teacher-guided use of the Internet through NFTE's BizTech curricula.

And finally, as it relates to starting young people in learning business concepts, I believe that it is not a coincidence that many of NFTE's current private sector sponsors who are generously providing $6 million annually in support of NFTE, had some of their first business experiences between the ages of 11 and 18.

As NFTE's CEO, I believe that a wise and vibrant entrepreneurial culture in any community or country begins at an age when the basics of reading, writing and critical thinking have been developed and can facilitate the learning and practice of the process of voluntary exchange of value and create an appreciation for private property rights and financial management.

In addition, a book I recently co-authored with Steve Mariotti, *Entrepreneurs in Profile– 20 Profiles of the Very Rich: How They Got That Way and How You Can Too*, illustrates that it is never too late to be what you can be or to generate financial strength.

WHY IS THE USA GOOD AT ENTREPRENEURSHIP AND WHY IS IT IMPORTANT?

Professors Lee, Miller, Hancock and Rowen of Stanford University Graduate School of Business note the following:

1. Economic growth is a path to a higher standard of living and better quality of life.

2. Ways to achieve growth include increased and improved inputs of labor and capital, trade and comparative advantage and innovative entrepreneurship.

3. American job and wealth creation has been driven by entrepreneurial regions geared towards the creation of new firms and new industries. The important emphasis is on start-up efforts that generate radical and "disruptive technologies" that create sea changes in industries, or even whole new industries.

A 12-point checklist from their research is something we should consider when pondering how to make our nation stronger. Key concepts include:

1. Are the rules of the game on how to enter, try, risk and benefit favorable to new business ventures?
2. Where do ideas bubble up and how quickly?
3. What is the quality of the talent pool?
4. What are local universities doing to promote critical teaching methods and training?
5. What are most effective merit rewards that can be promoted?
6. How is knowledge spreading?
7. Are talent and ability rewarded?
8. Is risk-taking encouraged and failure tolerated?
9. Is there a high level of partnership between companies, universities and research institutes and government and non-profit organizations?
10. Is the local infrastructure right – roads, schools and support service?
11. Are we tracking changes in the progress of the economy, rate of education, quality of life, and health?
12. How quickly is this all happening, and is practice and knowledge sharing encouraged?

NFTE is viewed as a world leader in "knowledge spreading" and transferring the "rules of the game" for wealth creation and entrepreneurship to low-income, socially alienated teens. This knowledge plus micro-efforts at "trying" and "risking" within NFTE's syllabus enables students to experience "new business ventures" in an organized and supportive way.

As CEO of NFTE, I am primarily responsible for sharing our passion for our vision; promote peak performance of our mission as measured by our Balanced Scorecard and driven by our McKinsey & Co. supported growth plan, and strengthen the global leadership brand of NFTE.

The vision we have is that someday we will contribute to Universal Entrepreneurial Literacy for the world's 1 billion youth and young adults young people living in poverty. This, we believe, is as important and urgent as access to the polio vaccine that saved millions. A vision where someday, not 100 students as in our first year of NFTE, not the 15,000 students we educated this year, but *18 million youths* currently living in poverty in the United States will be empowered to take their first steps as entrepreneurs, because we give them the time to learn and the tools to try. Also, realize that here in America we graduate three million public high school seniors a year, many of whom are market place illiterate.

What we do today, next month, and the rest of this year will affect how the world perceives and interacts with us. Someday, if we can get each NFTE Certified Entrepreneurship Teacher to work with 100 students per year and we have 10,000 active NFTE teachers, we will have one million entrepreneurially literate NFTE youth graduating annually. The heart of education reform is to liberate teachers to truly teach and inspire students to hear, see, learn and do. For it is in the doing that they will understand.

Recently I was in Silicon Valley, at the Stanford University Graduate School of Business where NFTE has enjoyed a long-term partnership with the Center for Entrepreneurship and the Terman School of Engineering, Technology Venture Center. There I came across an insight from one of the most effective business leaders in the world. Vinod Khosla has been part of teams in his role as General Partner in Kleiner, Perkins, Caufield and Byers that have created six jobs per day every day for the past 25 years. Even after the ".com" crash" Mr. Khosla's ideas are still relevant concerning the power of the Entrepreneurial ways of Silicon Valley, "To emulate, one must first understand. By harnessing the power of abundant ideas, Silicon Valley has become not just a place, but a *culture and state of mind*."

HOW HAS THE DEFINITION OF ENTREPRENEURSHIP EVOLVED?

Let's follow the evolution of the "entrepreneur" paradigm over the last 500 years.

In the 1500's as an entrepreneur you would simply be thought of as an adventurer.

By the late 1600's, if you chose to risk your private capital in a commercial venture, Professor Jean Baptiste Say would have considered you a "capitalistic entrepreneur."

As an entrepreneur in the 20th century, you would be viewed as an individual who started, managed and assumed the risk of starting and owning a small business.

As an entrepreneur of the 21st century, Drs. Moore, Timmons, Altman, Bygrave, Spinelli, Stevenson and Byers tell us that you will be recognized by your:

- ❑ management and leadership style that involves pursuing opportunities without regard to resource limitations currently controlled;
- ❑ ability to think and act in a way that is opportunity-obsessed, holistic in approach and management-oriented.

Seven essential entrepreneurial abilities needed to attempt entrepreneurial success include:

1. Refine ideas into business opportunities.
2. Know what business you are really in.
3. Know who your paying customer really is.
4. Recruit and retain top talent.
5. Access and leverage capital.
6. Develop and communicate your mission and vision to your team.
7. Manage and mobilize your team's resources to seize a marketplace opportunity.

Core Components of the entrepreneurship formula have been identified as Opportunity, Resources and Team. Forces swirling around and through the formula include: ambiguity, creativity, uncertainty, leadership, communication, and capital market access.

21st century entrepreneurs will know how to perceive and pursue opportunity without being limited by the current state of resources. Through this effort goods and services of value create a force that will result in the acceleration of the rates and volume of voluntary exchange of value; thereby advancing the enlightened self-interest of the individuals involved, entrepreneur and customer and society itself. In a global economy with local markets, entrepreneurial thinking is an essential life skill. Again, "a child with an entrepreneurial mind will never let themselves be left behind."

CULTURAL FORCES AND POLICY OPPORTUNITIES

We can contribute to the strengthened entrepreneurial consciousness of our society by supporting policies and practices that promote economic and entrepreneurial literacy, as well as technology and capital access to all the citizens of our nation. A clear-impact system of research, practice and policy is attainable with the talent assembled here today.

A social equation I often talk about when it comes to community renewal via entrepreneurship is:

HCD + CA + E + IT + VE= CW

- HCD – Human Capital Development, via our educational institutions, must promote essential adequacies of academic achievement, occupational readiness, personal strength and civic morality.
- CA – Capital access must be more effectively developed, especially for the needy.
- E – Entrepreneurship Education must be a universal competency.
- IT – Information Technology must become a standard tool for all members of society.
- VE – Value exchange and increased community trade must be encouraged and promoted with all barriers assessed and removed. For example, how many of us here can fill out a W-2, 1099, FUTA, SUTA, FICA, State and Federal Tax and Employee Forms in a reasonable period of time for just one employee? And if one can do it, what better use of time could you have spent to build your business or strengthen the community?
- CW – The resultant community wealth is what brings us to the quality of life, standard of living and improved rates of business performance, domestic tranquility, and true national security.

Our nation has clearly progressed since FDR said, "I see one third of our nation ill-housed, ill-clad, ill-nourished. The test of our progress is not whether we add more to the abundance of those who have much; it is whether we provide enough for those who have too little." I think a possible next generation of this concept is that progress in society must now be measured on how effective we are in providing the tools for those "who have too little" to help themselves.

NFTE's work enables us to understand a very important concept when contemplating economic empowerment for the needy. The disenfranchised are the solution not the problem. Their unique insight and understanding of their communities can be harnessed by the entrepreneurial process. This process offers one of the only long-term strategies for promotion of democratic capitalism.

Another perspective offered is from the Chief foreign exchange strategist for FleetBoston Financial, Paul Podolsky, who has developed an index, the CREATIVE DESTRUCTION INDEX, which ranks 25 countries annually. Creative Destruction is an economic concept that refers to new technologies replacing old ones. Key forces include population growth and Internet usage, which create a more flexible economy. The Index maintains that the value of a nation's currency is directly linked to changing demographics and technology. This also makes sense, for "economics" is based on the word *oikonomos*-the household. And, in the end, household ownership of assets stands as a key measure of national strength.

WHAT IS THE APPROPRIATE ROLE OF THE FEDERAL GOVERNMENT?

Long term, it is simple: we will get what we focus on. We will get what we invest in. What we track will improve. In November of 1999, NFTE was asked to participate in an International Working Group established under the New Transatlantic Agenda, signed by the USA and the EU in 1995, hosted by the U.S. Department of Labor's-Bureau of International Labor Affairs. In its workshop on Fostering Entrepreneurial Activity, there was an explanation of the necessary conditions for creating a successful business. In devising a policy strategy to promote entrepreneurship, it was noted that entrepreneurs are concerned about things that are not primarily concerns of government.

The EU, for example, sees entrepreneurship as a means to create jobs, whereas entrepreneurs primarily set up new businesses to earn more money, have greater autonomy, and actualize an interesting commercial idea. In the EU, the prevailing opinion is that the status of professionals is above that of businesspeople. To help remedy this view and raise awareness that entrepreneurship is itself a profession and contributes to economic growth, most EU member states are introducing entrepreneurship as a specific topic in economic and business courses. NFTE was cited during this conference as a unique educational entrepreneurship program with its Internet-based BizTech curriculum and highly credentialed teacher-training program, "NFTE University," which together work to provide a long-term escape from poverty.

During meetings with members of the U.S. Small Business Administration, the NFTE model was viewed by the Hon. Charles Tansey, past Director of the Capital Access Program, in the following way: "NFTE has an excellent Entrepreneurship system that addresses a gaping hole in the American education system. At SBA, we need more tools like NFTE to address the issues of the lending gap. Access to advice and capital is equally important. NFTE offers a comprehensive approach to an early stage venture. As a former Chase Bank executive and policy leader, I see the crucial importance of building small businesses for any community."

SO WHAT ARE WE TO DO TO FURTHER STRENGTHEN OUR COMMUNITIES?

<u>PROMOTE ENTREPRENEURIAL EDUCATION</u>

- ❑ Establish an entrepreneurial vision for our country by committing to a policy of universal entrepreneurial literacy.
- ❑ Promote entrepreneurship as a career option and as an essential part of citizenship development so that every child can learn to start a business and understand how to participate effectively in our democratic capitalist system.
- ❑ Allow students to develop an Entrepreneurship Development Account ("EDA") where allocated educational funds can be targeted to public schools that offer entrepreneurial learning and practice in the craft of starting, operating, managing and owning a micro-enterprise.
- ❑ Create an "E Corps" consisting of entrepreneurship educators drawn from all sectors to accelerate the promotion of this knowledge as well as require the 2.2 million new public school teachers coming into the field be trained and given the time and federal, state, and local system support to teach this essential life skill.
- ❑ Mandate that 1% of all federal funds be allocated via block grants to states to fund their ability to teach entrepreneurship.

COORDINATE AND SIMPLIFY ALL FEDERAL AGENCY INITIATIVES RELATED TO ENTREPRENEURSHIP AND FINANCIAL LITERACY

- Establish a time-limited, interagency federal and private sector working group to scan all federal and state agencies for current or future initiatives related to entrepreneurship and financial literacy to promote focus, alignment, and greater effectiveness.
- Reduced federal agency expenditures as a result of this efficiency should result in savings to pay down the federal budget deficit and provide a rebate to taxpayers.
- Simplify Federal and State Statutes relating to Entrepreneurship Education and Federal Testing.
- Review, improve, and/or eliminate federal and state statutes negatively affecting small business start-up and success.
- Create a "Fast –Track" regulatory exemption for new business start-ups with gross revenues of $500,000 or less.
- Promote private property and personal wealth accumulation and eliminate the waste generated by costly tax planning by eliminating the Inheritance Tax.
- Streamline bankruptcy and commercial enterprise law.
- Establish Fast-Track Employee Hiring and Education Guidelines and Design Beneficial Tax Policies.
- Simplify capital access regulations and requirements for first time business start-ups especially for teen.
- Simplify the Federal Tax Code and if this is not possible eliminate it and implement a flat tax/consumption tax.

WHERE WILL THE NEW ENTREPRENEURS COME FROM?

New Entrepreneurs have always been informally mentored, nurtured, educated and encouraged. That is in part true today as well. However, a more clear, conscious, systemic plan of entrepreneurial education can be offered. Prime Minister Blair's initiative based on NFTE is a classic case of how the *PEDAGOGY OF THE ENTREPRENEUR* via systemic education can be developed with thoughtful education and business policy. We must always strive to develop a national psyche that celebrates the entrepreneurial potential within each citizen and the valor of the entrepreneurial struggle, whether an enterprise is a lifestyle, mid-size, or hyper-growth endeavor. We must develop a comfortable acceptance that failure in business yields the seeds of insight that will yield success in the future.

The external research on the impact of our efforts in teaching entrepreneurship conducted by Dr. Andrew B. Hahn of the Heller Graduate School for Advanced Studies in Social Welfare at Brandeis University has proven, via net impact random-assignment analysis, that knowledge gains and behavioral changes can occur through studying NFTE's curriculum.

Findings from our research indicate that constant for both males and females, across ethnic and age groups and regions of the United States, 59 out of 60 program sites increased their scores on basic business and economic literacy. NFTE's five years of research efforts, from a national sample of over 600 students, demonstrate that:

- business knowledge terminology and skills can be transferred at increased rates–our research has shown a rate of learning by NFTE students 20 times that of a control group, and business plan development and personal activity to follow the plan was 30 times that of the control group;
- 63% of NFTE program graduates view the market economy more favorably than before because they understand it and can more effectively participate in it;
- educational and personal life goals can be raised-34.8% of NFTE students reported "a little more than before" desire to start a business while 46.2% reported their desire to start a business was "far greater than before";
- academic performance can be enhanced as measured by Adult Basic Education assessment grade gains—a NFTE pilot program in Massachusetts demonstrated to the U.S. Department of Labor an average grade gain of two "academic grade" levels over a six-week period, 150-hour program for a class of 25 low-income NFTE teens;
- 52% of NFTE alumni report that their experience had some impact on their school performance and 23% report that NFTE had a great deal of impact;
- 30% of NFTE students felt "*somewhat satisfied*" with their experience while 65% feel "*very satisfied*" and nearly 100% said they "*would recommend NFTE to a friend*";

- Self-concept can be improved and there were slight trend increases (though not statistically significant) in voluntarism and student award achievements;
- Employment rates can be increased- 43% of post high school NFTE alumni reported having a part-time job while 20% had full-time employment; and
- 33% of NFTE alumni generated some level of revenue from their own businesses a year after graduation, 30 times that of a control group.

NFTE's proven, private sector, multi-site, cost-effective, extensively researched and scalable entrepreneurship-training program offers a hopeful, long term, hard-work course.

We offer to all our Program Partners a clear organizational structure, a well-defined program cluster and concrete outcomes for teachers, students and sponsors.

We are pleased to contribute our model to the United States Senate Committee on Banking, Housing, and Urban Affairs for consideration in policy formulation.

TOWARD A STRONGER NATION

This process of a clearer method for financial literacy and entrepreneurship education will then contribute to a CULTURE OF ENTREPRENEURSHIP for broader segments of our society. Values and beliefs, attitude and mental sentence structure, lifestyle choices, skill set development, language, dress, personal behavior, expansion of personal-time horizons in decision-making, and ability to navigate the rules of the marketplace, all will enable us to create a happier and more fulfilled community: in essence, nation building.

So what is the vision for our nation? What are the opportunities and challenges we face? As enterprising educators and policymakers, the challenge we have is to see beyond the very dark storm clouds of pessimism, cynicism and hopelessness. We must cast off from the docks of fear and uncertainty, set off from the shores of failed policies and practices and by doing so we will be launching a fleet of human capacity onto the sea of market opportunity. A distant shore, a land of peace, prosperity and justice awaits our future entrepreneurial generation. You can see it when you look in the faces of the children of your community, the future voters of your district, and help ignite the spark and work needed to inspire greatness where many believe it no longer exists. Greatness could exist once again with your help. The hard data will emerge- you have in your ability the capacity to generate an increased rate of entrepreneurial business formation, capital accumulation, and asset ownership.

In a groundbreaking study, Dr. John Thorne of Carnegie Mellon University, found that *the single most important causal indicator of any community's future economic wealth is the number of entrepreneurs and business owners per capita in the 25-35 year age group.* What NFTE is attempting to do makes even more sense with this perspective.

Today we see a response to the call of Thomas Jefferson, who saw the importance of learning and the potential of the empowered mind, when he said: *I pledge eternal hostility towards every form of tyranny over the mind of man.* What causes the tyranny of poverty? It is in large part due to economic, financial, and entrepreneurial illiteracy, and an existence without hope and vision. Fortunately, it is the very idea of value creation and voluntary trade via the entrepreneurial wealth-creation and ownership process that can free the minds and transform the lives of our citizens.

We can see the actualization of the vision of the Reverend Martin Luther King, when he said, "The Bank of Justice is open for business and is backed by the vaults of opportunity." We see that we can build on the vision of President Ronald Reagan for new "shining cities on the hill". These cities of all kinds of people, these free and commercially bustling cities, these cities where all people, yes, all people with the will and heart can enter and find a home. And we see the creation, thanks to the teachers and stakeholders of NFTE, of Robert F. Kennedy's tiny ripples of entrepreneurial hope, which, when generated from a million different centers of energy and daring and caring, can create a riptide that could sweep away the mightiest forces of oppression and evil.

So at the end of this hearing, when the excitement has subsided and the challenge of being a hero becomes very real, please keep in mind the words of a teacher:

Tentative efforts lead to tentative outcomes. Therefore commit yourself fully to your endeavors. Determine to construct your character through excellent actions and determine to pay the price of a worthy goal. The trials you encounter will reveal your strengths. And through it all remain steadfast. For someday you will build something that endures, something worthy of your potential.

These powerful words came from a most unlikely source. A former slave, who then became a teacher and historian. The city, Rome. The teacher, EPICTETUS. The time, 100 A.D.

In closing, I assure you that the NFTE students and teachers supported by our staff and public and private partnerships may be a part of the living legacy and measure of our success in advancing entrepreneurial and financial literacy in America. A legacy we now have the ability to greatly expand. A legacy that is most worthy of our collective potential. May we unite in this great effort and may God bless us all in this noble struggle, a struggle in which men and women of good will and entrepreneurial vision must prevail.

Thank you.

STATEMENT OF ROBERT F. DUVALL

PRESIDENT AND CHIEF EXECUTIVE OFFICER
NATIONAL COUNCIL ON ECONOMIC EDUCATION

FEBRUARY 6, 2002

Mr. Chairman and Members of the Committee, my name is Robert F. Duvall and I am the President and Chief Executive Officer of the National Council on Economic Education (NCEE). We appreciate the opportunity to submit this statement and we applaud the Committee's decision to hold hearings on "The State of Financial Literacy and Education in America." This is a subject of critical importance to the Nation and the future well-being of its citizens.

It is also the critical issue for NCEE. As you may know, advancing economic and financial literacy is the singular reason why we exist. NCEE, like the Committee, is deeply troubled with the staggering consequences of economic illiteracy. First and foremost, it affects the productivity of the Nation and it negatively impacts the standard of living of all its citizens. It creates barriers that keep people from participating in, and enjoying the many benefits of, our free market system, the envy of the world. And it limits the ability of many to make informed financial decisions that oftentimes affect families and households for years to come.

To combat this problem, we are waging a war on economic illiteracy on many fronts. To be sure, these are difficult battles, but I am pleased to report that we have had many successes. At this point, it might be helpful if I were to briefly describe our organization and some of the key things we are doing to help ensure the future health and prosperity of our Nation.

To begin with, NCEE is a unique private and public partnership of business, Government, and education that for more than 50 years has been helping students in grades kindergarten through 12 develop economic ways of thinking and problem solving. Our mission is to increase economic and personal financial literacy by teaching teachers how to make these subjects come alive in the classroom and by equipping them with the materials to do it well, designing curriculum and assessing the results.

Through our nationwide network of State Councils and 250 university-based Centers of Economic Education, NCEE administers programs that each year reach approximately 120,000 teachers and over seven million students in more than 70,000 schools. In carrying out these activities, we work closely with the State boards of education and school districts. Also, through grants from the U.S. Department of Education, NCEE programs have also reached 1.8 million students in 21 countries in Central and Eastern Europe and the former Soviet Union.

As the Committee is well aware, financial illiteracy is a very real and serious problem. A series of recent studies and surveys provide convincing evidence that a majority of adults and more than two-thirds of high school students are unable to pass a simple quiz on basic financial and economic concepts. The data tell us, for example, that 50 percent do not know what a Federal deficit is, 60 percent do not understand the purpose of profits and 70 percent do not understand that competition in the marketplace serves to lower prices and increase quality.

The reason that so many know so little about how our free enterprise system works is simple: most have never been taught anything about it. Currently, only 13 States require high school students to take a course in economics prior to their graduation. Clearly, what you do not teach, they do not learn. And that is cause for concern.

For many, being financially illiterate means futures filled with money, credit, and career problems. It also means that many of these same people will never become knowledgeable consumers, prudent savers and investors, productive members of the workforce, or informed voters on issues critical to their communities.

If we are to remedy these problems, respond to growing threats to our economic way of life and raise the standard of living in our Nation for all of our citizens, both children and their parents must possess the requisite skills to be economically and financially literate. These are life-long skills and as such, this education must start early, at the lowest grade level, continue through high school and carryover into the workforce.

It is for that reason that in 1999, NCEE launched its multiyear *Campaign for Economic Literacy.* Our goal is to focus national attention on the need to make economics and personal finance education a priority for every American, especially students, and to engage the public and private sectors in launching creative and innovative programs that foster economic and financial literacy in our Nation.

Among these *Campaign for Economic Literacy* programs we currently have underway are the following:

- *NCEE/Nasdaq National Teaching Awards*—Awards and some of the largest cash prizes in education are given annually to 25 outstanding teachers for their originality, creativity, and effectiveness in teaching such subjects as personal finance, the financial markets, the investment process, capital formation, and entrepreneurship, among others.
- *NCEE/Goldman Sachs Foundation Economics Challenge*—This nationwide competition, featuring State, regional, and national championship "Challenges," combines academics with the competitive instincts of students. In offering tangible rewards for demonstrated achievement, the "Challenge" encourages more students, especially underrepresented students, to take economics courses and improve their overall test scores.
- *EconEdLink*—The classroom and the world merge on the Internet as EconEdLink reveals the economics behind the news. EconEdLink is part of the WorldCom Foundation's Marco Polo Project, one of the most heavily tracked educational sites on the web. By visiting the website, teachers and students can choose from MillionaireMinute, EconomicsMinute, and NetNewsLine for true interactive learning sessions.
- *ItAllAddsUp*—Developed by NCEE and sponsored by the American Express Foundation, ItAllAddsUp is a brand new economics and personal finance interactive website that helps junior high and high school students learn about budgeting, managing credit, paying for college, and decisionmaking through game-like activities.
- *ECONnections*—Through the generosity of The McGraw-Hill Companies, high quality, standards-based economics lessons from NCEE are now available in an easy-to-use Internet format. Using audio and interactive lessons, ECONnections links Standard & Poors experts, *Business Week* journalists and other McGraw-Hill volunteers to students in the classroom.
- *The "Mint"*—The "Mint" is an interactive website that has been designed to increase middle and high school students' economic and financial literacy skills. It includes interactive games for students to make learning interesting, understandable and fun; lesson plans for teachers; and tools to help parents reinforce the personal finance education of their children at home.
- *The Community Publishing Project*—With the funding provided by the Worth Charitable Fund, a pilot NCEE classroom program was begun this past year at P.S. 125 in New York. The program teaches children in grades 3, 4, and 5 how to function as entrepreneurs as they produce and sell a handbook about and for their community. This program will be expanded nationwide shortly.
- *Mathematics and Economics: Connections for Life*—This innovative curriculum for grades 9–12, developed by NCEE with funding from State Farm Insurance Companies, integrates mathematics and economics. The multidiscipline approach to teaching is furthering students' understanding of the application of mathematics and economics to everyday life. State Farm is also funding a nationwide teacher-training program.
- *Economics for All Teachers*—This program, funded by International Paper Company, is designed to help educators teach economics effectively in grades kindergarten to 12 using NCEE materials. The program features economic education and technology workshops and a complementary *Virtual Economics* CD–ROM, given to all participants.
- *Homeownership and Lending Practices*—This NCEE curriculum project, funded by the Mortgage Bankers Association, is designed to teach teenagers and adults about the economic benefits and personal finance aspects of homeownership. This practical, academic course is offered free and includes a component on the need to recognize predatory lending practices.

As the above description of our core activities and this summary of programs indicate, NCEE and its corporate partners are working diligently to address the problem of financial literacy. However, it is clear much more remains to be done. In that connection, later this month we will unveil our most ambitious undertaking ever to address the problem of financial literacy.

On February 26, 2002, NCEE and the Bank of America will formally unveil *Financial Fitness for Life,* a new and innovative financial education curriculum, based on national teaching standards, that will help students from kindergarten to senior high school become skilled consumers, savers, and investors.

The product of several years of development and testing, this first-of-its-kind program has been designed to prepare students to make intelligent choices that will affect their entire lives—from managing money and making financial decisions to staying in school and selecting careers. Parental involvement is another key design feature of the program.

This creative education system, funded at a cost of $3.2 million, presents key concepts in personal finance in an easy-to-understand style, using real-life examples, that appeals to even the youngest of students. Drawing on an analogous concept, the *Financial Fitness for Life* curriculum makes extensive use of "physical fitness" terminology in all course materials.

The curriculum includes four student workbooks (for Grades K–2, 3–5, 6–8, and 9–12), four parallel teacher texts and two parent guides covering every grade level. An interactive CD–ROM and supporting website complement the "Financial Fitness for Life" curriculum and a Spanish language version of the primary grade material is now being developed. Additional aspects of the program include several "train the trainers" sessions, hundreds of professional development workshops in personal finance for teachers and extensive field testing of the curriculum in 18 rural and urban schools in California, Florida, and Texas.

Financial Fitness for Life meets national and most State standards in four critical areas—Economics, Language Arts, Mathematics, and Personal Finance. In addition, all of the curriculum materials employ economics, for example, the science of decisionmaking, as a way to prioritize the staggering array of choices facing students when they make decisions. By prioritizing, students learn how to make better decisions, and, equally important, how to avoid poor ones. The emphasis on using economic concepts and an economic way of thinking distinguishes these materials from other quality materials used to develop personal financial literacy.

Because of the modeling they do in everyday life, parents play an important role in developing the personal financial literacy of their children. For that reason, parents are an integral part of the *Financial Fitness for Life* system. A unique set of "Parent Guides," which tracks lessons contained in each of the student books, is an essential component of this novel learning system. The guides provide parents with material for discussion and an assortment of recommended activities they can do with their children at every grade level. "Financial Fitness for Life" also gives parents who need to expand their own "personal finance" horizons an opportunity to learn along with their children.

We believe that this new and unique personal finance curriculum fills an educational void and, when implemented nationwide, will make a significant difference in the lives and standard of living of many people.

Other major programs that would contribute immeasurably to improving economic and financial literacy in this country are embodied in the *Excellence in Economic Education* legislation introduced by Senator Daniel K. Akaka and included in the *No Child Left Behind Act of 2001.* From a public interest perspective, we fully support his bill and strongly encourage its passage.

Clearly, economic and financial literacy is of vital importance to the Nation and prompt action must be taken to address it. What we recommend is the following:

- Elevate economics and its subset, personal finance, to the fourth "R."
- Establish standards and benchmarks for teaching economics in every State to ensure that students throughout the country receive uniformly excellent economic education.
- Develop new and innovative approaches for reaching the Nation's youth and teaching economics.
- Mobilize a coalition of leaders in business, labor education, and Government to advance a nationwide, multiyear initiative to enhance and extend economic education in our schools, our communities, and the workplace.
- Secure the active participation and financial support of both the public and private sectors in this effort.

These are the goals that we have set for ourselves at NCEE as part of our *Campaign for Economic Literacy.* We are aiming for nothing less than a transformation of our society to one that is economically literate. It is a grand vision, an achievable vision, and an inevitable reality. Economics is the quality of life issue for this millennium and economic and financial literacy is the vehicle that will make a difference.

We believe that the goals we have set for ourselves are highly compatible with those of the Committee and others who have appeared before it at these hearings. We welcome the opportunity to work with the Committee on these important matters and to discuss our thoughts on this subject in greater detail at the convenience of the Committee. Again, we commend the Committee for convening these hearings and drawing national attention to the importance of financial literacy and education in America and the need for prompt, coordinated action.

Thank you.

STATEMENT OF LYNDA GLASS

ON BEHALF OF THE

AMERICAN BANKERS ASSOCIATION

FEBRUARY 6, 2002

The Financial Illiteracy Epidemic: Why Johnny Can't Save

The problem of financial illiteracy is epidemic in this country. Consider the following facts:

- In the year 2000, a survey by the Jump$tart Coalition for Personal Financial Literacy tested high school seniors' knowledge of personal finance. The average score was 51.9 percent, down from 57.3 percent 3 years earlier.
- Less than 40 percent of high school students receive any formal financial education. Over a third of teenagers polled said they learned about money by figuring it out themselves.
- Kids from 12–19 spend or influence the spending of over $150 billion a year.
- The average credit card debt of teenagers rose 300 percent from 1990 to 2000.

Kids are graduating from high school being able to do little more than make change. The consequences of their financial ignorance are staggering—especially since 50 percent of kids in this country do not go to college and head straight into the workforce. The adults they will quickly become will not know how to budget, handle their debt or save, making the prospect of building a good credit rating, renting or buying a home, sending their kids to college and funding a comfortable retirement a slim one indeed.

Their parents have not done much better. Three quarters of a million people filed for bankruptcy in the first half of 2001.

Over time, the challenge of money management has only grown more difficult, as the number of financial products and options has mushroomed. Even banking terminology—from amortization to zero-coupon bonds—does not trip off the tongue. And banking as a subject does not grab people by the lapels. It seems complicated, difficult. Yet banking is a relationship for life, holding as integral and indelible a place among human needs as food and shelter. Imagine a society without checking accounts, 24-hour ATM's around the world, credit cards. It is possible to function without them, but not nearly as conveniently, as safely, or as confidently.

Next to their health, money ranks at the top of most people's concerns. Yet most would probably say they do not manage theirs well. Just as too many Americans are overweight or smoke or drive too fast, too many bank customers bounce checks or incur needless ATM fees or charge too much on plastic. These bad financial behaviors, for the most part, are avoidable—if you know what to do and what not to do. Today's kids—and a lot of their parents—do not know what they do not know.

Like other industries, banking has undergone radical change. It was not that long ago that people accepted what their doctor—who was their one and only doctor—said as an article of faith. Now, they routinely seek out second opinions, read up on medical information, take vitamins by the fistful, and practice alternative methods of good health from the traditional—more green vegetables, less couch potato; more jogging, less jiggling—to the less traditional—acupuncture, transcendental meditation, tai-chi, yoga.

So, too, with financial matters. When today's boomers were babies, Ozzie and Harriet were not reading *Money* magazine or watching Louis Rukeyser. Banking, like much else in life in the 1950's was uncomplicated. No more. There is a lot of sophisticated material out about financial matters. But some of the basics—and the discipline to incorporate them into a person's daily life—often slip through the cracks.

We teach today's children how to drive, how to play ball, and who invented the cotton gin, but not how to manage money. Learning to budget and save, to invest and spend without getting in over your head is, like learning to read, easier when done at an early age. Yet for the most part, it is not being done. It can and should be. The education system nationwide can do significantly more to fill this gap and to encourage teachers to broaden their curricula to incorporate one of the most basic, yet woefully neglected areas of practical learning. The American Bankers Association is working to address this problem in several ways.

- The ABA Education Foundation is committed to educating consumers of all ages about money and helping bankers be a source of user-friendly financial information. It has produced booklets on budgeting, credit, and saving, as well as a credit education toolbox to teach young adults how to establish credit, select credit cards, read a credit report and identify danger signals if they are overspending.

Through a partnership with Scholastic, the world's largest publisher of children's books, it will bring financial teaching materials to 450,000 students in 15,000 schools across the country.

A second partnership with Neale Godfrey, the author of financial books for children, is enabling banks to pilot her curriculum to teach elementary school students about money.

Its National Teach Children to Save Day brings thousands of bankers into local schools to talk with students and their teachers about money management.

And the Foundation's Kidstuff! Web page provides books, activities, programs, products and links to other websites.

- ABA also partners with America's Promise, Colin Powell's campaign to mobilize public and private sectors to reach out to kids across the country. Twenty-four hundred banks have become Banks of Promise, helping young people in their communities in various ways.

ABA's Center for Community Development—created in 1992 to encourage and promote sound lending, equal access to credit and attendant banking services and investments in minority and low- and moderate-income communities—has produced a guide for first-time homebuyers. To effectively educate first-time homebuyers and consumers overall, you need to start early, in the schools, so the Center's staff and bankers are collaborating with the Treasury Department and others to grow homebuyers and money managers from the ground up.

It is a daunting task. There are 12 million kids in high school today, and many millions more adults who struggle to keep their head above the swirling financial waters. No one group—not the ABA nor anyone else—can get it done alone. It takes all of us doing a lot of things. But it needs doing. In terms of producing a society populated with people who know how to look out for their own best interests and to make life better for themselves and their children, helping people take care of what they earn is a good place to start.

ABA EDUCATION FOUNDATION
A subsidiary of the AMERICAN BANKERS ASSOCIATION®

February 7, 2002

The Honorable Paul S. Sarbanes
Chairman
Senate Banking, Housing and Urban Affairs Committee
United States Senate
SH-309
Washington, DC 20510

Dear Chairman Sarbanes:

Financial literacy is an enormous problem in this country, with far-reaching consequences. Like you, the Board of the ABA Education Foundation is deeply troubled by the large number of Americans who understand little about financial matters and have difficulty managing their money. Many live on the brink of bankruptcy. Others fall prey to abusive practices and schemes. Millions of children today lack many of the most fundamental money management skills as they move from the school system into the work force.

The Education Foundation is a non-profit subsidiary of the American Bankers Association. Providing financial education to consumers of all ages is the Foundation's central mission on behalf of and through the ABA membership. For that reason, I ask that you include the enclosed statement in the official record of the important hearings you are holding. ABA and the Education Foundation would be pleased to participate, if we can be of further assistance on this issue.

Sincerely,

Lynda Glass

Lynda Glass
Chairman

September 13, 2001

The Honorable Paul S. Sarbanes, Chairman
Banking, Housing and Urban Affairs Committee
United States Senate, 534 Dirksen Senate Office Building
Washington, DC 20510

Chairman Sarbanes:

On behalf of the National Community Reinvestment Coalition (NCRC) and our 800+ member organizations, we would like to underscore our recognition of your leadership in holding the monumental predatory lending hearings. Thank you for affording NCRC the opportunity to testify before the committee. The follow-up has been tremendous, and we are very pleased with the message you, together with community groups, have sent to the industry.

Our testimony strongly supported your position on the need of greater financial literacy and local consumer education initiatives. Unfortunately, during our allocated time, we could not elaborate on NCRC1s financial education program, which is viewed by community groups and industry representatives as highly effective and essential to protect vulnerable consumers. In light of your upcoming hearings on financial literacy, we would like to brief you on NCRC1s National Financial Literacy Campaign. We respectfully request consideration of NCRC as an expert witness for your next committee hearing.

NCRC was founded on the premise that everyone in our country should be afforded fair and equal access to credit, capital and banking services and products. In the harnessing the collective energies of the community reinvestment movement, we realized that behaviors had to be changed - both practices of the banks and habits of individuals. Knowing that education is at the core of empowerment, NCRC created the National Financial Literacy Campaign to help bring low- and moderate-income communities, individuals, small business and minorities into the financial mainstream.

The Campaign is three-tiered process, with:

1. Train-the-Trainer Courses
NCRC1s train-the-trainer courses are the cornerstone. They have been used by Fannie Mae Foundation, Neighborhood Reinvestment, and "Reading is Fundamental" organizations for modeling their own programs. These courses educate community partners to provide financial literacy training to their residents. Once trained and equipped with NCRC1s curriculum materials, community partners tailor the program to their specific requirements and community goals, then work with consumers in workshops or as mentors.

2. Training Guides, Workbooks, and Other Resources
NCRC has developed comprehensive resources in English and Spanish to complement presentations by local agencies, financial service providers and others. Editions in other languages are being added. Materials are often customized to complement community counseling programs. Copies of our much-requested materials are enclosed for your review and consideration.

3. Community-Lender Collaborations
NCRC also offers technical assistance to community groups and financial institutions. We help identify partners and collaborative opportunities to

build financial literacy. For example, NCRC1s Community Lender Partnership Initiative (CLPI), a nationwide network of local partnerships between financial institutions and community groups, promotes long-term solutions, building community and individual financial strength through NCRC1s financial literacy program, training and technical assistance workshops, and affordable housing and credit counseling programs.

The results of NCRC1s Financial Literacy Campaign are astounding. Highly interactive training workshops and conferences have been conducted in Maryland, Florida, Texas, California, Delaware, Illinois, Indiana, Georgia and Louisiana. Over 850 organizations throughout the country have been trained by NCRC. Their staffs will in turn train over 80,000 constituents nationwide.

NCRC just kicked off a six-month series of special financial literacy workshops in Los Angeles, Miami, New York, Chicago and Washington, D.C., made possible by funding from one of our country1s largest lenders. Currently, NCRC is prominently featured as an educational leader in Visa U.S.A1s and Freddie Mac1s First Annual Financial Literacy Symposium (Sept. 13-14).

We have a saying at the Coalition, "no economic power base is beyond the reach of neighborhoods in our country. We must empower communities to meet the challenge." Our financial literacy program provides communities with the tools to do this.

We thank you for your continued support and look forward to working with you and your outstanding staff during the course of the 107th Congress - and beyond.

Yours sincerely,

Lawrence C. Broadwell
Acting President and CEO

David Berenbaum
Senior Vice President

STATEMENT OF
THE AMERICAN FINANCIAL SERVICES ASSOCIATION AND THE AMERICAN FINANCIAL SERVICES ASSOCIATION EDUCATION FOUNDATION

FEBRUARY 6, 2002

Introduction

The American Financial Services Association (AFSA) is the leading trade association representing market funded financial services companies. AFSA was founded in 1916. Its 400 member companies include auto finance/leasing lenders, mortgage and equity lenders, credit card issuers, sales finance companies, direct small loan lenders and industry suppliers. Most of the AFSA companies provide credit to both consumers and small businesses. The American Financial Services Association Education Foundation (AFSAEF) was founded to promote financial literacy in 1990. The AFSAEF has produced substantial material to educate consumers, and has partnered with a number of Federal Government agencies to develop and distribute materials beneficial to the consumer.

American Financial Services Association Education Foundation

The AFSA Education Foundation mission is broad. Its objectives include financial literacy initiatives for all age levels. The Foundation for the past 7 years has been centered in the development of a strategy to improve the delivery of financial literacy education in the Nation's schools. AFSAEF is a founding member and leader of the Jump$tart Coalition for Personal Financial Literacy.

The Jump$tart Coalition effectively advocates for the implementation and the improvement of personal finance curriculum in grades K thru 12. Currently, Jump$tart has 14 State coalitions that are working with State and local decisionmakers to implement personal finance in the curriculum of the schools. Jump$tart has more than 105 partners, including Federal agencies, nonprofit organizations, education organizations, and education advocacy groups.

AFSAEF also focuses on remedial financial literacy for adults. Providing remedial help for hundreds of thousands, if not millions of Americans who have made poor choices or fundamentally bad financial decisions, is a daunting task. Therefore, the AFSAEF uses extensive resources to provide specific financial literacy information that will benefit consumers.

Multimedia Communications Efforts

Specific aspects of responsible money management are communicated to the general public through news releases, newspaper articles, television and radio public service announcements, principally offering brochures detailing what to do or not do in formulating financial decisions. Fraud alerts, scam warnings, and more affirmative guides to decisionmaking are offered regularly. The consequences of poor choices made by individuals can be catastrophic in real life terms. Therefore, knowledge and accountability for decisions need to be ingrained at the individual level. AFSAEF is currently using multimedia resources to inform consumers about making the right choices when considering a mortgage loan and in the case of serious financial difficulties the importance of seeking out alternatives and considerations to restructure personal debt to avoid personal bankruptcy.

AFSAEF in collaboration with the American Association of Residential Mortgage Regulators and the National Association of Consumer Credit Administrators is distributing a brochure to assist consumers in assessing residential loan offers before signing on the dotted line. In addition, a number of mass media communications efforts have been initiated to call attention to this material.[1]

During the latter half of 2001, there were reports of sharp increases in personal bankruptcy filings. This increase was fueled by bankruptcy attorneys' advertisements urging consumers to file before changes were made in bankruptcy law. The AFSAEF issued a "consumer alert" designed to give advice to consumers who might

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[1] News releases (October 2001 to January 2002); MONEY MATTERS: Brochure Offers Recommendations Before You Borrow. This generated 344 newspaper articles in 27 States with readership of 52 million. HELP FOR HOMEBUYERS: Get Guidance Before Making Mortgage Commitments COMO ADMINISTRAR SU DINERO: Un Folleto Le Ofrece Recomendaciones Previr A Pedir Un Préstamo Television and Radio Public Service Announcements: Mortgage Shipping Tips: October 2001 television announcements were broadcast on 132 TV stations in 42 States with a maximum audience of 137 million. September 2001 radio announcements were broadcast on 320 radio stations in 45 States with an audience of 7.5 million.

jump on the bankruptcy bandwagon to stop and think twice about the long-term adverse impact bankruptcy might have on their financial future.[2]

Personal Finance Education

AFSAEF develops and distributes personal finance educational materials that provide tips on the responsible use of consumer credit and the management of personal finances. One copy is provided free to individuals upon request. Approximately 700,000 individual consumers have received this material. (See Appendix A for the list of all AFSAEF brochures.)

In order to support initiatives advocated by the Jump$tart Coalition, including the recently published National Standards in Personal Finance,[3] AFSAEF has developed a comprehensive curriculum devoid of commercial content or intervention to be utilized by middle school and high school students. This curriculum is designed as an electronic textbook and can be delivered either by CD Rom or on the Internet. Through this personal finance electronic textbook, basic skills concerning income, money management, spending and credit, savings and investing can be taught to high school students. The goal of this material is to expose students to real life simulations such as the accumulation of assets through savings, and using debt to purchase a car or home. The E-text will allow the student to see the results of their decisions as they manage income and expenses, assets and liabilities within the curriculum before confronting real life and then having to live with the consequences of poor decisions. This curriculum is currently in a pilot program and upon completion will be available nationwide for high school students through a variety of electronic distribution mediums.

Another initiative sponsored in part by the AFSAEF with a number of other partners of Jump$tart is the *Money Math: Lessons for Life.* This middle school curriculum teaches the importance of sound personal finance. It helps provide a solid grounding to help young people understand personal finance through practical math based exercises in real life examples. The curriculum is available to 16,000 school districts.

AFSAEF also provides in person seminars for consumers on personal finance. In the District of Columbia, in cooperation with the DC Public Housing Authority, AFSAEF conducted workshops on budgeting, managing credit use and debt problems, using and maintaining a checking account, reading and understanding credit reports, and alternative sources of financing. Similar programs have been provided in New Mexico and Arizona with support of the Navajo Social Services. These prototype programs will be modified for facilitator presentations that can substantially multiply information delivery outreach to community organizations.

Partnerships are cultivated by AFSAEF with AFSA member institutions, Government agencies and other nonprofit organizations on personal finance issues to educate and benefit specific segments of the marketplace. Some of the partnerships include the Consumer Literacy Consortium,[4] and National Consumer Protection Week.[5] (For other partnerships see Appendix B.)

Jump$tart Coalition

The Jump$tart Coalition for Personal Financial Literacy was founded in 1997 by 28 nonprofit education foundations, Government agencies, and education organizations. AFSAEF has provided hosting for the Coalition from its inception. The Coalition's mission is configured in four parts:

- To evaluate the financial literacy of young adults.
- To improve the personal financial literacy of young adults.
- To develop, disseminate, and encourage use of materials that are based on the Coalition's National Standards and Benchmarks.

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[2] News releases (October 2001 to January 2002); Consumer Alert! Hasty Bankruptcy Filers to Regret it Later. This release generated 124 newspaper articles in 22 States with a readership of 10 million. Television and Radio Public Service Announcements: Think Twice About Bankruptcy and Consumer Alert: Think Twice About Bankruptcy. The TV announcements have been broadcast on 145 stations in 38 States with a maximum audience of 166 million. The radio announcements have been broadcast on 222 radio stations in 46 States with an audience of 7 million.

[3] *National Standards in Personal Finance, with Benchmarks, Applications, and Glossary for K–12 Classrooms.* Jump$tart Coalition for Personal Financial Literacy, *www.jumpstart coalition.org.* (Benchmarks indicate knowledge and skills that must be learned by grades 4, 8, and 12.)

[4] Spearheaded by the Consumer Federation of America promotes savings through the publication, *66 Ways to Save Money.*

[5] Spearheaded by the Federal Trade Commission and other nonprofit organizations held each year in February.

- To promote the teaching of personal financial skills so that informed financial decisions will be made throughout life.

The initial survey was conducted in 1997. The project was under the direction of Lewis Mandell, PhD, University at Buffalo, and it provided a dismal insight into the accumulated money management skills of the graduating senior class of 1997. In 2000, Dr. Mandell conducted the second of a series of 5 studies planned for the period 1997–2008. The objective of this series is to measure conditions at the inception of Jump$tart and through a 12 year cycle. The disturbing reality is that the 2000 study indicates that the Nation's youth have regressed rather than progressed in the level of money management skills. The 2002 study is in progress. Studies similar to the Mandell work have been conducted in the State of Michigan. Results in that study were equally poor if not worse.

We appreciate this opportunity to provide the Committee information and comments on our efforts with financial literacy.

APPENDIX A

AFSAEF's Brochures on Personal Finance

Mortgage Loans - Understand the terms of Your Loan Before You Sign

Préstamos Hiptecarios – Comprenda Los Trérminos Y Condiciones De Su Préstamo Antes De Firmar

Guidelines for Home Improvement Loans

The Consumer Almanac

Bankruptcy: Facts and Consequences

How To Be Credit Smart

Consumer Budget Planner

Manage Your Holiday Spending

Keys to Vehicle Leasing

Family Finances, A guide to Managing Your Financial Obligations During a Natural Disaster

APPENDIX B

AFSAEF Partnerships

GMAC Financial Services Credit Education and Awareness Campaign: 2001, 2002 – Develop an updated version of GMAC's guide to credit, "What You Need to Know About Getting, Using and Keeping Credit."

Advance-Fee Loans: 1999, 2000, 2001, 2002 – AFSAEF, FTC, National Association of Consumer Agency Administrators, and the Navy Personnel Command coordinated this initiative to educate the public on fraudulent loan broker and other individuals misrepresenting the availability of credit and credit terms.

Consumer Auto Leasing Task Force: 1997, 1998, 1999, 2000, 2001 – AFSAEF, FRB, FTC, and associations representing bankers, dealers, manufactures, and consumer groups designed an educational program that focuses on the messages that consumers need to understand about vehicle leasing transactions.

Facts on saving and Investing Campaign; 1998, 1999, 2000, 2001- Headed by the U.S. Securities and Exchange Commission (SEC), this ambitious grassroots plan encourages all Americans to save and invest wisely. In the 1998 campaign, AFSAEF's "Consumer Almanac" was selected by the SEC to be part of its Financial Facts Tool Kit.

APPENDIX C

Jump$tart - Financial Smarts for Students

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 standards for grades K-12; and promote the teaching of personal finance.

The Jump$tart Coalition believes that all young adults need to have the financial literacy necessary to make informed financial decisions.

Jump$tart Initiatives Personal Financial Literacy Survey

A Personal Financial Literacy Survey was administered to a national sample of 1509 high school seniors in February 1997. On average, survey participants answered only 57% of the questions correctly — failing, on the grade scale used by most schools. When asked where they learned the most about managing their money, fewer than 11% answered "at school." Clearly, this demonstrates the need to provide personal finance curricula for the nation's 50 million students in grades K-12.

When the survey was repeated in 2000 to measure progress toward achieving Jump$tart's goal of personal financial literacy among all high school graduates by the year 2007, the average score was 51%. This decline is alarming since personal finance has evolved into a complex life skill that few graduates are prepared to manage wisely. A copy of the survey and its results may be obtained by calling 1-888-45-EDUCATE or clicking on "downloads" at Jump$tart's website.

Standards and Benchmarks

A nationally selected panel of teachers completed the Personal Finance Education Standards and Benchmarks for use by educators and parents. The standards provide a recommended scope of personal finance basics to be taught within four core areas:

- Income
- Money management
- Spending and credit
- Saving and investing

The benchmarks correlate with the standards to indicate the knowledge and skills that students need to learn by grades 4, 8 and 12. The standards and benchmarks enable school systems and youth-serving organizations to integrate resources into their curricula for educating students in this area of critical need. To receive a copy, call 1-888-45-EDUCATE or click on "downloads" at Jump$tart's website.

Clearinghouse of Education Materials

The Jump$tart Clearinghouse provides a searchable database of educational materials for the K-12 age group. All materials have been evaluated to ensure coverage of at least one of the four standards of personal financial literacy. The Clearinghouse is searchable by grade level and topic in addition to other categories.

Located in the Clearinghouse is How to Raise a Money-Smart Child: A Parents Guide, a compilation of articles and activities written by Jump$tart's coalition members to help parents and educators explore the fundamentals of money management with their children and students.

To search the Clearinghouse, go to www.jumpstartcoalition.org and click on the "Resource Clearinghouse" button.

State Coalitions

The Jump$tart Coalition is involved in a leadership role in the formation of state coalitions for personal financial literacy. The state coalitions' membership mirrors that of the national coalition. The reason for their formation is to work with those who are familiar with the particular needs of a state in the area of personal finance education for grades K-12. Each state coalition has adopted Jump$tart's mission, standards, and initiatives.

To see if a state coalition has been formed in your state go to www.jumpstartcoalition.org and click on the "State Coalition" button.

Public Awareness Campaign

Jump$tart is raising the public's awareness that personal finance management, like reading, math, or driver education, is a fundamental life skill that needs to be taught to our nation's youth before they become self-supporting. The Jump$tart Campaign (which includes public service announcements) targets the educational decision makers and communicators, such as government and administration officials, parents, educators, school board officials, personal finance media, and organizations represented as coalition members. The idea is to move the public through various levels of awareness toward the goals of improved personal financial education for America's youth.

Jump$tart Coalition for Personal Financial - Literacy Q & A

Q.) Who are the members of the Coalition?

A.) A wide range of organizations including government agencies, universities, associations, youth education groups, and non-profit and for-profit providers of personal finance education.

Q.) How can I get involved in Jump$tart?

A.) Coalition partnerships are considered for all national organizations who share Jump$tart's mission. Participation on a local level is possible through involvement with state coalitions.

Q.) How can I keep up to date on the personal finance movement?

A.) Subscribe to Jump$tart's newsletter. The Update, published quarterly, is offered complimentary. The coalition members contribute articles for each issue. Topics relate to existing curriculum, research, and other youth personal finance information. To receive a free sample of Jump$tart's Update, call 1-888-45-EDUCATE, or visit our website.

Q.) How can I get top quality personal finance teaching materials?

A.) Visit Jump$tart's Clearinghouse, accessible via the web site, www.jumpstartcoalition.org (click on "Resource Clearinghouse"). Also, check out the Speakers and Training sections.

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4-H USA

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Girl Scouts of the USA

Girl's Inc.

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Harley Davidson Financial Services

InVEST

Kiplinger's Personal Finance Magazine

Life and Health Insurance Foundation for Education

Lightbulb Press

MasterCard International

McGraw-Hill Companies

MFS Investment Management

MONEY Magazine

Money Management International

Myvesta.org

NASDAQ Educational Foundation

National Academy Foundation

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STATEMENT OF THE
CREDIT UNION NATIONAL ASSOCIATION (CUNA)

FEBRUARY 6, 2002

On behalf of the Credit Union National Association (CUNA) and the Nation's 82 million credit union members, this statement is submitted to be included in the record for the hearings of February 5–6, 2002 on financial illiteracy. We are pleased that the Committee recognizes the need to develop "a national strategy to promote financial literacy and education." Our statement attempts to describe the dimensions of the problem, as well as some of the steps credit unions are taking in an effort to solve it.

Defining Financial Literacy

As might be expected, numerous definitions of financial literacy exist. Given advocates' wide-ranging agendas, reaching an agreement on what a financially literate person knows and can do may well be impossible. However, a quick survey of literature[1] reveals that certain topics appear frequently in discussions of what the subject comprises, such as:

Money management skills—including budgeting, saving, and spending and the financial "tools" (that is checking accounts, insurance plans) and rules (that is tax laws, credit contracts)—that consumers must use to conduct financial affairs.

Financial and economic principles—including the time value of money and the effect of supply and demand—that affect consumers in different ways at different times and under different conditions.

Decisionmaking and planning guidelines—including information on setting goals and modifying actions that consumers need to achieve financial security in the future.

Whatever the precise description of a financially literate citizen, it seems clear that he or she would require distinct emotional and behavioral characteristics. It is not too hard to imagine that in reality such a person must be confident, flexible, and disciplined to function effectively over a lifetime of changing economic circumstances and obligations. As with any ideal, different people achieve this state to different degrees.

Measures of Financial Illiteracy

Results of attempts to measure ignorance about financial, economic, and consumer matters are not conclusive, but they are not impressive either.

The Consumer Federation of America (CFA) and American Express subjected high school students (1990), college students (1991), and adults (1993) to "consumer literacy" tests.[2,3,4] The results showed that age brought greater knowledge, but the average adult score of 54 percent answers correct was hardly the equivalent of a passing grade.

Working with the Cooperative Extension System and the Consumer Literacy Consortium in 1998, CFA gave 1,700 randomly selected adults a second quiz of consumer skills.[5] Examples of erroneous responses:

- One in four (24 percent) thought that all else being equal, a 15 year mortgage would cost more in total than a 30 year mortgage.
- One in three (32 percent) believed that all the savings and investment products banks sell are Federally insured.

Adults in the 1998 test passed it with an average score of 75 percent. Because the earlier and later CFA tests were dissimilar, the improvement in the score does not necessarily mean that adult consumers had become more knowledgeable in the 5 years between testing. Nor does the more recent CFA test prove that the typical U.S. adult today would be able to earn a passing grade in consumer skills.

What the results do suggest, however, is cause for concern about children. That is because most young people put their parents at the top of the list of sources of

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[1] Hogarth, Jeanne M. (2002). Financial literacy and family and consumer sciences. *Journal of Family & Consumer Sciences,* Vol. 94 #1, pp. 14–28.

[2] CFA (Consumer Federation of America). (1990). U.S. consumer knowledge: The results of a nationwide test. Washington, DC.

[3] CFA (1991). High school student consumer knowledge: A nationwide test.

[4] CFA (1993). College student consumer knowledge: The results of a nationwide test.

[5] CFA (1998). American consumers get mixed grades on consumer literacy quiz. Available: *http://www.consumerfed.org/backpage/press.html#four.*

financial information. According to the American Savings Education Council's 1999 Youth & Money Survey,[6] 94 percent of students (aged 16–22) say they are likely to turn to their parents for financial information. If those parents are typical adults, the information they have to offer may be mediocre at best.

Of course, considering your parents a source of financial information and actually discussing money with them are two different things. ASEC's 2001 Parents, Youth & Money Survey[7] revealed that only 60 percent of parents reported that their children actually asked them any questions about finances. Parents claimed to have taken a number of actions to teach their children about finances, ranging from encouraging them to save (96 percent), compare prices (93 percent), and discuss future job prospects (92 percent) to teaching how to track expenses (63 percent), make a budget (58 percent), and differentiate kinds of investments (43 percent).

Even if one takes these survey results at face value, the transfer of financial information from one generation to the next seems incomplete and haphazard. And in the end how much financial knowledge do U.S. youngsters absorb from their parents and other sources?

The extent of youthful ignorance about consumer issues in general and personal finance in particular is well documented in the United States. In recent years, several national studies have quantified various aspects of the phenomenon. For example:

- The average teenager's score on the 1990 CFA consumer literacy test[3] was less than half (42 percent answers correct).
- The overall score among high school seniors taking the Jump$tart Coalition's 1997 Personal Financial Survey[8] was 57.3 percent correct.
- When the Jump$tart Coalition repeated its survey in 1999–2000,[9] the overall average score for high school seniors had dropped more than 5 percentage points to 51.9 percent. In addition, the percentage of students scoring "C" or better dropped from 10.2 percent in 1997 to 6.7 percent. And the percentage of students who failed the test rose from 51.9 percent to 59.1 percent, an increase of more than 7 percentage points.

  The multiple-choice question below is typical of Jump$tart's 1999–2000 test:

  Which of the following is true about sales tax?

  A. The Federal Government will deduct it from your paycheck.
  B. It makes things more expensive for you to buy.
  C. You do not have to pay the tax if your income is very low.
  D. The national sales tax percentage rate is 6 percent.

Only one of two (48.8 percent) high school seniors chose B to answer this question correctly. One of four (26.2 percent) chose D and one of five (21.9 percent) chose A.

- Finally, high school seniors taking the 2001 Money Skills quiz[10] developed by the Americans for Consumer Education and Competition received an average score of 35 percent.

Effects of Financial Illiteracy

Recently, concern about personal bankruptcy rates has generated a great deal of interest in locating causes of the currently rising trend. Consumers' knowledge of financial topics seems to be one factor that demands attention.

In conducting the Personal Financial Survey for the Jump$tart Coalition in 1997,[8] researcher Dr. Lewis Mandell (State University of New York at Buffalo) looked for connections between the students' scores and deleterious real world effects. In his analysis, Mandell documented a strong negative correlation between test scores and adult bankruptcy rates. He compared mean test scores per State and the rate of personal bankruptcy filings per household per State. The exercise showed that:

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[6] ASEC (American Savings Education Council). (1999). Youth & Money Survey. Available: *http://www.asec.org/highlite.htm.*

[7] ASEC (2001). Parents, Youth & Money Survey. Available: *http://www.asec.org/2001pym/highlite.htm.*

[8] Mandell, Lewis A., Jump$tart (Jump$tart Coalition for Personal Financial Literacy). (1997). Our vulnerable youth: The financial literacy of American 12th graders. Personal Financial Survey report.

[9] Mandell, Lewis A., Jump$tart. (1999–2000). Improving Financial Literacy: What schools and parents can and cannot do. Personal Financial Survey report. Available: *http://www.jumpstart.org/download.cfm.*

[10] ACEC (Americans for Consumer Education and Competition). (2001). Key finding from a national survey of high school seniors regarding personal finance issues. Available: *http://www.acecusa.org/reportcard.*

1. In States where the personal bankruptcy rate was very low—*less than* 0.5 percent of households—mean scores on the student survey were 70.3 percent (13 percentage points *higher* than the overall score).

2. In States where the personal bankruptcy rate was very high—*more than* 1.5 percent of households—mean scores on the student survey were 55.6 percent (1.7 percentage points *lower* than the overall score).

3. The negative correlation was not due to demographic differences. Even after controlling for variables such as sex, race, region, income, and education, "bankruptcy is strongly and negatively related to financial literacy." Mandell concluded:

> *Although direct causation cannot be shown, because high school seniors seldom declare bankruptcy, the results are very meaningful. If a State has a high rate of personal bankruptcy, it probably does little to insure that its citizens are well-educated in personal finance.*[8]

Other researchers support this observation. For example, Michelle White (University of Michigan) examined a number of factors that might influence consumers' decisions to file for bankruptcy. She found consumers' general level of education to be a significant effect. White says:

> *Other things being equal, better-educated people are less likely to file for bankruptcy than less-educated people. If all households had an extra year of education, then their probability of filing for bankruptcy would drop by about 7 percent.*[11]

White's statement does not refer to financial education. But if such a strong effect exists between bankruptcy filings and educational level in general, it is reasonable to assume that receiving an education specifically in money management topics would yield a benefit equal to or greater than the one White found.

It seems equally clear that becoming a financially literate person, like becoming a skilled speaker or writer, is not likely to be an overnight transformation. Financial literacy is a complex condition that takes time and experience to acquire. And as is the case with other forms of ignorance, financial illiteracy has concomitant costs.

Costs of Financial Illiteracy

Consumer ignorance can be expensive. Some consequences, such as the impulsive purchase of a luxury item or the failure to negotiate a lower price, are immediate. Learning simple skills such as budgeting and comparison shopping has long been a staple of traditional home economics courses. Stephen Brobeck, Executive Director of the Consumer Federation of America, has estimated that the kind of basic consumer knowledge students acquire in these classes translates to household savings of more than $1,000 a year.[5]

But today's adult consumers face challenges unknown to their parents or grandparents. New financial products with more options present a bewildering array of decisions. Which telephone plan or credit card costs the least given my calling and spending habits? What kind of IRA or mix of different IRA's best fits my family's future needs?

The proliferation of saving, investing, borrowing, and spending choices can be expected to grow. For instance, participants in company 401(k) plans saw their investment choices grow from an average of 4.6 in 1994 to 8.4 in 1998.[12] Trends like this mean that the bewilderment adult consumers experience now will only become greater for their children.

Furthermore, consumers' responsibilities are becoming larger and more complex. As Americans' longevity increases, more and more adults are being asked to bear the triple financial burden of funding their parents' long-term care while still raising children of their own and trying to save for their own retirement. And at the same time that the cost of retirement increases and the ability of the Social Security system to supplement those costs wans, consumers are being asked to take more responsibility for making their own investment decisions in managing their pension and other retirement savings plans. From 1980 to 1997, the percentage of employee pension plans that were of the defined contribution type, which requires that indi-

[11] White, Michelle. (2000). Fresh approaches to bankruptcy and financial distress—vol 1: Why don't more people declare bankruptcy? (Filene Research Institute & The Center for Credit Union Research).

[12] Kochard, L.E. & Gaumnitz, J. (2000). The transition from defined benefit to defined contribution pension plans in the public sector. Kansas Public Policy Institute.

viduals become more active in investment decisions, rose from 70 percent (covering one in three workers) to 92 percent (covered one in two).[13]

And the more that consumers are being forced to make financial decisions of greater complexity about their savings, the less successful they seem to be in managing their debt. Consider these facts:

- Sixty percent of U.S. households carry over some portion of their high-interest credit card debt each month. Of those that do, the average balance was $4,100.[14]
- Seventy-eight percent of college undergraduates have a credit card. Of those, each carries an average of three cards with an average balance of $2,748.[15]
- Ninety-five percent of college graduate students have a credit card. Of those, each carries an average of four cards with an average balance of $4,776.[15]

Credit card debt seems to be playing a large role in the fact that one of five families with annual household income of less than $50,000 are now spending 40 percent or more of their after-tax income to service their debt.[16] And with this growing debt load come clear signs that consumers are having a harder and harder time bearing the weight:

- The rate for credit card payments that were more that 30 days late rose from 4.3 percent in 2000 to 5 percent in 2001. During the same period, write-offs on bad loans increased from 5.6 percent to 6.4 percent.[17]
- Bankruptcy filings grew from 1.27 million households (1999–2000) to 1.38 million (2000–2001). Projections for the current year are between 1.4 to 1.5 million households.[18]

The next generation appears to be ready to join right in the problem. Elizabeth Warren, a law professor at Harvard Law, has been tracking bankruptcy among adults aged 25 and under. From 1991 to 1999, she documented a 51 percent increase in annual filings among that age group, from 60,000 to nearly 120,000. The age group now accounts for 7 percent of all U.S. personal bankruptcy filings.[19]

And if all this were not alarming enough, some financial institutions appear to be following a strategy that will prepare children as young as 13 to be active credit card users in the future by issuing them stored value cards now. Parental permission is required, and issuers claim that properly used, the cards with catchy names are a valuable tool for teaching children to budget, spend, and save responsibly. Unfortunately, parents do not have a solid track record for fulfilling that mission. Some institutional effort seems to be needed.

The Effectiveness of Financial Education

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 *http://www.jumpstart.org/legislation.cfm* for current State legislative mandates and resolutions.)

Last year saw the publication of the results of a study that 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*

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[13] Conte, C. (1998). The National Summit on Retirement Savings: Agenda background materials.

[14] Federal Reserve Board. (2000). 1998 SCF; Credit cards held by households.

[15] Nellie Mae. (2000). Credit card usage continues among college students. Available: *http://www.nelliemae.com/library/research__8.html.*

[16] Kennickell, A.B., McCluer, M.S., & Surette, B. (2000). Recent changes in U.S. family finances: Results from the 1998 Survey of Consumer Finances. Federal Reserve Bulletin, 86 (1), 1–29.

[17] Card News. (2001). Credit card losses rise in second quarter, Moody's reports. Card News, 16 (15, August 8).

[18] American Banker. (2001). Bankruptcy spike threatens card profits. American Banker-bond Buyer, 1 (19), 1.

[19] Warren, Elizabeth. (2001). Reported in Congratulations grads: You are bankrupt. *Business Week,* May 21.

growing body of evidence that education may be a powerful tool for stimulating personal saving.[20]

In his 1997 Jump$tart Coalition report Mandell stressed that it is not enough to simply throw financial education at students. Materials that purport to teach personal finance topics must be evaluated:

> *States that wish to reduce the pain and economic cost of personal bankruptcies should probably consider mandating and implementing an effective curriculum of personal finance in its primary and secondary school systems.*[8] [Author's emphasis]

One personal financial curriculum that researchers 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:[21]

- Nearly half (47 percent) knew more about credit costs, and nearly two-fifths (38 percent) knew more about investments.
- Nearly two-fifths (37 percent) improved skills for tracking spending, and nearly half (45 percent) started saving or began saving more.
- Nearly two-fifths (38 percent) felt more confident about managing their money.

During the 2000–2001 school year, NEFE distributed HSFPP materials to 345,000 students in 4,330 schools. Credit unions, in their first full year of program partnership, were responsible for about 10 percent of both those figures.

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.*[22]

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."[23]

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.*[24]

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 52.4 million brochures on subjects ranging from managing a checking account to using electronic signatures.

Second, credit unions provide financial information to members on a one-on-one basis. As of the end of 2000:

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[20] Bernheim, B.D., Garrett, D.M., & Maki, D.M. (2001). Education and saving: The long-term effects of high school financial curriculum mandates. *Journal of Public Economics,* 80, 435–465.

[21] Boyce, C.F. & Danes, S.M. (1998) Evaluation of the NEFE high school financial planning program. Denver, CO: National Endowment for Financial Education. Available: *http://www.nefe.org/pages/hsfppevaluation.html.*

[22] WOCCU (World Council of Credit Unions). International credit union operating principles. Available: *http://www.woccu.org/about/princip.htm.*

[23] Filene, Edward A. (1928). New York American, April 17.

[24] Feller, George F. (1936). The child and his money. *The Bridge,* May, I (XI) No. 3.

- Thirteen percent of credit unions (representing 49 percent of U.S. members) offer financial planning programs to help with mid- and long-term goals.
- Thirty-one percent of credit unions (representing 56 percent of U.S. members) offer "remedial" financial counseling to intervene in times of financial crises due to excessive debt and the mismanagement of income and spending.

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. Since 1972, the National Youth Involvement Board (NYIB), a loose network of credit union volunteers, has educated youth about money and credit. During the 2000–2001 school year, 628 NYIB volunteers conducted 5,848 classroom presentations to 138,806 students.[25]

Fourth, credit unions seek every opportunity to draw attention to youth—their accomplishments, as well as their needs. This year CUNA will sponsor a National Credit Union Youth Week (April 14–20) during the Jump$tart 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 longstanding observances in States such as North Dakota and Pennsylvania, the national event will shine the 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.

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 longstanding faith in the efficacy of financial literacy to improve lives is well grounded, consider this: In 2000, the overall bankruptcy rate for the general U.S. population was 4.34 per 1,000.[26] For the same period, the rate for U.S. credit union members was only 2.48 per 1,000.[27] Credit unions are doing many things right.

Summary

In conclusion, there is considerable evidence that financial illiteracy has reached record proportions, and its impact has contributed significantly to rising levels of bankruptcy and to lowering the standard of living in general for many American families. Credit unions have traditionally made financial education a part of their mission, and it is apparent that it has made a difference, as credit union members are less likely to declare bankruptcy than the general population. Credit unions will continue their efforts and are encouraged that both the private sector and now the Government appear to be ready to make financial literacy a high national priority.

STATEMENT OF THE NATIONAL ASSOCIATION OF FEDERAL CREDIT UNIONS

FEBRUARY 6, 2002

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 nearly 1,000 Federal credit unions—financial cooperatives from across the Nation—that collectively hold approximately 62 percent of total Federal credit union assets; NAFCU represents the interests of approximately 24 million individual credit union members. NAFCU, and the entire credit union community, appreciates the opportunity to participate in this important discussion about financial illiteracy.

Financial Literacy and Personal Savings Are Intertwined

NAFCU and our member credit unions know that financial illiteracy is an issue that touches all Americans—at every age and income level. Intertwined with financial literacy is personal savings. The Nation's personal savings rate is slumping and personal savings rates are at their lowest level in nearly 40 years. 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 proactively involved in pro-

[25] NYIB (National Youth Involvement Board). (2000–2001). Available: *http://www.nyib.org/Pages/Network%20News%20Articles/NYIB%201999__2000%20Classroom%20Statistics.htm.*

[26] Bankruptcy Institute. (2001). Bankruptcies fall again in 2000, filings in fourth quarter rise slightly. Available: *http://www.abiworld.org/stats/feb2300.html.*

[27] NCUA (National Credit Union Administration). (2000). Call report data.

moting financial literacy and personal savings in America. NAFCU President/CEO Fred Becker's first major speech before the credit union community in September 2000 addressed the need to increase the personal savings levels of all Americans.

Many credit unions have special programs to educate their members and assist them in achieving their savings goals. These programs not only teach their members about saving, but also assist them in becoming more financially literate. We want to tell you about just two such success stories.

McCoy FCU: Teaching Youth About Money and Savings

NAFCU member McCoy Federal Credit Union, located in Orlando, Florida, is the only community credit union in Central Florida. It has assets of $235 million and serves the borrowing and saving needs of about 55,000 members. In September 1993 McCoy FCU 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 them and their financial institution—a credit union.

The Youth Savings Program is set up in two age groups 5–10 years and 11–17 years, with appropriate incentives targeting these two very distinct age groups. A Youth Savings Brochure, available to credit union members and potential members, explains eligibility based on McCoy FCU's field of membership. The brochure is often the first exposure many young people have to financial terms, providing definitions of such terms as saving, deposits, interest, withdrawals and balance, as well as a savings register and I.D. card. It also explains savings goals and includes ideas of how students might obtain the money to put into their savings accounts, for example piggy bank, birthday, allowance, chores, good grades, or jobs.

When a young person joins McCoy FCU's Youth Savings Program and opens an account for $5.00—$99.00, they receive several items appropriate to their age designed to encourage savings and to help them measure their progress in meeting their savings goals. McCoy FCU waives the $5 credit union membership fee for the young people who join, and there are no fees associated with Youth Savings Program accounts. To encourage their active participation and savings, young people earn various 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. Upon reaching 18 years of age, the participants receive a letter telling them that while they are no longer eligible for McCoy's Youth Savings Program, as fiscally responsible "graduates" of the Youth Savings Program they can now take full advantage of the many other services that McCoy FCU has to offer. The letter then proceeds to introduce them to other services that McCoy FCU offers its members, such as Share Draft Accounts.

In order to effectively reach out to all segments of the community and educate its young people about, and get them involved with, the Youth Savings Program, McCoy FCU spreads the word in a number of ways:

1. Various youth organizations (for example YMCA)
2. Partners in Education (Orange County School System)
3. Presentations at local schools and church youth groups
4. Sponsorship of youth programs
5. Word of mouth
6. McCoy Financial Planner Newsletter
7. Brochures in the credit union's lobbies and new accounts areas

McCoy FCU's program has successfully prepared thousands of young people to successfully manager their financial affairs. As of May 31, 2001, McCoy FCU's Youth Savings Program had 4,589 members representing 8.3 percent of the credit union's total membership with savings totaling $3,176,587.

Promoting Financial Literacy in San Antonio

San Antonio City Employees Federal Credit Union (SACEFCU), which serves Government employees in San Antonio, has about 32,000 members and $175 million in assets. SACEFCU was asked to prepare and teach basic financial courses for the San Antonio's Adult Basic Education and G.E.D. Preparation Program. The credit union was a logical choice for implementing this program because of the depth of financial knowledge and experience of its dedicated staff. The credit union, in turn, availed itself of information and assistance offered by a resource knowledgeable about financial education: the National Endowment for Financial Education (NEFE), a nonprofit foundation committed to helping Americans gain the skills and knowledge needed to control their personal finances.

SACEFCU adopted an educational curriculum initially developed and made available by NEFE. 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. The credit union also made use of instructional materials provided by NEFE without charge. SACEFCU's financial literacy program is *free,* and the knowledge imparted via the curriculum is supplemented by guest appearances by area professionals and experts.

The first class taught by SACEFCU was a pilot program comprised primarily of people training to become literacy teachers themselves. Twelve trainers and eight students have graduated from the pilot course, taught entirely by SACEFCU.

SACEFCU realized that by committing itself to educating more people to become financial literacy trainers and teachers, they could more effectively promote financial literacy among its members and the San Antonio community at large—spreading the word of financial literacy. As a result, SACEFCU hosted a one-day "train the trainer" course for 24 city's of San Antonio county agencies and private industry trainers. Eventually, with the financial literacy program well-developed and solidly underway in San Antonio, SACEFCU stepped back with the city taking over the financial literacy classes.

Having been well established under the auspices of SACEFCU, the financial literacy course is now offered in a number of literacy centers in San Antonio throughout the year. Meanwhile, SACEFCU has maintained an active role in the advancement of the financial literacy program it conceived by periodically monitoring and auditing the classes. The city of San Antonio is very willing to share the curriculum for this program with others who share their interest so that other cities can benefit from San Antonio's experience as they develop their own financial literacy courses.

Realizing that true financial literacy and healthy saving habits are best fostered among the young, San Antonio has now enlisted SACEFCU to do for the city's children what it has already done for the city's adults: develop an age-appropriate financial education course. The credit union is now working on creating such a financial information program to teach local elementary school children about financial literacy and help foster an appropriate awareness of the value of money.

Conclusion

These examples of what credit unions are doing to promote financial literacy and savings are just two of many. Credit unions in every State regularly work with their members to educate them on financial matters, to increase their financial literacy, and to promote their personal savings. Credit unions by their nature have a special relationship with their members—one that has put credit unions on the front line in fighting financial illiteracy for years. Credit unions are in NAFCU's view critical partners in implementing any national strategy promoting financial literacy and education. NAFCU and the Federal credit union community stand ready to work with you as we move forward together.

STATEMENT OF THE
WOMEN'S INSTITUTE FOR A SECURE RETIREMENT

FEBRUARY 6, 2002

On behalf of the Women's Institute for a Secure Retirement (WISER) we appreciate the opportunity to submit comments to the Senate Committee on Banking, Housing, and Urban Affairs on the Hearing on the State of Financial Literacy and Education in America for allowing us to bring to your attention the ways in which women are affected as low earners who are more likely to end up in poverty.

The Women's Institute for a Secure Retirement (WISER) is a nonprofit organization whose primary mission is education. WISER and its collaborative partners have established a clearinghouse on retirement education, the POWERCenter (Program on Women's Education for Retirement) which provides underserved women with a place to turn to for basic financial education. The POWERCenter began as a cooperative project funded by the U.S. Administration on Aging in 1998.

The POWERCenter's program goals are:

1. Reaching the maximum number of average and lower income women with information.
2. Ensuring that the educational material and program reaches women at their jobs, in their communities and places of worship.
3. Creating an awareness of retirement basics, pensions savings plans, and the Social Security program, to help motivate women to plan early for their economic security by stretching and managing their resources and increasing their retirement income.

4. Preserving retirement income: helping older women protect the income they have by avoiding the multiple pitfalls of consumer fraud, financial scams, and predatory scams.

5. Helping women in crisis situations such as death and divorce.

Background

Despite all of the discussion about workers (and women in particular) planning for their retirement, little has been done to enable them to exert control over their own financial lives. This starts with a lack of basic programs focused on the needs of women who are living from paycheck to paycheck and struggling to keep their families afloat. Simply telling the average woman—the woman who earns less than $30,000—to start or increase her savings rate is not as easy as it sounds.

For many women, particularly those with low incomes, the first significant planning step they take is applying for their Social Security benefits. These are women who will not have access to a sophisticated employer education program—nor will they have the substantial financial resources that will attract financial planners.

Millions of women fit this description. These women require basic information to help them take the first steps toward a more secure future. While there are more than three million pages of material available on the internet and several hundred books on financial planning, much of the material is not aimed at average earners or for those who are looking for less complex information.

POWERCenter staff have learned that women need to hear the financial literacy message from trusted individuals before they will take the first steps toward action. In addition, they want information that is independent and free of conflicts of interest or a sales pitch. We have also learned that training community partners is a highly effective strategy. WISER partners with many different organizations: employers, women's organizations, financial institutions, churches, government agencies and local community groups.

Financial and Retirement Challenges for Women Workers:

- More than two out of three full-time working women earn less than $30,000 per year.
- Women's earnings average $.73 for every $1 earned by men. African-American women earn $.67 and Hispanic women earn $.54.
- Women are more likely to work in part-time and minimum wage jobs without benefits.
- Women retirees receive only half the average pension benefits that men receive.
- Women spend 15 percent of their careers caregiving outside of the workforce compared to less than 2 percent by men.

Reasons Why Women Need More Retirement Income

- Women live longer than men, nearly 4 years.
- Women earn less than men so their Social Security and pension benefits are smaller.
- Women are likely to be single—and not remarry. Unmarried women are more likely to live out their years in poverty.
- Women are more likely to need long-term institutional care.

The Effect of Women's Longer Lives

Financial experts tell Americans generally to plan to replace anywhere from 70 to 85 percent of their income at retirement. Unfortunately, this advice does not work for women, who are likely to need more than 100 percent of their preretirement income in order to remain secure throughout their longer lives. Women need to start as early as possible to understand how they are spending their money and to take advantage of any opportunity to build assets whether through a retirement plan or a community-based program to contribute to an individual development asset (IDA).

The longer life expectancy of women necessarily means that at some point during their retirement the vast majority will find themselves alone. In fact, about 80 percent of men die married and 80 percent of women die single.

Living alone is a predictor of elderly poverty and women are much more likely than men to live alone—in 1998, only 43 percent of older women lived with their spouses, compared to 73 percent of older men. A single elderly woman is twice as likely as an elderly man to be poor—in 1998, about one out of five single older white women were living in poverty while almost half of all single older minority women were poor or near poor.

Women's Roles As Caregivers

The reality of women's working lives is that no matter how women's roles in society have changed, those changes have not relieved them of their responsibilities as family caregivers. Women are still more likely to leave the workforce or to work part-time to accommodate caregiving responsibilities. In addition to maternity leave, they also bear the primary responsibility for an ill child or a sick relative—resulting in shorter job tenures—women's average job tenure is 4.4 years lagging behind men's (5.0 years).

Women as Low-Wage Earners Saving for the Future

Over the past 20 years there has been a shifting of the burden of retirement from the employer to the employee—a trend that will almost certainly have a disproportionate effect on all low-wage workers but particularly women.

The fact that women earn less creates less of an opportunity for retirement savings and means that women's retirement benefits will be lower than those of men. It also means they have substantially less income available to put in an IRA or a 401(k) savings plan.

Because the majority of full-time working women earn less than $30,000 annually, even a disciplined saver will have trouble accumulating much in savings at that level of income. Second, our research shows that women's savings priorities are often focused on their children and their grandchildren and not on their own financial security. And again, because of priorities such as their children's education and medical emergencies, women often opt to cash out their 401(k) accumulations when they leave a job rather than keep the funds for retirement.

Finally, we commend this Committee for focusing attention on this critically important issue. The implications of inadequate savings and the inadequacy of retirement benefits is far-reaching. The major challenge facing the Committee today is to make sure that working Americans realize what steps they will need to take to support themselves in their old age. We need to address these issues now and ensure that workers begin to accumulate assets early in their careers rather than debt.

Again, we thank the Committee for your leadership in acknowledging the need for financial education.

The Women's Institute for a Secure Retirement is a nonprofit organization that was launched in 1996 by the Teresa & H. John Heinz III Foundation. WISER's overarching goal is to alleviate poverty among older women and to include increasing awareness among the general public, policymakers, and the business community of the structural barriers that prevent women's adequate participation in the Nation's retirement systems.