

Ben S Bernanke: Financial literacy

Statement by Mr Ben S Bernanke, Chairman of the Board of Governors of the Federal Reserve System, provided for the record of a hearing held on 12 April 2011 conducted by the Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia, Committee on Homeland Security and Governmental Affairs, US Senate, Washington DC, 20 April 2011.

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Chairman Akaka, Ranking Member Johnson, and members of the Subcommittee, thank you for inviting me to submit a statement for the record. As April is Financial Literacy Month, I am pleased to highlight the importance of financial literacy to a stable and healthy economy and to describe some of the Federal Reserve System's efforts to help Americans make informed financial decisions.

The recent crisis demonstrated the critical importance of financial literacy and good financial decisionmaking, both for the economic welfare of households and for the soundness and stability of the system as a whole. Good financial choices depend on reliable and useful information, presented in an understandable way. Essential components of personal financial management include an understanding of how to budget strategically, use credit, save to build personal wealth, and shop for and choose suitable financial products.

The Federal Reserve recognizes that informed, educated consumers not only achieve better outcomes for themselves but, through careful shopping for and use of financial products, help to increase market efficiency and innovation. Our approach to assisting consumers to successfully navigate the financial marketplace has been three-pronged: First, we have worked diligently to foster financial and economic education. Second, we conduct research on consumer decisionmaking that helps to identify what works in financial education and informs the regulatory process. Third, in recognition that basic financial knowledge is not sufficient to safeguard people from fraud and deceptive practices, we have promulgated strong consumer protection rules and consumer-tested required financial product disclosures to ensure they present information clearly and in a useful format. We vigorously enforce consumer protection laws to ensure that providers of consumer financial products act fairly and comply with the spirit and letter of the rules.

Financial and economic education

In our dynamic and complex financial marketplace, financial education must be a life-long pursuit that enables consumers of all ages and economic positions to stay attuned to changes in their financial needs and circumstances and to take advantage of products and services that best meet their goals. Well-informed consumers, who can serve as their own advocates, are one of the best lines of defense against the proliferation of financial products and services that are unsuitable, unnecessarily costly, or abusive.

Financial education from the Federal Reserve

The Federal Reserve has provided unbiased, credible, research-based financial information and educational materials, in print and on the Internet, for many years. We offer publications – in both English and Spanish – that provide consumers tips on a broad range of topics, from avoiding mortgage foreclosure scams to managing a checking account. More recently, the Federal Reserve Board has developed interactive webpages with up-to-date information on regulatory changes that affect consumer financial products and services. These webpages offer information in plain language and in an easy-to-understand format; they also provide links to calculators, additional resources, and other relevant material. The Board's "What You

Need to Know” series provides user-friendly information and tools about new terms, disclosures, and protections for credit card accounts, overdraft protection programs, gift cards, credit decisions and credit scores, and notices of mortgage transfers.¹ Since the series webpage was launched in February 2010, more than 366,000 web views have been logged, with 60 percent of those visits for credit card information.

The Federal Reserve Banks, through their Community Affairs offices, have developed financial education materials and programs on topics that range from establishing banking accounts to building wealth. For example, the Federal Reserve Bank of Chicago, as part of Financial Literacy Month, offers free classes and activities during its “Money Smart Week.” In events developed in cooperation with local organizations and firms, young people and adults learn about financial matters ranging from opening a savings account to applying for a mortgage. Several Federal Reserve Banks are also actively involved in “Bank On” programs that help cities and financial institutions bring unbanked and underbanked consumers into the financial mainstream by educating them about the benefits of having a bank account and using other banking services.

Exposing young people to financial concepts is particularly important. Students can be particularly vulnerable to the temptations of taking on excessive debt, such as credit card debt. And the earlier that young people can develop basic financial skills, the more likely it is that they will make good financial decisions when they become adults. The Federal Reserve is committed to helping teachers and schools work more effectively with students as they develop their financial literacy. For example, the Federal Reserve provides a financial and economic education website with a variety of resources for teachers, and students of various ages and knowledge levels.² The site offers educational games, classroom lesson plans, online publications, and multimedia tools. Federal Reserve Banks offer teachers professional development opportunities to improve their ability to teach personal finance topics. A number of Federal Reserve Banks also organize personal finance essay, video, and academic competitions for students. We encourage students and teachers to visit Federal Reserve Bank learning centers and museums, which feature interactive exhibits about many aspects of banking, the financial system, and the economy.

Collaboration in financial education

In addition to conducting its own programs, the Federal Reserve collaborates with numerous organizations and agencies that educate and counsel individuals from a broad range of audiences. Our long-standing partnership and role on the board of NeighborWorks America supports homebuyer, foreclosure, and mortgage modification counseling to lower-income consumers and communities. We have helped these and other organizations – such as American Savings Education Council, Junior Achievement, the Council for Economic Education, the National Endowment for Financial Education, and America Saves – develop, implement, and evaluate personal finance awareness and education programs. In addition, we have worked with the Jump\$tart Coalition, American Library Association, the AARP, the National Council of La Raza, the National Association of School Boards, and the Congressional Black Caucus to increase awareness of our financial and economic education resources.

We also collaborate with other federal government agencies on education and outreach initiatives. Since 2004, the Board has participated in the Financial Literacy and Education Commission (FLEC), which is composed of representatives from 22 federal agencies and coordinates financial education resources offered by the federal government. To support the

¹ See Board, “What You Need to Know Series.”

² See the Federal Reserve Education website.

FLEC's mission, Board staff members have served on Commission task forces to develop its website, national strategy, and research agenda.

Research and evaluation

As part of our policy research mission, the Federal Reserve dedicates considerable resources to the study of consumer economics and consumer behavior. Our work includes the development of valuable new data and empirical studies in these areas. For example, for many decades the Board's Survey of Consumer Finances has provided one of the most important sources of information on the assets, debts, and wealth of American households.³ The Federal Reserve has also developed substantial expertise in assessing and drawing policy conclusions from a range of consumer financial data, such as data from credit records or data on mortgages provided by lenders under the Home Mortgage Disclosure Act.

The Federal Reserve has been involved in studying the efficacy of financial education in helping people make better financial decisions. For example, several years ago, researchers in the Board's Division of Consumer and Community Affairs joined with Army Emergency Relief to conduct a longitudinal study of the effect of a two-day financial education program on soldiers' financial management. In general, studies show that financial education for young adults is most effective when it is both timely and relevant. At the same time, research has also provided important insight into other factors that contribute to the development of personal financial skills, such as general education levels, family experiences and parental influence, access to financial services (for example, having a savings account while growing up), and income level.⁴ These findings underscore the importance of early and ongoing education as well as experience with financial products in helping people make good financial choices.

We have also analyzed alternative approaches to financial education. For example, the economic education staff at the Federal Reserve Bank of Philadelphia investigated the effectiveness of a personal finance course that uses a specific curriculum, "Keys to Financial Success." This semester-long course is taught by teachers who attended a 30-hour training course. A 50-question exam administered before and after the course showed that students who took the course had a statistically significant increase in their personal finance achievement, compared with a control group of students of the same age who were not exposed to the program.⁵

³ The Board's Survey of Consumer Finances.

⁴ See Catherine Bell, Daniel Gorin, and Jeanne M. Hogarth (2009), "Does Financial Education Affect Soldiers' Financial Behaviors?" paper presented at the Federal Reserve System Community Affairs Research Conference, held in Washington, April 16–17, www.kansascityfed.org/publicat/events/community/2009carc/Hogarth.pdf; Catherine Bell and Jeanne M. Hogarth (2010), "Better Deals on Wheels: The Effects of Financial Education on Car Buying," Federal Reserve Bank of Minneapolis, *Community Dividend*, April; Catherine J. Bell, Jeanne M. Hogarth, and Daniel R. Gorin (2009), "Teaching for the Test, and Life Is the Final Exam," paper presented at the annual conference of the Association for Financial Counseling and Planning Education, held in Scottsdale, Ariz., November 18–20; and Catherine J. Bell, Daniel Gorin, and Jeanne M. Hogarth (2010), "What Makes a Good Money Manager Good? Insights from an Evaluation of an Education Initiative," paper presented at the 56th Annual Conference of the American Council on Consumer Interests, held in partnership with the Federal Reserve Bank of Atlanta, Atlanta, Ga., April 14–16.

⁵ See Andrew T. Hill, Bonnie T. Meszaros, and Brian Tyson (2011), "Evidence of Student Achievement in a High School Personal Finance Course," paper presented at the Allied Social Science Associations conference, held in Denver, Colo., Jan. 6–9.

Consumer protection regulation and enforcement

Although financial education is a critical first line of defense, it is not a substitute for strong and effective regulations that safeguard consumers against abusive and fraudulent practices. The Board has been the primary federal agency charged with writing rules governing consumer financial products, and in recent years, we have issued rules for mortgages, credit cards, student loans, and overdraft protection programs, among others. We have also maintained a robust compliance program to ensure that banks under our purview adhere to these rules.

As you know, our consumer-protection rulemaking authority and our consumer-protection supervisory and enforcement authority over some of the nation's largest financial institutions will transfer to the Bureau of Consumer Financial Protection, pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act. The Board will retain some relevant rule-writing authorities (for example, under the Community Reinvestment Act) as well as supervisory authorities for smaller financial institutions that we also regulate for safety-and-soundness purposes. We are working closely with the Department of the Treasury and the new Bureau to facilitate the necessary transfers of authorities and personnel.

Regardless of how the regulatory and supervisory responsibilities are distributed, a comprehensive approach – one that includes education, research, and regulation – remains essential to ensuring that consumers receive adequate protections and that markets for consumer financial products function well. The Board will work collaboratively with the Bureau and other agencies to help individuals and families make the best choices for their financial futures.

For your reference, I am attaching some examples of financial literacy programs and outreach that are available from the Federal Reserve.

Appendix A

Federal Reserve System community affairs offices

Financial education for consumers and communities

The 12 Federal Reserve Banks offer a broad range of programs for nonprofit organizations, government agencies, and financial institutions that work to improve financial education and access to services for lower-income consumers and communities. The following is a representation of the wide range of leadership, resources, training, and research that the Federal Reserve System's Community Affairs offices have undertaken to support financial education within the community economic development field. Additional information about the Federal Reserve's Community Affairs offices can be found at www.federalreserve.gov/communitydev/default.htm.

Asset and wealth building

Atlanta

- The Bank provided leadership and assistance that resulted in the convening of numerous regional meetings throughout Florida to gain input on asset policies and needs. The Bank also supported the Florida Prosperity Partnership, the Georgia 4 Pro\$perity, the Alabama Asset Building Coalition, and the Tennessee Alliance for Financial Independence initiatives.

Dallas

- The Bank's key asset-building work is centered around the educational resource *Building Wealth*, the Bank's most requested publication and the most frequently downloaded page on the Bank's website. The *Building Wealth* program includes a booklet (in both English and Spanish), an online tool, and a train-the-trainer course.
- In partnership with RAISE Texas, a network of organizations that support asset-building activities, the Bank sponsored four rural asset-building forums in 2010.
- The Bank and the Texas Department of Banking hosted a webinar on financial education in the workplace. The CFO of Randall's Food Markets discussed her experience of using *Building Wealth* to teach financial education seminars to more than 400 employees throughout Texas.

Kansas City

- Community Affairs partnered with the Oklahoma Native Assets Coalition and First Nations Development Institute to conduct a symposium on asset-building programs and policies for representatives of Native American tribes.

Banking the unbanked

Atlanta

- Community Affairs staff played key roles in the development of statewide asset-building organizations and provided valuable support to regional and statewide "Bank On" initiatives, including developing curricula to train bank and credit union

employees to meet the needs of unbanked and underbanked individuals establishing banking relationships with their institutions.

Dallas

- Bank staff developed a guide (in both English and Spanish) about opening a bank account for the “Bank On” campaign.

Kansas City

- Community Affairs staff provided leadership in the development of “Bank On” initiatives in Kansas City, Omaha, Denver, and New Mexico. The Bank also partners with “Bank On—America Saves of Greater Kansas City,” which is the first pilot in the country to combine the two programs.

New York

- The Bank supports the “Bank On” campaigns for Manhattan and Newark, New Jersey.

San Francisco

- Community Affairs staff facilitated the creation of new Jump\$start affiliates and convened a regional group of Jump\$start state leaders for training sessions. Staff also built new financial education and asset-building collaborative groups from scratch in areas that lack an existing networking mechanism or where networking is more challenging, such as in rural areas.
- The Bank supports the ongoing growth of the “Bank On” programs throughout the District, including San Francisco, Oakland, San Jose, Los Angeles, Nevada, Eastern Oregon, Central Oregon, and Idaho, to promote access to mainstream financial services by advising new communities on the best practices identified by existing programs.
- In 2010, Community Affairs staff focused on exploring alternatives to payday lending and overdraft charges to meet consumers’ need for unsecured short-term consumer debt. The program convened several conferences and meetings to discuss the role that credit unions and alternative financial services providers can play in addressing this need.

St. Louis

- The Bank collaborated extensively with the “Bank On” campaign in seven cities throughout the District.

Credit management

Kansas City

- Community Affairs hosted a “Be Credit Smart Workshop” in Omaha for small business owners and aspiring small business owners on personal finances as they prepare to apply for bank financing.
- The program hosted a webinar for District financial educators on the history, provisions, and implementation of the Credit Card Act of 2009.

Foreclosure/mortgage loan modifications

Atlanta

- In 2010, Community Affairs sponsored 14 events in 11 cities throughout the District that focused on mortgage delinquencies, foreclosures, and foreclosure scams. Technical assistance and data were provided to 19 organizations, ranging from federal and local governments to nonprofit entities, to help inform policy decisions and develop effective intervention programs. The program participated in 10 additional events intended to maximize local neighborhood stabilization efforts, improve mediation practices, increase efficiencies in loan modification practices, and inform consumers of available foreclosure prevention resources.
- The Bank's "Foreclosure Response Podcast Series," initiated in 2009, concluded with the production of the 12th podcast in January 2010. A second installment began in the fall of 2010, with three more podcasts added to the series. Topics include vacant properties, best practices in REO programs, Neighborhood Stabilization Program follow-up, and rural foreclosure issues.

Dallas

- Community Affairs staff provides leadership for the Texas Foreclosure Prevention Task Force and facilitated the formation of the Border Foreclosure Prevention Task Force.
- The Bank hosted foreclosure scam alert forums and webinars focused on educating elected officials, community-based organizations, housing counselors, and other stakeholders on the increasing number of homeowners falling prey to foreclosure scams.

Kansas City

- Community Affairs co-hosted housing conferences in each state in its District to address affordable housing and foreclosure issues. In Missouri, the conference sparked an effort to create a statewide foreclosure task force.
- The Bank partnered with the Dallas Reserve Bank to develop the "Foreclosure Mitigation Toolkit Update."
- Community Affairs conducted the Foreclosure Resource Development Roundtable, focusing on emerging issues and the progress made in combating foreclosure-rescue scams.
- Bank staff worked to help initiate a new regional foreclosure scam prevention campaign that uses United Way's 2-1-1 help line to reach distressed borrowers in eastern Missouri and western Kansas, including Wichita.
- Community Affairs hosted a seminar to raise awareness on the prevalence and types of foreclosure scams in Oklahoma and resources that community organizations can use to address them.
- The Bank sponsored a forum that explored the successes and challenges of the Home Affordable Modification Program, or HAMP, and examined the potential results of the new Home Affordable Foreclosure Alternatives, or HAFA, program that is intended to streamline short sales. A panel of real estate, appraisal, and REO (real estate owned) experts presented.
- Community Affairs hosted a statewide foreclosure counselor training in Colorado.

Richmond

- In 2010, the Bank held four foreclosure prevention events in Maryland and Virginia, serving nearly 1,700 borrowers. In addition, Community Affairs sponsored three tenants and foreclosure events in Maryland, the District of Columbia, and Virginia.
- Community Affairs staff trained 95 pro bono attorneys in Baltimore and the surrounding areas in Maryland to assist troubled borrowers facing foreclosure and new homeowners closing loans to prevent mortgage fraud.

St. Louis

- The Bank held a news conference to increase public awareness of the loan modification scams. The attorneys general from Missouri and Illinois participated, along with a representative of the Federal Trade Commission (FTC) and NeighborWorks America.

San Francisco

- Community Affairs staff organize borrower outreach events, train housing counselors, work with servicers to improve the modification process, and engage law enforcement agencies and community groups to raise awareness about foreclosure scams.
- To fill the gap in the area of foreclosure recovery, staff collaborated with Atlanta Reserve Bank to create a new foreclosure recovery guide for individuals who have undergone foreclosure. The guide is directed toward local communities and addresses issues such as relocation, credit repair, job training, and mental health issues. This publication was introduced through a series of local convenings and leveraged by encouraging community groups and local governments to work together to address post-foreclosure issues.

Research

Atlanta

- The Community and Public Affairs offices partnered with the American Council on Consumer Interests to host the annual research conference in April 2010. The conference convened researchers from across the country to share study findings on issues including foreclosure, financial education and literacy, and consumer implications of health care reform.

Kansas City

- Community Affairs conducted a series of focus groups throughout the District to uncover and understand the perceptions and preferences of unbanked or underbanked consumers. The research findings are being used to inform lenders, municipal leaders, and financial educators on ways to transition the unbanked and underbanked into a relationship with a regulated financial institution and to encourage communities to partner on solutions.

Philadelphia

- Community Affairs research staff wrote a paper evaluating the success of a high school personal finance curriculum that the Bank created with the University of Delaware and the Delaware Bankers Association.

San Francisco

- The research team engaged a UC Berkeley master's student to explore the opportunities and challenges for passing a state mandate for financial education in California. As a result of this research, the team partnered with the Minneapolis Reserve Bank and the University of Arizona to convene a two-day workshop for 25 of the top financial education researchers nationwide to improve the evaluation and effectiveness of youth financial education research.
- The Community Affairs research team conducted an in-depth qualitative evaluation of an innovative youth financial education program run by a credit union in San Francisco's Mission District that explores the effectiveness of prize-linked savings accounts.

St. Louis

- Community Affairs collaborated with the Social Systems Dynamics Lab at Washington University to conduct a qualitative research initiative to develop a systemic understanding of financial services choices of unbanked African Americans in the city of St. Louis and the inner-ring suburbs. The goal is for the study's findings to inform the design of financial services that meet the needs of low- to moderate-income families and individuals.

Federal Reserve System

- The Community Affairs offices hold a biennial research conference to foster research and present the most recent research on community economic development strategies, including the efficacy of financial education programs such as homebuyer/foreclosure counseling, asset building programs, and credit management and repair training. Information about the 2011 conference and prior conferences can be found at www.chicagofed.org/webpages/in_focus/cedric/index.cfm.

Appendix B

Federal Reserve System

Financial education for youth

The 12 Federal Reserve Banks offer a wealth of programs for educators and students. Below is only a sample of the wide range of publications, lesson plans, multimedia resources, professional development opportunities, and tools aimed at promoting financial education among youth. These and more can be accessed on the Federal Reserve System's online portal at www.federalreserveeducation.org.

Publications and lesson plan units

- *Cards, Cars and Currency* is a curriculum unit that challenges students to become involved in three specific areas of personal finance: credit cards, debit cards, and purchasing a car.
- *It's Your Paycheck!* is designed for use in high school personal finance classes. The curriculum contains three sections: "Know Your Dough," "KaChing!," and "All About Credit."
- *Keys to Financial Success*, a comprehensive high school personal finance program promoted by the Federal Reserve Bank of Philadelphia, provides teachers with the training, lessons, and materials necessary to teach students how to be financially savvy.
- *Katrina's Classroom: Financial Lessons from a Hurricane* is a free, DVD-based curriculum developed to teach middle and high school students and their parents the importance of being financially prepared, especially in times of crisis.
- *Building Wealth* is a personal finance education resource for schools, nonprofit community organizations, financial services providers, and consumers to help young people, adults, families, and others develop a plan for building personal wealth.
- Children's literature lesson plans use popular youth books to teach personal finance lessons.
- *Piggy Bank Primer* is a student workbook that uses a story and activities to introduce students to economic concepts such as saving, spending, budgeting, wants, goods, services, and opportunity cost.
- *Great Minds Think: A Kid's Guide to Money* is an interactive booklet that introduces children to concepts such as earning, spending, budgeting, and saving.
- *Econ Ed Live* is a set of online courses for students that include interactive activities, podcasts, and more.

Programs for students

- Live classroom videoconference sessions with Federal Reserve staff, presented right in the classroom
- Essay contests like the Federal Reserve Bank of Cleveland's *Be the Change You Want to See!* creative writing challenge for high school students
- Video competitions, such as the *Share the Wealth Challenge: A Financial Literacy Video* contest for undergraduate students to promote the importance of financial literacy

- *Reserve Cup*, a literacy quiz show competition for high school students that tests their knowledge on a variety of financial topics and economics
- *Money Smart Week (MSW)*, a series of free classes and activities designed to help consumers better manage their personal finances
- Tours of Reserve Bank exhibits and museums

Professional development

- In March 2011, the Federal Reserve Bank of New York hosted “The Federal Reserve in the 21st Century,” a symposium for college professors that included presentations by the Bank’s senior staff.
- *Personal Finance for the Middle School Classroom* is a professional development program that provides middle school teachers with methods for teaching personal finance topics such as personal decisionmaking, saving, investing, budgeting, and the wise use of credit.
- *Making Sense of Money and Banking* is a teacher workshop covering money, banking, and the Federal Reserve System.
- Newsletters for educators, such as the Federal Reserve Bank of Richmond’s 5E Educator, offer K-12 educators content, lesson plans, and updates on free resources from the Federal Reserve System.