

**Tools for Survival:
An Analysis of Financial Literacy Programs
For Lower-Income Families**

By

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EXECUTIVE SUMMARY

In recent years, the financial life of the typical American family has become increasingly complex. New products and technologies are fundamentally changing the ways we relate to money. The avalanche of credit card and home equity solicitations that families receive through the mail is just one example of the significant increase in the marketing of financial products. At the same time, the financial world around us is consolidating and restructuring at a breathtaking pace. Financial modernization legislation recently passed by Congress will allow banks, insurance companies, and securities firms to merge with and acquire one another for the first time since the Great Depression, dramatically altering most people's experiences with receiving financial services.

As a consequence of the changing structure of our economy, financial knowledge has become not just a convenience but an essential survival tool. A lack of financial knowledge can contribute to the making of poor financial choices that can be harmful to both individuals and communities. Without an appreciation of money concepts and an understanding of financial options, people are likely to pay more than they have to for financial services, fall into debt, damage their credit records, and over-invest in some financial products while under-investing in others. Low-income families that lack basic financial skills become more vulnerable to sudden economic shocks such as health emergencies or unexpected job losses. Decreased family stability, increased foreclosure risks, and disinvestment in homes and local businesses challenge already disadvantaged lower-income communities.

The good news is there is evidence that financial education can improve financial literacy and, even more importantly, change financial behavior for the better. Financial education is a necessary--but not a sufficient--condition for reducing poverty. This paper describes the main sources of financial literacy for lower-income families, including schools, the Cooperative Extension System, consumer credit counseling agencies, and financial institutions.

This analysis concludes that current programs reach a small fraction of the population of lower-income people. While the variety of training programs currently offered could be improved in a number of ways, the greater challenge is to figure out how to reach significantly more people with more substantive training. The following recommendations address that challenge.

1. Financial Literacy Mandates in Schools Should be Strengthened and Expanded

While teachers complain about the increasing weight of state mandates to teach specific topics, financial literacy training should be regarded as a basic part of education. Schools offer the best opportunity to reach the greatest number of people at a critical time in their lives. The arguments for starting in grade school are that understanding financial issues is a cumulative process, that high-school students are confronted with spending and credit decisions, and that many low-income neighborhoods have high drop-out rates in high school.

2. Consumer Credit Counseling Agencies Need Help to Combat Exploitative For-Profit Firms

Consumer credit counseling agencies are the end-of-the line teachers whose customers are often on the verge of bankruptcy. But their capacity is small and they compete against the much more effectively advertised for-profit debt consolidators, many of whom charge exorbitant fees for their work. Even at their best, these agencies still offer relatively little *preventative* counseling or education, which is sorely needed for the adult population.

3. Appropriate Teaching Materials are Needed for Low-Income People

Despite the mountain of existing financial literacy teaching materials, many community organizations in low-income communities assert that little of it is useful for their constituents. The use of graphics and technological programs such as computer animation to teach ATM use have been tried successfully for low-income populations in South Africa and should be expanded here. Multilingual formats are also crucial for this population.

4. Financial Literacy must be Treated as a Long-Term, Repetitive Process

Financial literacy workshops have very limited use unless they are connected to a specific action such as opening a savings account. A series of workshops reinforced by other sources of teaching are much more likely to change people's behavior. Savers clubs offer group support and financial problem solving. Middle-income newspaper readers get reinforcement and new financial information on a regular basis. Low-income community organizations should offer a variety of learning opportunities using schools, banks, churches, libraries, and other local institutions.

5. Workplace Training Needs to be Much More Effective and Reach More People

Retirement benefit programs that kick in when a new employee joins a firm and offer an employer match encourage significantly more participants than programs without those characteristics. Incentives and opportunities are powerful teaching tools. The same effect may work well in companies that offer credit union membership and automatic payroll deductions. The challenge is to extend these programs to smaller companies and to lower-income workers in larger companies.

6. Programs Should Exploit Moments of Motivation

Few people seek financial knowledge in absence of a specific goal that motivates such learning. Suitable goals range from saving for holiday expenses to saving for a downpayment for a home. Job training programs for people leaving welfare and entering the work force are examples of prime opportunities for financial literacy training. Also, the most useful programs are those that are offered in the local community rather than in a downtown office.

7. Financial Institutions have a Continuing Responsibility for Clear and Instructive Advertising and Honest Dealing, and for Marketing their Products in Lower-Income Communities

Whatever the adequacy of financial literacy programs, businesses should assume responsibility for honest and clear advertising of prices, terms, and conditions. Such clarity itself contributes to financial learning. Financial institutions have a particular responsibility under fair credit laws to disclose credit terms adequately. Federal regulators should be vigilant in correcting inadequacies in those disclosures, as should state regulators operating under state law.

8. Federal Regulators Should Place More Emphasis on the Service Test Under the Community Reinvestment Act (CRA)

The comparative absence of mainstream businesses in some lower-income communities robs those communities of a competitive marketplace and allows high-cost and fraudulent business to thrive. Under the Service test component of CRA exams, banks are evaluated on the numbers and locations of bank branches and ATMs; the types of products that they offer for lower-income people; the extent to which they offer financial education programs and other service-related issues. However, regulators have historically placed less emphasis on this test than on the Lending and Investments portions of CRA exams.

9. Federal and State Policies Should Provide Incentives for Low-Income People to Save, as they do Middle- and Upper-Income Households

There are no equivalents for lower-income Americans of the tax-breaks that the Federal government provides for homeowners and households that contribute to tax-deductible retirement accounts. For example, the Earned Income Tax Credit (EITC) is an income-building strategy. Income-building obviously leads to asset-building, but programs such as EITC are not sufficient in helping lower-income families build assets. At the very least, asset-limits for low- and moderate-income people receiving government assistance should be reduced. More proactively, the Federal government should support the best strategies that emerge from IDAs or similar experiments to support asset building for lower-income families through tax expenditures.

Conclusion

This report's critique of financial literacy programs for lower-income households should not obscure the fact that most lower-income people understand their economic situation and struggle hard to get by. What such families need, according to many financial literacy providers, are strategies that enable them to use their money for their *future* benefit and information about how to avoid the predatory practices of unscrupulous financial firms. Below a certain income level, of course, getting to the end of the month with food on the table is enough of a challenge. However, even those families living in abject poverty need help to avoid financial and credit traps. There is an enormous gap between the need for such knowledge and what the range of concerned institutions and organizations currently provides.

PART I: INTRODUCTION

An Increasingly Complex Financial World

In recent years, the financial life of the typical American family has become increasingly complex. New products and technologies are fundamentally changing the ways we relate to money. The avalanche of credit card and home equity solicitations that families receive through the mail is just one example of the significant increase in the marketing of financial products. There has been an explosion in the marketing of credit cards and mortgage loans with high fees and excessive rates to lower-income people of late. At the same time, the financial world around us is consolidating and restructuring at a breathtaking pace. Between 1985 and 1997 the number of commercial banks in the country shrunk from 14,000 to 9,000, while the largest institutions grew dramatically through mergers and acquisitions. A few years ago, the largest banks in the country had assets of about \$100 billion. Now the largest bank holding company in the United States has assets of almost \$700 billion.

Recently enacted financial modernization legislation permits the mergers of banking, insurance and securities companies, creating even larger institutions. It will also result in an industry where banks underwrite insurance policies, insurance agents sell mutual fund shares and brokerage houses offer banking services. These new financial service companies will justify their size and the cost of the mergers that create them by cross-selling products. For example, customers seeking home mortgages could be offered homeowners insurance by the prospective lender, complicating a borrower's assessment of the price of the service packet.

As a consequence of these changes, financial knowledge has become not just a convenience but an essential survival tool. At the same time, responsibility for financial well being is increasingly being placed on the shoulders of individuals. Welfare reform has moved millions from government assistance to the ranks of the working poor or permanent job seekers. Employment-based defined contribution plans are replacing defined benefit programs as the basis for retirement savings, while the Social Security system will need adjustment to stay solvent when baby-boomers hit retirement age.

There are other recent trends that highlight the potentially negative ways that consumers are handling their finances. Some households are choosing to lease automobiles rather than own them, which results in fewer household assets and never-ending car payments. Also, many families are beginning to take out mortgage or home equity loans to make major purchases. This means that more homes become at risk as people attempt to pay off their debts and families must wait much longer to build up home equity. And, as credit becomes increasingly available, families that previously lacked access to credit are experiencing the damaging impacts

of a lack of knowledge about handling credit in the face of extremely high-pressure marketing tactics by credit card and subprime mortgage firms.

The good news is that many people are benefiting from recent economic trends, of which changes in the financial service industry are a part. The national homeownership rate rose to a new high of 65.7 percent in 1997 and 42 percent of recent growth is attributed to minority homebuyers.¹ Unemployment is at a 20-year low, thanks to sustained economic growth through the mid-1990s. But wage, income, and wealth inequalities have grown significantly in the last 30 years. The new financial system could make inequality worse as those excluded from or confused by the new financial order start falling behind at even faster rates.

Basic financial knowledge and skills are a necessary, though not, of course, sufficient condition for individuals to survive in this competitive economic environment.

Basic financial knowledge and skills are a necessary, though not, of course, sufficient condition for individuals to survive in this competitive economic environment. The purpose of this report is to identify and examine the ways that lower-income persons can acquire these critical financial management tools, the degree to which they do, and how more of them might acquire the skills they need. Throughout this report we will refer to knowledge of personal money management concepts and skills as *financial literacy*. The term *financial* applies to the wide range of money-related activities in our daily lives, from balancing a checkbook to managing a credit card, from preparing a monthly budget to taking out a loan, buying insurance, or investing. *Literacy* implies knowledge of the terms, practices, laws, rights, social norms, and attitudes needed to understand and perform these vital financial tasks. It also includes the fact that being able to read and apply basic math skills is essential to making wise financial choices. Part I of this paper will discuss the unique set of financial problems facing lower-income persons and why financial literacy is vital to overcoming them.

Why is Low Financial Literacy a Problem?

Financial illiteracy can contribute to the making of poor financial choices that can be harmful to both individuals and communities. Without an appreciation of money concepts and an understanding of financial options, people are likely to pay more than they have to for financial services, fall into debt, damage their credit records, and over-invest in some financial products while under-investing in others. Low-income families that lack basic financial skills become more vulnerable to sudden economic shocks such as health emergencies or unexpected job losses. Decreased family stability, increased foreclosure risks, and disinvestment in homes and local businesses challenge already disadvantaged lower-income communities.

The following financial problems are examples of difficulties that lower-income people face in day-to-day financial dealings:

Reduced Access to Basic Financial Services

Checking and savings accounts (transaction accounts) are basic financial tools. Yet some ten million adults—about 12 percent of the U.S. adult population—have neither, and hence have no formal relationship with a financial institution.² The poor, young people, seniors, and minorities are disproportionately represented among the ranks of the so-called “unbanked” (see figures 1 and 2). In 1995, 85 percent of unbanked households had incomes of less than \$25,000 (48.4 percent had incomes of less than \$10,000), 36.9 percent were under 35 years of age, and 54 percent were nonwhite or Hispanic.³

Many low-income people in urban neighborhoods obtain vital financial services—cashing pay and government assistance checks, paying bills, and transferring money—at check cashing outlets (called currency exchanges in some states). Survey evidence from the Chicago area shows that people make this choice for a variety of reasons.⁴ Some people simply feel banks are not for them—they either don’t have enough money to make it worthwhile or perceive the fees as too high. Others dislike the intimidating atmosphere at banks or don’t trust them. Some families live miles from the nearest bank branch (see figure 3).

Figure 1: Characteristics of Households with Transaction Accounts

All Families	87%
Income	
Less than \$10,000	61%
\$10,000-24,999	82%
\$25,000-49,999	95%
\$50,000-99,999	99%
\$100,000+	100%
Race of Head of Household	
White non-Hispanic	92%
Nonwhite or Hispanic	69%
Housing Status	
Owner	95%
Renter	73%

¹The State of the Nation's Housing. The Joint Center for Housing Studies of Harvard University, 1998.

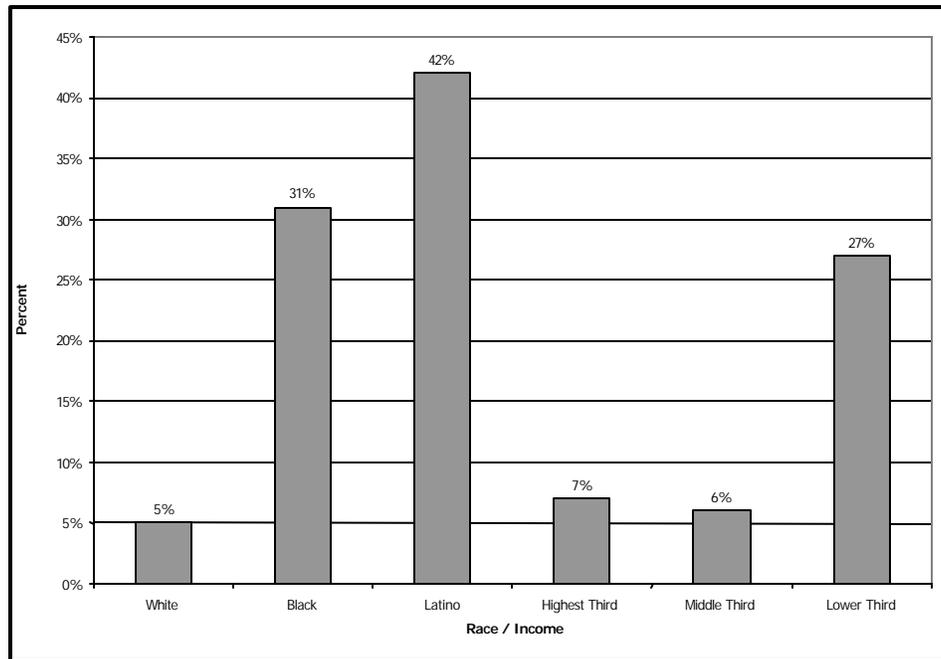
²Consumer Products: Struggling with how to Make the Unbanked Population Profitable," *American Banker Online*. March 18, 1999.

³Kennickell, A.B., Starr-McCluer, M. and Sander, A.E. "Family Finances in the U.S.: Recent Evidence from the Survey of Consumer Finances," *Federal Reserve Board Bulletin*. January 1997. p. 7.

⁴Community Financial Needs in the Chicago Area. Chicago, IL: Metro Chicago Information Center, 1999.

Source: Federal Reserve Board Survey of Consumer Finances 1995.

Figure 2: Households Without Checking Accounts, Chicago Area, 1999



Source: *Community Financial Needs in the Chicago Area*, Metro Chicago Information Center, 1999.

Figure 3: Primary Reasons Given by Families for not Having Checking Accounts

Reason	Percent
Do not write enough checks	27%
Minimum balance is too high	9%
Do not like dealing with banks	23%
Service charges are too high	8%
No convenient hours / locations	1%
Do not have enough money	20%
Cannot manage an account	9%
Other	3%
Total	100%

Source: Federal Reserve Board Survey of Consumer Finances 1995.

The costs of not using a traditional financial institution for basic financial services can be high for lower-income families. Check-cashing outlets are more expensive than banks, particularly for moderate-income families with annual incomes around \$25,000. A 1997 study of the use of check-cashing outlets found that the annual cost of using such an outlet in Illinois was as much as 24 to 305 percent higher than obtaining similar services from a bank,

depending on family income level and service use profile.⁵ Yet, Illinois is in the minority of states that actually sets limits on the fees that check-cashers can charge. The cost differential between these outlets and banks is likely to be much higher in states without such regulation.

In the past few years, many check-cashing type businesses have begun offering a service known as delayed-deposit or payday loans. The customer writes a post-dated check payable to the establishment for the amount they want to borrow plus a fee (typically from \$10 to \$20 on each \$100 borrowed). The consumer receives the base amount in cash at that time, and is responsible for making sure there is money to cover the check on the date it will be cashed. While limited to people who have checking accounts and can show evidence of steady income, payday loans pose a serious financial threat to moderate-income people. The annual percentage rate (APR) on rolled-over loans can amount to 261 to 1,820 percent because fees are collected with each roll over.⁶ Because of the newness of the industry, payday loan outfits are not as tightly monitored as check-cashing outlets or banks. Currently, 19 states and the District of Columbia have adopted legislation to authorize or regulate the payday loan industry.⁷

The main problems with check-cashing outlets are the high fees and the fact that many customers lack regular bank accounts or are cut off from traditional banking services. Payday loan stores' exorbitant fees can quickly run a moderate-income family into serious debt.

Difficulties Saving and Building Assets

The U.S. is well known to have one of the lowest personal savings rates among industrialized nations, but the lack of saving is particularly acute among moderate- and lower-income people and those outside the financial mainstream. Not surprisingly, lower-income households have even lower savings rates than the national average for a variety of reasons, mostly related to the inability to defer consumption while still meeting basic needs.⁸ For example, many low- and moderate-income people are burdened by heavy medical debts because of a lack of adequate medical insurance. Uninsured medical bills are

⁵Reinvestment Alert #10: "Currency Exchanges Add to Poverty Surcharge for Low-Income Residents." Woodstock Institute. Chicago, IL: March 1997.

⁶What Does it Take to be a Loan Shark in 1998?: A Report on the Payday Loan Industry. Washington, DC: Consumer Federation of America. March 1998.

⁷Fox, Jean Ann. The Growth of Legal Loan Sharking: A Report on the Payday Loan Industry. Washington, DC: Consumer Federation of America. November 1998; p. 6.

⁸Beverly, Sondra. "How Can the Poor Save? Theory and Evidence on Savings in Lower-Income Households," Center for Social Development at Washington University. Working Paper 97-3, 1997.

one of the leading causes for the level of consumer bankruptcies.⁹ In addition, lower-income immigrants and refugees often face language and cultural barriers (including a lack of trust in financial institutions and perilous citizenship status) that inhibit asset-building. Those families that do manage to save often confront emergencies such as unemployment or illness that rapidly reduce their savings.

Many lower-income persons demonstrate the capacity and desire to save but have trouble doing so for purely economic reasons. Others lack the knowledge of the benefits of saving, or lack the skills to save on a "shoe string" budget, which is considerably more difficult and less rewarding than saving from a larger income base. For example, deposit accounts available to lower-income households earn lower interest than those with higher balances do, and often earn no interest at all.

Lower-income persons also have greater difficulties accumulating larger assets. A major cause is lack of access to the primary tools of wealth accumulation: homeownership and interest income from investments. Despite the fact that stocks have overtaken home equity as the largest dollar source of household wealth, home equity remains the most important wealth-building tool for lower-income households. In 1995, about 22 percent of households with incomes less than 80 percent of area median income were homeowners, compared to the overall national rate of about 66 percent.¹⁰ Furthermore, as many as ten million low- and moderate-income households pay more than half of their incomes for housing,¹¹ which severely limits their ability to save even if they have bank accounts. In addition, public benefits programs such as welfare have traditionally "punished" recipients for attempting to accumulate assets. Asset-caps for public assistance recipients have historically been a crucial wealth-building barrier for lower-income families.

While lower-income people have obvious difficulties accumulating assets, some families manage to save despite the odds. An analysis of data from the 1995 Federal Reserve Survey of Consumer Finances shows that a minority of lower-income households report holding a variety of types of financial assets. The Survey found that of families earning between \$10,000 and \$25,000 in 1995, 17 percent owned CDs, 20 percent had retirement accounts, 25 percent had life insurance and 11 percent had savings bonds.¹²

⁹Domowitz, I., "Personal Bankruptcy in the United States," Northwestern University for Policy Research, Working Paper 96-24, 1996.

¹⁰[State of the Nation's Housing](#). Joint Center for Housing Studies of Harvard University. 1998.

¹¹[State of the Nation's Housing](#). 1998. p. 3.

¹²Kennickell, et al. 1997. p. 8.

Predatory Lending

Traditionally, many lower-income persons have been unable to secure credit card, home equity, home mortgage, auto financing, or consumer loans because of income or credit history constraints. Subprime lending, also called B/C or nonconforming credit, refers to the extension of credit to those borrowers who for various reasons are not eligible for prime-rate loans. Recently, there has been an explosion in the number of lenders who specialize in serving such borrowers. The subprime lending business is very new-90 percent of all subprime mortgages were made in or after 1993.¹³ The industry has mushroomed in size in the last decade, as lending by subprime firms increased by more than 800 percent from 1993 to 1998. It is well documented that unscrupulous lenders often take advantage of uninformed or unsuspecting persons through deceptive (but legal) as well as illegal practices.¹⁴ They might charge excessive fees or rates or push borrowers into multiple refinancings. People are pressured into loans they do not need, can't afford, or that are more costly than conventional loans for which they might be eligible. Moderate-income and minority persons are especially susceptible to these aggressive tactics.

One of the most damaging of these practices is equity-stripping. This occurs when excessive charges or refinancings lead to a burdensome and unnecessary debt load for the borrower, which in turn decreases the equity left in the borrower's home. Sometimes this situation can lead to the actual loss of the home, when the borrower eventually defaults and the lender gains title to the property through foreclosure. Seniors, immigrants, and lower-income people are particularly vulnerable to unscrupulous subprime lending practices that are aggressively solicited to them over the phone, through direct mail, and door-to-door.¹⁵

Credit Card Use and Debt

Recent studies have shown that lower-income people are actively participating in the growth of credit card use and debt in the 1990s. Poor households possess more credit cards on average than ever before and the typical monthly balance carried on those cards has nearly doubled since 1983.¹⁶ Aggressive advertising, mail solicitation, and targeting of students and seniors are principal causes of these increases. Access to credit is a vital tool

¹³Prepared Statement of the Federal Trade Commission, before the Senate Committee on Aging. March 16, 1998.

¹⁴Statement of William J. Brennan, Jr., Director of Home Defense Program of Atlanta Legal Aid Society, Inc., before the U.S. Senate Special Committee on Aging. March 16, 1998.

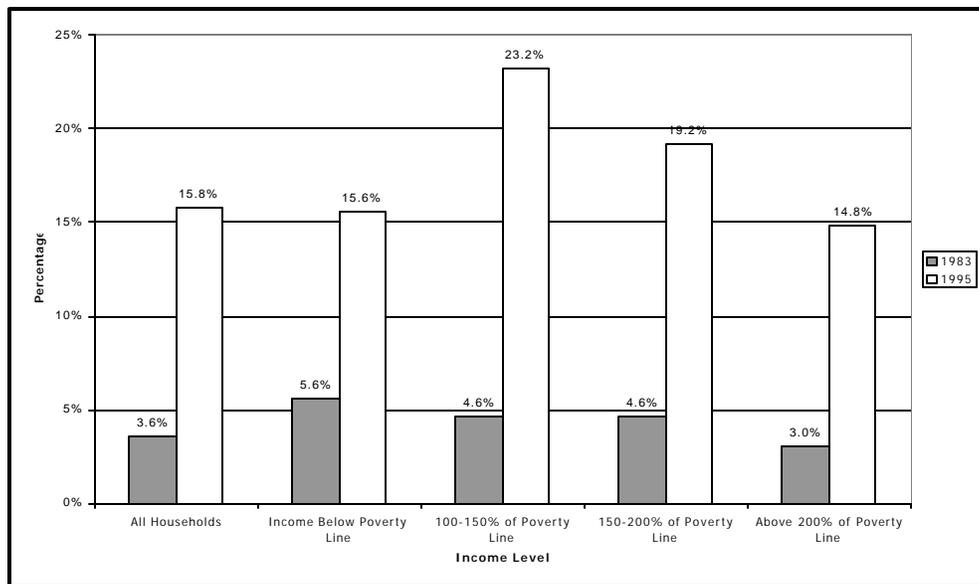
¹⁵For detailed information on the rise in predatory lending and the consequent negative effects on communities, see Immergluck, Daniel and Wiles, Marti. Two Steps Back: The Dual Mortgage Market, Predatory Lending, and the Undoing of Community Development. Chicago, IL: Woodstock Institute. November 1999.

¹⁶Bird, E.J., Hagstrom, P.A., and Wild, R. "Credit Card Debts of the Poor: High and Rising," *Journal of Policy Analysis and Management*. Vol. 18, Winter 1999, pp. 125-133.

for rising out of poverty and for maintaining stability during economic shocks like temporary unemployment or health emergencies. However, credit card debt makes poorer households even more vulnerable to economic downturns, credit problems and bankruptcy. Damaged credit can be a barrier to renting an apartment, buying a home, becoming employed, or buying life insurance.

Overall debt and credit patterns in the United States are extremely alarming. For example, the Federal Reserve's Survey of Consumer Finances shows that the percentage of households below 150 percent of the poverty line with at least one credit card increased from 44 percent in 1989 to 57 percent in 1995.¹⁷ The number of households with credit-card-debt-to-income ratios above 1.0 is increasing at a distressing pace as well (see figure 4). This means that more and more families owe more on their credit cards than they earn in a year.

Figure 4: Percentage of Households with Credit Card-Debt-to-Income Ratios Above 1.0 by Income Level



Source: Bird, E.J., Hagstrom, P.A., and Wild, R. "Credit Card Debts of the Poor: High and Rising," *Journal of Policy Analysis Management*. Vol. 18, Winter 1999. p. 130.

What is Financial Literacy?

What are the types of information and skills that lower-income people need most to stabilize and improve their financial situations? Money knowledge and skills can be divided into three general categories, each contributing differently to an individual's ability to participate rewardingly in the economy. The first and broadest category is economic literacy, or general knowledge

¹⁷Bird et al. 1999.

about how economies function. Economic literacy concepts include scarcity, prices and the interactions of supply and demand, market structure, inflation, unemployment, price controls, the stock market, government regulation, monetary policy and international trade. A second and related body of knowledge is consumer literacy, or the knowledge of the rights and responsibilities of economic actors and the skills of comparing price and quality to make purchasing decisions.

Of the three categories of money knowledge, financial literacy is the most critical for lower-income families.

The third category is financial literacy, or personal financial knowledge and skills. Financial literacy involves the ability to understand financial terms and concepts and to translate that knowledge skillfully into behavior. Topics include the concepts of saving, earning interest, budgeting, buying insurance, managing credit and loans, and how to work with financial service institutions. Financial literacy embodies the minimum knowledge necessary to participate gainfully in the economy; it is the essential set of tools that will define how daily money choices are made. Of the three categories of money knowledge, financial literacy is *the most critical* for lower-income families. Without it, there will be no money to invest or comparison shop.

What is the State of Financial Literacy?

Recent survey evidence suggests that literacy in personal finance, economics, and consumer issues is extremely low among the majority of Americans, especially young people. In 1997, the Jump\$tart Coalition for Personal Financial Literacy conducted a test of student financial knowledge. Most high school seniors failed this test of basic financial subjects involving questions on banking products, credit cards, taxes, savings, and investment (the mean score was 57 percent).¹⁸ The National Council on Economic Education conducts regular surveys of adult and high school student knowledge of basic economic principles. The average score on questions involving scarcity, supply and demand, prices and competition on the 1998-99 survey was 48 percent for students and 57 percent for adults.

A 1990 study by the Consumer Federation of America (CFA) revealed a similar state of unawareness among adults in many areas of consumer knowledge. The overall mean score was 54 percent, and the mean score on the banking section was 54 percent. The CFA study found scores to be correlated with an individual's income, education, and race. The mean score for individuals earning under \$15,000 a year was 45 percent compared to 62 percent for those with incomes above \$50,000. Individuals without high school degrees fared much worse than

¹⁸Mandell, Lewis Ph.D. [Our Vulnerable Youth: The Financial Literacy of American 12th Graders](#). Jump\$tart Coalition for Personal Financial Literacy, 1998.

those with college or graduate degrees—scoring 43 percent, versus 63 percent and 65 percent respectively. The average score was 43 percent for people who described themselves as Hispanic, 45 percent for African-Americans, and 58 percent for whites. (There is some evidence that the racial differences disappear when results are controlled by income.) In sum, while Americans as a whole have a distressingly low level of understanding of economic and financial management principles, financial literacy has proven even more challenging for lower-income persons (see Figure 5).

Figure 5: Average Score for Financial Literacy Survey Conducted by the Consumer Federation of America, 1990

Categories of Respondents	Mean Score by Percent
Income	
Under \$15,000	45%
Over \$50,000	62%
Race	
White	58%
Black	45%
Latino	43%
Education Level	
No high school degree	43%
College degree	63%

Source: Consumer Federation of America, 1990.

While some of the questions on these tests might be regarded as "trick" questions, most cover basic financial knowledge. For example, 50 percent of the respondents in the Jump\$tart survey thought that interest earnings from savings accounts were not subject to taxation. Fifty-five percent had the impression that their parents' health insurance would cover them as long as they lived at home or until they married, regardless of age. About the same number thought that a certificate of deposit at a bank was *not* covered by Federal deposit insurance. The University of Michigan 1997 Survey of Consumers found that 40 percent of respondents did not know the difference between the contract interest rate for a mortgage loan and the annual percentage rate (APR) that includes all fees associated with the loan, such as the loan origination fee and mortgage broker fee.¹⁹

At base, financial literacy requires general literacy. A 1992 U.S. Department of Education survey of adult literacy estimated that about 90 million people, or half the American adult population, are generally unable to write a brief letter explaining an error made on a credit card bill or

¹⁹Lee, J. and Hogarth, J. "The Price of Money: Consumers' Understanding of APRs and Contract Interest Rates," *Journal of Public Policy and Marketing*, 18:1. 1999.

calculate percent interest on a savings account.²⁰ The lowest literacy group, consisting of 21 to 23 percent of adults, generally cannot perform arithmetic operations beyond simple addition or locate their eligibility from a table of benefits. The connection between low general literacy, poverty, and low financial literacy seems clear. Nearly half of persons scoring in the lowest literacy category were living in poverty (see figure 6). Compared to the highest literacy groups, those with low literacy levels reported significantly lower use of interest-earning bank accounts (23 to 27 percent versus 70 to 85 percent), about half as many weeks worked in the previous year, and a four times greater likelihood of being on food stamps.

Figure 6: Characteristics of Americans with Level 1 Literacy Skills

Literacy Levels	Percent
Living in Poverty	50%
Immigrants	25%
Did not Complete High School	66%
Physical, Mental, or Health Problems	26%

Source: Corporation for Enterprise Development, Individual Development Account Program Design Handbook, 1999.

Implications

The sum of all these trends is troubling for lower-income and minority communities, where basic financial knowledge is arguably the most critical. Low wages, unemployment, disinvestment, and capital and credit shortages already burden lower-income communities. Lack of sufficient knowledge or ability (due to harsh circumstances) to handle scarce resources effectively and to avoid debt increases the odds against low-income households. Higher-income individuals have more resources to cushion themselves against or recover from financial shocks or mistakes.

The good news is there is evidence that financial education can improve financial literacy and, even more importantly, change financial behavior for the better. One study showed a 1.5 percent increase in average savings rates among adults who attended high school in states with financial education requirements in public schools.²¹ Another study demonstrated that the availability of retirement-focused financial education in the workplace increased average savings rates by 1.65 percent.²² Nationally, Individual Development Account (IDA) programs are being heralded as a successful method of encouraging and bolstering the savings efforts of lower-

²⁰U.S. Department of Education, Center for Education Statistics. Adult Literacy in America: A First Look at the Results of the National Adult Literacy Survey. 1993.

²¹Bernheim, D., Garret, D., and Maki, D. "Education and Saving: The Long-Term Effects of High School Curriculum Mandates." National Bureau of Economic Research, Working Paper 6085, July 1997.

²²Bernheim, D. and Garret, D. "The Determinants and Consequences of Financial Education in the Workplace: Evidence from a Survey of Households," National Bureau of Economic Research, Working Paper 5667, June 1996.

income people. IDA program leaders stress the critical role that financial education plays in fostering the ability and desire to save.

Financial education is a necessary--but not a sufficient--condition for reducing poverty. It is a tool for ensuring that not only the privileged few have the knowledge and ability to effectively build assets, manage their debt, and avoid being misled, exploited or cheated by the plethora of aggressively marketed financial products that are now available. Part II of this report will describe what financial literacy training is available to lower-income persons. The analysis concentrates on one state, Illinois, because some of the major institutions involved in this training are organized at the state or local level. However, this report also includes some national data and comparative information from a variety of other states. Finally, this paper concentrates on programs that seek to provide direct and *basic* financial literacy skills to lower-income families. There are other types of services that provide basic financial skills training, such as homeownership counseling agencies, that are not covered in detail here as they merit separate analysis.

PART II: PATHS TO FINANCIAL LITERACY

What's Being Done: Financial Literacy Efforts Around the Nation

Lower-income individuals are exposed to financial information from a variety of sources throughout their lives. These exposures can be positive or negative. Whether it's reading the business section of the local newspaper, watching television infomercials, or viewing a debt consolidation or bankruptcy advertisement while riding on the bus, all of us are surrounded by signals that effect our attitudes towards money and the financial options we perceive in our lives. For example, financial products that permit buying on credit are much more common than products that encourage saving.

As awareness of the general populace's lack of financial knowledge has increased, many organizations have been created or have begun to provide various types of financial education. Financial literacy and personal money management programs operate at various levels, ranging from national to statewide to local. Some programs are preventative, targeting middle and high school students through regular curricula or special programs that aim to educate young people before they encounter financial choices. Others focus on counseling adults who have already experienced credit trouble, or on helping them achieve a specific financial goal, such as owning a house or building a retirement nest egg. Some people join programs voluntarily; others are required to participate through court action, employer policy, or state law.

The scope of these programs and the number of people they reach varies enormously. School programs, which vary in goals from state to state and in practice from school to school, reach the largest number of people. Next, reaching much smaller numbers, are programs offered by credit counseling agencies that target people with specific financial troubles or goals and programs run by the Cooperative Extension System. Financial institutions, employers, social service agencies and IDA programs reach relatively small numbers of people. However, because of their intense and specialized focus, financial literacy programs geared towards IDA participants or clients of social service agencies are often very time-intensive and student-specific. Lastly, a number of national organizations and federal agencies aim to support and improve local programs.

Part II of this paper describes these several avenues of financial literacy training.

SCHOOLS

Beginning in the 1960s, state legislatures around the U.S. began adopting policies recommending or requiring the instruction of consumer and economic topics in public schools. State policies have the potential to reach and influence a large and diverse audience of young people before they take on financial responsibility for themselves. Therefore, curriculum mandates have significant potential for communicating financial concepts to lower-income individuals. Consumer education mandates are aimed at helping students identify productive roles for themselves in the greater economy while they still have time to practice financial skills without the pressures of adult life.

Thirty-seven states have or once had consumer education policies. Fourteen of those states have a "personal finance mandate" that requires coverage of topics relevant to household finance such as budgeting, credit management and balancing checkbooks (See figure 7).²³ Policies vary in the specific topics, assessment methods, or amounts of instruction students are supposed to receive. In some states, Consumer Credit Counseling Service offices actually have staff devoted to working with high school students through consumer or personal finance education programs. Other states address consumer education only, typically focusing on home economics subjects, purchasing decisions, and consumer rights. Sixteen states have specific provisions requiring schools to offer *economics* education and thirteen of these actually require students to take the course in order to graduate. Illinois and New York are the only states that currently mandate that schools offer a course in *personal finance* and also require students to take the course in order to graduate from high school.²⁴

In 1967, the Illinois legislature was among the first states to pass a consumer education mandate. The most recent version of the Illinois statute (1985) reads as follows:

"[Sec. 27-12.1 ...pupils in public schools in grades 9 through 12 shall be taught and required to study courses which include instruction in the area of consumer education, including but not limited to installment purchasing, budgeting, comparison of prices and an understanding of the roles of consumers interacting with agriculture, business, labor unions, and government in formulating and achieving the goals of the mixed free enterprise system."²⁵

The Illinois State Board of Education has developed more detailed guidelines on the list of subjects students should master in consumer education courses. The list focuses on personal financial skills such as consumer credit, saving and investing, taxes, and budgeting for

²³Bernheim et al. July 1997.

²⁴Brenner, L. "What We Need to Know about Money," *Parade Magazine*. April 19, 1999. p. 5.

²⁵Consumer Education in Illinois Schools. Illinois State Board of Education, Program Planning and Development Division, 1986, p. 1.

Figure 7: Consumer Education Policies by State

State	First Graduating Class Affected*	Consumer Education Mandate	Personal Finance Mandate
Alabama	1976	Yes	No
Alaska	1964	No	No
Arizona	1972	Yes	No
Arkansas	1977	Yes (1988)	No
California	1975	Yes (1989)	No
Colorado	No Policy	N/A	N/A
Connecticut	No Policy	N/A	N/A
Delaware	1976	Yes	Yes
DC	No Policy	N/A	N/A
Florida**	1975	Yes	Yes
Georgia	1977	Yes	Yes
Hawaii	1973	Yes	Yes
Idaho	1978	Yes	Yes
Illinois	1968	Yes	Yes
Indiana	1976	No	No
Iowa	1976	Yes	No
Kansas	1977	Yes	No
Kentucky**	1975	Yes	No
Louisiana	1978	Yes	No
Maine	No Policy	N/A	N/A
Maryland	1975	No	No
Massachusetts	No Policy	N/A	N/A
Michigan	1980	No	No
Minnesota	No Policy	N/A	N/A
Mississippi	1982	Yes	No
Missouri	No Policy	N/A	N/A
Montana	1972	No	No
Nebraska	No Policy	N/A	N/A
Nevada	1957	Yes	Yes
New Hampshire	1985	Yes	No
New Jersey	1976	Yes	No
New Mexico	1979	Yes	Yes
New York	1979	Yes (1986)	Yes
North Carolina	1978	Yes	Yes
North Dakota	No Policy	N/A	N/A
Ohio	1970	No	No
Oklahoma	1978	Yes	Yes
Oregon	1973	Yes	Yes
Pennsylvania	1978	No	No
Rhode Island	1969	Yes (1985)	No
South Carolina	1982	Yes	Yes
South Dakota	No Policy	N/A	N/A
Tennessee	1975	Yes	No
Texas	1976	Yes (1979)	Yes (1979)
Utah	1978	Yes	No
Vermont	No Policy	N/A	N/A
Virginia	No Policy	N/A	N/A
Washington	No Policy	N/A	N/A
West Virginia**	1977	Yes (1983)	No
Wisconsin**	1974	Yes	Yes
Wyoming	No Policy	N/A	N/A

*If no information on implementation date was available, the first class affected was assumed to be the class graduating on the year after the policy was approved.

**Florida withdrew its mandate in 1996, Kentucky in 1984, West Virginia in 1989, and Wisconsin in 1983.

Source: Bernheim, D. and Garret, D. "Education and Saving: The Long-Term Effects of High School Curriculum Mandates." National Bureau of Economic Research, Working Paper 6085, July 1997.

household needs. Illinois students also have the option of taking a proficiency exam. The Illinois Consumer Education Proficiency Test or ICEPT is offered twice a year and can be taken in lieu of a consumer education course. However, most students take the consumer education course offered by their school. Only 2-6 percent of Illinois high school students take the ICEPT each year. Data from the semiannual administration of the ICEPT give us some information about student knowledge of consumer topics, although there may be self-selection among the group that takes the exam. Passing rates over the past ten years have varied from eight to 22 percent. Males consistently outscore females, and students who self-report better grades in other courses score higher than their peers who report having lower grades.

The national trend towards standards-based learning objectives has coincided with greater overall interest in consumer and economic education. Illinois voted in 1996 to create a specific economics learning standard, covering the following topics:

"how different economic systems operate in exchange, production, distribution, and consumption of goods and services; how scarcity necessitates choices by consumers and producers; the nature of trade as an exchange of goods; and the impact of government policies and decision on production and consumption in the economy."²⁶

Only a handful of evaluations of school financial literacy instruction have taken place, and these are all of special programs rather than standard curriculums. One example is the National Endowment for Financial Education (NEFE) High School Financial Planning Program (HSFPP) which has been in operation since 1984. In cooperation with the College of Financial Planning, the national Cooperative Extension System, and local Cooperative Extension System professionals, NEFE created a six-unit course that teaches students "basic financial planning concepts and how these concepts apply to everyday life."²⁷ A main goal of the effort is to provide teachers with curriculum materials and support. In the 1995-96 academic year, HSFPP reached 119,177 students nationwide. Because of the voluntary nature of participation in HSFPP, attempts to evaluate the program have focused on student self-reported learning before and after going through the program. Students report increased confidence in all categories of financial planning, including their ability to develop a written budget and savings plan, define personal money management goals, track income and spending, and understand the cost of using credit.²⁸ (For other examples, see the section below on special programs).

²⁶Illinois State Board of Education, State Learning Standards, Goal #15, from Board website: www.isbe.state.il.us.

²⁷Keil, B. and Kelbaugh, K. "The High School Financial Planning Program," *Journal of Extension*, 34:1. February 1996.

²⁸Hoffman, K. The High School Financial Planning Program 1995-1996 Impact Survey: A Summary of Research Outcomes. National Endowment for Financial Education, Research Report 96-25. September, 1996.

Even fewer studies have attempted to identify the actual impact of high school curriculum mandates on the savings and investment behaviors of adults who received financial education during school. One study conducted under the auspices of the National Bureau of Economic Research found “strong indications that mandates not only increased exposure to financial education, but also systematically altered adult behavior by stimulating saving.”²⁹ Residents in states with mandates reported more exposure to financial education after the law changed, and those exposure rates increased steadily with the passage of time. Controlling for state household income, retail sales and the proportion of residents who graduated from high school, persons who went to high school in states with consumer education mandates were found to have 1.65 percent higher saving rates on average as adults.

...mandates not only increased exposure to financial education, but also systematically altered adult behavior by stimulating saving.

No such differences among states were found prior to the introduction of mandates. The survey on which the study was based also found that women and African-Americans were far more likely to receive consumer/financial education, the former perhaps because female students were more likely to take “home economics” courses and the latter because there may have been a greater emphasis on “practical skills” in schools that served lower-income or minority students.

The issue of the qualifications of consumer and financial education teachers is at the center of the debate on the effectiveness of financial education courses. Teachers need to understand the concepts *and* be convinced that financial literacy is important before they can teach it in a way that will be exciting and memorable for young people. Often consumer education is assigned to teachers who are young, newly arrived at the school, or have no little or no prior training or skills in personal financial management. For these reasons, many states, including Illinois, require consumer education teachers to pass a 30-hour course in consumer education. Despite the fact that students are a captive audience, most teachers find that you have to “market” financial literacy to kids as interesting and necessary. Games, market simulations, and Internet “window shopping” are being used to bring financial issues to life. The lack of an interesting presentation that demonstrates relevance to students’ lives can render the best curriculum mandate useless.

One result of increased national interest in the lack of financial literacy is the mushrooming of curricula development and other tools by national organizations. Some of these, which are not specifically aimed at schools, are described in the Appendix. Helpful as these programs are, educators also need on-the-ground help to improve their financial literacy teaching. The Illinois

²⁹Bernheim et al. July 1997.

Council on Economic Education, a state affiliate of a national teacher training program, operates nine centers around Illinois and trains approximately 2,500 to 3,000 teachers each year in how to teach economic subjects to students of all levels. The Illinois Consumer Education Association is an association of teachers who teach consumer education courses in Illinois. The organization holds conferences and trainings, and produces a newsletter that distributes sample lesson plans in consumer education topics relevant to the state educational mandate. Approximately 100 teachers participate in their annual conference each year.

Another issue is when and how often to teach the skills. Most state consumer education requirements are directed to high schools. By this age, the average U.S. teen spends \$3,000 per year. Eleven percent of high school students have their own credit card and 44 percent use their parents' credit cards.³⁰ In troubled schools, many of the students who need the information the most have dropped out by the junior or senior year. For these reasons, high school may simply be too late. A growing number of educators believe that these subjects need to be taught from elementary school on up, incorporating more technical skills as students get older, while always reinforcing basic principles.

De-Mandating Financial Literacy Requirements

Unfortunately, financial literacy or consumer education mandates are not in a state of constant expansion. In fact, not all states maintain their consumer education mandates once they are enacted. For example, Florida maintained such a mandate from 1957-1996. Presently, the state has what the Florida Consumer Economic Education Commission calls a "voluntary mandate." The mandate was repealed during a time when many states underwent a general "cleanup" of K-12 mandates. According to a Commission representative, Florida decided that consumer education would be more effective if offered as a local option to be decided upon by the school board rather than a state mandate. The Commission claims that all school districts continue to require consumer education.

In Florida, consumer education is offered in a "life skills" format, primarily in middle schools, as a part of business or social science courses. In any given year, the Commission reaches between 20,000 and 22,000 of the total 120,000 public school teachers statewide through direct programs focusing on consumer education. Teachers in schools with high numbers of low-income students (calculated by the numbers of government-funded hot lunches available in the school) are the primary audience for many of these programs. The Commission is currently in the process of creating a publication that focuses on consumer and personal finance education. This publication will be available throughout the state, and teachers can request it to integrate into their existing math, history, business, or other course curricula.

³⁰Federal Reserve Bank of Chicago, Organizational Meeting for Financial Literacy Coalition of Illinois. April 23, 1999.

In addition, according to the Florida State Department of Education, high school students in Florida are required to take an economics course in order to graduate. Over 90 percent of students take economics in 12th grade. This course focuses on the fundamentals of a market economy rather than on personal finance or consumer issues.

Special Programs

In response to growing concern for the teaching of financial literacy skills in schools, national organizations are continuing to offer research, curriculum development, resources, teacher training, and special programs. The Jump\$tart Coalition for Personal Financial Literacy is one of the leading resources on this subject. Jump\$tart stresses that children need more training in four areas: money management, savings and investment, income and participation in the labor market, and spending. Jump\$tart also hosts a clearinghouse of curriculum resources for teachers.

Some schools are able to host one of several special programs that teach basic financial concepts to smaller numbers of children, often in elementary school. These special programs may be more effective in helping children learn financial concepts than traditional curriculums, but the number of children they reach can be quite limited. One example of a broad-reaching national program is Junior Achievement (JA), an initiative that brings business volunteers into long-term relationships with classrooms where financial concepts and skills such as entrepreneurship are introduced and practiced. Junior Achievement reaches approximately three million students each year in 128,000 classrooms nationwide, from kindergartners through high school-aged students.³¹ Independent evaluations of JA's high school programs in 1992 and elementary programs in 1995 found that Junior Achievement participants had much greater comprehension of economic principles than non-participants did.

Other special programs are run in direct partnership with a corporate sponsor such as a bank. In Illinois, the Bank at School program, sponsored by the Illinois State Treasurer's Office, introduces elementary school students to the basics of banking and saving by linking schools with a local bank and allowing students to open savings accounts at school. Students also receive instruction from bank personnel and act as tellers for other students. According to the State Treasurer's office, approximately 400 banks in Illinois are involved in the program. It reaches about 150,000 students in Illinois, including 252 schools and approximately 48,533 children in Cook County, primarily in the suburbs. (According to the Illinois State Board of Education, there are approximately 563,000 secondary school students currently enrolled in public schools in Illinois).

³¹Junior Achievement, online "press kit" fact sheet: www.ja.org/press/fact.html.

Community Colleges and Universities

Once beyond the public school system, young adults and community members have a few educational avenues to obtain financial literacy training. Community colleges often offer classes in personal finance as part of their regular certificate or associate degree programs. There are six city college locations in Chicago. Tuition payment is required for financial education courses. A few community colleges in the Chicago area also offer continuing education, including no-credit evening courses on financial planning. These courses generally cost around \$50 for four to six sessions.

Colleges and universities report increasing interest in financial planning classes. This is probably needed, given that most young adults in college have credit cards and loans, but the number of students reached in a given year may be quite small. Lake Forest College in the Chicago area, for instance, claims to teach this subject to only six to eight students per year.

THE COOPERATIVE EXTENSION SYSTEM

The Cooperative Extension System (CES) often referred to simply as "Extension" has a structure and mission, described below, that makes it a potentially significant source of financial literacy education. However, CES was originally founded to provide educational opportunities for rural, farming communities, and its current investment in metropolitan regions of the country is not of the scale to make, on its own, a major dent in the problem. One of Extension's responses to the shortage of resources is to work with staff of community organizations in order to attract participants to financial literacy classes.

There are 103 land grant universities in the U.S., including at least one in every state as well as the 17 historically black colleges that are primarily located in the south. The U.S. Department of Agriculture oversees the research and education activities at land grant universities through the Cooperative State Research, Education and Extension Service (CSREES). In turn, one of the main activities of CSREES is the operation of CES, which works to share land grant university research with the public. CES has 3,150 offices located in public buildings in most every county in the nation. Overall, CES' best-known project is the 4-H youth program.

The CES mission is to "help people improve their lives and communities through learning partnerships that put knowledge to work." Financial literacy programs focusing on money management and savings are a clear part of this effort. CES is involved through its county offices in delivering "basic consumer education, the teaching of personal financial management skills to youth, limited resource families, and promoting comprehensive financial planning throughout the life cycle."³² Many programs concentrate on the economics of small family farms and issues affecting rural families, while others focus on more urban problems.

The CES mission is to "help people improve their lives and communities through learning partnerships that put knowledge to work."

According to an Extension representative, the three main sources of funding for Extension are Federal, State, and County appropriations. Extension offices might also receive grants or other targeted funds for specific projects. Funding for these services has decreased in recent years, and "there is little reallocation toward issues such as low-income or urban audiences."

The scope of these programs can be estimated by the distribution of CES staff. Extension offices typically employ between one and three persons in each county, and many programs

³²Information in this paragraph taken from United States Department of Agriculture, Cooperative State Research, Education, and Extension Service (CSREES) web page: www.ree.usda.gov.

collaborate with State and County Health and Human Services Departments. Staffing varies, of course, by population density. Although CES programs have historically targeted rural populations, Extension can be found in urban areas as well. In Chicago, with a population of 2.8 million, there are 13 CES staff. Two of these staff members have a specific focus in consumer and family economics education. In the six-county metropolitan region, which has a population of 7.3 million, Extension has 33 staff, three of whom focus on consumer and family economics.

Programs in rural areas emphasize agricultural research and issues. Urban programs emphasize health and family concerns such as food and nutrition, of which money management is seen as a critical component. Members of Extension staff typically have bachelor or master's degrees in related subjects. Over the years, various programs have recruited community members as paraprofessionals. These individuals are trained as instructors and in turn teach the community.

Since 1968, the principal program CES has used to address financial literacy is the Expanded Food and Nutrition Education Program (EFNEP). Its aim is to "help lower-income families and youth acquire the knowledge, skills, attitudes, and behavior changes necessary to maintain nutritionally sound diets and enhance personal development."³³ Adults are taught individually or in small groups in work, community, or extension office settings, while youth are taught through 4-H summer or year-round enrichment programs. Education focusing on how to make budget decisions and manage personal finances is key to the program.

Currently, 23 state extensions also offer versions of a program called Money2000. Based on a New Jersey program that was established in 1996, Money2000 is a campaign aimed at helping citizens improve their net wealth by \$2,000 by the year 2000.³⁴ Any state resident may pay a \$10 fee and receive materials on financial education, access to seminars at work sites and community organizations, worksheets to help set and fulfill savings goals, and other support. In some states, this service is free, and in many states "scholarships" are available for those who cannot afford the \$10 fee. The program varies slightly by state, especially in how the program is marketed and the kinds of classes and support that are offered.

Programs implemented by CES family and consumer science units vary by state and by urban or rural location. The following survey of extension activities in Illinois, California, Maryland, and Florida conveys a sense of the range of Extension activities.

Illinois

The University of Illinois Cooperative Extension is regarded as one of the leading CES operations. A University of Illinois financial literacy curriculum, *All My Money*, targets lower-

³³www.reeusda.gov.

³⁴For more information on this program, see the Money2000 website: www.money2000.org.

income and lower literacy audiences and is widely used across the nation. Extension also provides a series of pamphlets on specific issues like credit cards, homeowners insurance, and home equity loans. Extension employees typically train the staff of community or social organizations that in turn tailor and deliver the *All My Money* curriculum to their clients. The University of Illinois CES also began a Money2000 campaign in January 1998.

California

The University of California operates an Extension service that serves both the northern and southern areas of the state. With an annual budget of about \$3.4 million, the EFNEP program enrolls 13,000 families in California each year, and approximately 9,000 adult participants “graduate.” Youth EFNEP programs have reached 28,000 California children. Educational media, public agency staff trainings, and employment of paraprofessionals who work directly with lower-income families and youth are also used. Publications and videos teaching financial literacy material have been produced and distributed throughout the state.

Florida

The University of Florida and Florida A&M University have several initiatives aimed at improving financial literacy in the state. One state goal is the improvement of family economic stability. Educational programs offered by the Florida CES encourage participants to decrease their debt level by 2 percent and develop skills that will help them continue to make sound financial decisions. Another goal, increasing individual and family resources, involves teaching youth in CES programs basic money management, credit, and consumer skills.

Maryland

The University of Maryland CES is another active and respected Extension operation. Staff report that in 1998, EFNEP reached 3,363 families with 12,202 members, and an additional 10,613 youths. In addition to EFNEP, Maryland has an active financial literacy agenda. Maryland CES is engaged in offering financial education through workplace programs. For example, they have an ongoing relationship with employers of the National Security Agency, through which they reached 250 workers in 1998. Maryland CES is also actively involved in training representatives of other agencies and organizations in providing financial information and counseling to clients. In 1998, Maryland CES assisted in the certification of 89 money management counselors and 23 accredited financial counselors. They also conducted a seminar attended by 150 financial and housing counseling professionals.

One county office of the Maryland CES offers three-hour money management skills trainings to recently unemployed persons. Another office offers 40-hour life skills classes

that includes personal financial management to persons making the transition from welfare to work. In 1998, 57 participants successfully completed this course. Finally, a 4-H summer program aimed at teaching basic money management skills to low-income city youth is operated with the help of 22 community workers trained by Maryland CES.

Summary

Generally, CES programs have developed wide-ranging curricula in formats ranging from pamphlets to web-sites and learning software. Many of their tools are geared to people whose literacy skills are below average. To leverage their scarce resources, they often organize their efforts around supporting the work of other nonprofit organizations. Extension's impact on financial literacy is affected by the range of other topics its agents teach, the paucity of staff on the ground, particularly in urban areas, and by the resource problems of the community agencies that CES works with and supports.

CONSUMER CREDIT COUNSELING AGENCIES

While school curricula are designed for all students and CES targets audiences with diverse goals, the primary focus of consumer credit counseling agencies is to assist individuals and families who are mired in debt. Counselors focus on basic budgeting and credit repair and sometimes offer tailored programs on issues such as homeownership. The credit counseling groups discussed in this report are not-for-profit agencies accredited by the National Foundation for Consumer Credit (NFCC).³⁵ NFCC is a network of 1,450 non-profit agencies that provide money management education, confidential budget, credit, debt counseling, and debt repayment plans for free or very low cost for both individuals and families.³⁶

One of the obstacles to effective personal finance education for lower-income people is the glut of for-profit groups that market themselves as "debt-consolidators" or "credit repair companies." These firms have prolific advertising on public transportation, television, and radio and seem to supply the same services as legitimate credit counseling agencies such as those accredited by NFCC. However, some of the private organizations charge high fees for services that consumers can get themselves (e.g., debt consolidation) or that are illegal or impossible (e.g., giving a person a new credit identity or "cleaning up" accurate negative information on a credit report).

Legitimate consumer credit counseling services provide free budgeting and credit repair advice to clients. People from all income and racial groups use these services. According to industry representatives in both Chicago and Baltimore, the average income of a client who uses the local CCCS is in the low \$30,000s, and the average debt of that client is also in the low \$30,000s. So CCCS customers usually do not seek help until they are in serious financial crisis.

In recent years, credit counselors from Illinois, Maryland, and California have all encountered a marked increase in young clients. Illinois agencies report significant increases in college students and recent college graduates in their programs over the past few years. The CCCS of Maryland and Delaware reports that the average age of their clients in 1998 was 39. In the first four months of 1999, that figure dropped to age 36. These numbers suggest that the general populace is experiencing indebtedness at an increasingly earlier stage in life. This trend reinforces the need for financial literacy programs that target families as a whole and youth in particular.

...the general populace is experiencing indebtedness at an increasingly earlier stage in life. This trend reinforces the need for financial literacy programs...

³⁵It is important to note that debt and credit counseling has grown tremendously in recent years. Organizations such as Debt Counselors of America and Genus Credit Management offer this type of service as well. We have focused on the types of agencies that have the most historical experience in the field for this report.

³⁶National Foundation for Consumer Credit web page: www.nfcc.org

Marketing, Outreach and Referral Sources

The most common referral sources for credit counseling agencies are friends and family members, creditors, financial institutions, employers who detect a credit problem, and social service agencies. This fact reflects the existence of an informal network through which many people receive the majority of their financial advice. Moreover, the relatives and friends who refer individuals to credit counseling services are often acquainted with these agencies as a result of their own debt. Banks, employers, and social service agencies frequently refer people to such organizations because they detect an imminent financial crisis that will affect their relationships with those people. Most families are not aware of consumer credit counseling agencies until they are deep in debt and it becomes necessary for them to enlist in such services in order to open a bank account, get a job, or engage in another activity that requires a good credit standing.

This pattern of use is exacerbated by and contributes to the marketing strategies employed by consumer credit counseling agencies. While the for-profit agencies advertise widely, the general populace is often unaware of the existence of legitimate credit counseling programs because they are not widely marketed. According to industry representatives in Illinois, CCCS agencies often do not market extensively because they are already overwhelmed by the response that they get from personal referrals. In Illinois, most consumer credit counseling agencies restrict their paid advertising to the Yellow Pages. A few groups do sporadic direct mailings or radio station spots. One representative expressed dismay at this Catch-22 situation by claiming that "we are understaffed and under-funded, and therefore must work mostly through word of mouth. And because of that, we are seriously underutilized."

This lack of knowledge about credit counseling services is particularly significant in lower-income areas where predatory for-profit agencies have captured the debt counseling market. In the Chicago area, for example, most major credit counseling agencies are willing to do presentations in communities or schools. However, community groups must contact them for this service, and most of the agencies only sporadically provide community workshops for groups representing lower-income people.

Another potential barrier for lower-income people in need of consumer credit counseling is physical access to agency offices or other locations where the counseling takes place. Banks and employers enlist the services of credit counseling agencies by occasionally requesting financial literacy trainings for their customers or employees. These trainings usually take place in a bank branch or in the place of employment. In addition, when individuals or families obtain budget or credit counseling services of their own accord, they must visit the agency office, which is most often located in the downtown area of the city or in the suburbs. Language barriers can also pose an access problem for these programs. Only one of the groups in

Chicago offers basic budget and credit information in an English/Spanish bilingual format, and even so, this group claims that "most Spanish-speaking people don't know that we exist." This lack of outreach to the largest language minority is bad news for other immigrant families in a city where some schools teach English as a Second Language to over fifty language groups.

How the Programs Work

Financial literacy trainings in the form of budget, credit, or homeownership counseling are often one-time sessions. This is in spite of evidence showing that most people need financial education programs that give them a continuing chance to learn and reinforce new financial behavior. One agency in Chicago reported that 95 percent of its clients visited the office for only one session.

However, these agencies also provide specific programs that engage people in financial education on an ongoing basis of six months to two years. The most common of these programs are debt-repayment plans. A debt-repayment plan offered through a consumer credit counseling service works in the following manner: For a small fee (e.g., \$10/month) the agency takes over the payment of a client's debt and negotiates with creditors for zero or extremely low (e.g., 2 percent) interest rates so that the debt can be paid off quickly. Creditors are willing to offer these very low interest rates to nonprofit credit counseling agencies because they are seen as a reliable and efficient source for debt repayment, with a solid track record of getting people back on their feet. The clients involved in these programs receive extensive budget planning information and often pay off very large debts (e.g., \$30,000) in as little as two years.

Nonprofit consumer credit counseling agencies are able to provide this type of service primarily because they have formed relationships with creditors who see their service as the most likely avenue for debt repayment. Financial institutions give a portion of their repaid debt to the counseling agency that negotiates the deal. But quite recently, in response to rising bankruptcy rates, creditors have begun to significantly reduce their payments to credit counseling agencies. They are, at the same time, increasing the interest rates at which credit-counseling clients can repay their debts.³⁷ Figures 8 and 9 show the extent of the changes as noted in two newspaper stories in July 1999.

³⁷Souccar, Miriam Kreier. "Issuers Cut Contributions to Debt Counselors," *American Banker*. March 26, 1999.

Figure 8: Financial Institutions' "Fair Share" Contributions to Consumer Credit Counseling Agencies as a Percent of Recovered Debt

Financial Institution	Previous	Current	Change
Bank of America	10%	6-9%	-3-4%
Capital One	10%	10%	0
Chase Manhattan	12%	10%	-2%
Citibank	12%	10%	-2%
First USA / Bank One	12%	10%	-2%
Fleet	12%	10%	-2%
Household Credit Services	9.5%	6%	-3.5%
MBNA	10%	6%	-4%
Providian	10%	10%	0
Wells Fargo	10%	10%	0

Source: Day, Kathleen, "Credit Counseling Agencies Dealt Setback: Banks Reduce Funding as Bankruptcies Rise." Washington Post. July 16, 1999: E01.

Figure 9: Financial Institutions' Interest Rates for Consumer Credit Counseling Clients in Debt Consolidation Programs

Financial Institution	Previous	Current	Change
Bank of America	0%	0%	0
Citibank	8%	10%	+2%
First USA / Bank One	0%	6%	+6%
Household Credit Services	6%	9%	+3%
MBNA	10%	15.9%	+5.9%

Source: "Group Decries Bank Rate Hikes," Associated Press. July 28, 1999.

Lower-income people will be impacted even more negatively if legitimate credit counseling becomes less available.

Because such agencies receive a significant amount of their funding from creditors, this trend could have disastrous implications for consumer credit counseling agencies' ability to help people who are in serious financial trouble. Lower-income people will be impacted even more negatively if legitimate credit counseling becomes less available. Predatory firms might then become the only likely avenues through which many lower-income people receive "counseling" for their debt, credit, and budget problems.

Practices in Other States

Although the overall missions and services offered by consumer credit counseling agencies remain fairly constant nationwide, some aspects of these services vary from state to state. For example, marketing strategies differ. CCCS agencies serving the greater Baltimore and Los Angeles areas report much higher advertising expenditures than the Illinois agencies. A

representative of the CCCS of Maryland and Delaware located in Baltimore estimates that between 20-25 percent of the 30,000 clients that they serve in a year hear about their services through radio or TV advertisements. Still, 37 percent of their clients are referred by friends or family and 15-20 percent by creditors. A very small percentage of their clients hear about their services through advertisements in newspapers, the yellow pages, or the Internet.

There are several reasons for these different strategies. Funding, staff levels, population density, language barriers, and other market and demographic factors affect the marketing strategies of consumer credit counseling agencies operating in different geographies. In Los Angeles, for example, industry representatives express great concern with the number of "competitors" or for-profit debt consolidating firms in the area. Because of the overwhelming presence of this "competition," the CCCS of Los Angeles advertises its services much more widely than its sister agencies in Illinois. Whether this advertising is effective is unclear, however, because the vast majority (90 percent, according to a CCCS of Los Angeles representative) of the 40,000 clients that this agency serves in a year are referred by word of mouth from friends and family.

What is common to these states is the use of other organizations to recruit clients. In addition to Illinois agencies, credit counseling groups in Maryland and California report that they provide workshops for community groups, employers, welfare-to-work agencies, religious congregations, employment assistance organizations and the like on an as-requested basis. The CCCS of Los Angeles employs six trainers who do this work full time. The CCCS of Maryland and Delaware relates that they offer between 150-200 group workshops a year, a quarter to a third of which are for low-income groups or organizations with low-income client bases. This Baltimore agency is also involved with local schools. They periodically visit schools to offer trainings and have produced a video on the financial implications of teen pregnancy that was distributed throughout Baltimore public high schools. Thus CCCS groups in these states mostly rely on the initiative of community groups, schools or employers in order to offer group-oriented workshops in neighborhoods.

Consumer Credit Counseling Agencies' Commitment To Lower-Income Communities

Our survey of consumer credit counseling agencies demonstrates a range in the industry's commitment and ability to provide financial literacy programs specifically for lower-income people. One group in Chicago states that serving lower-income people is its mission and claims that 75 percent of the 2,000 individuals and families they serve a year are low-income. Another agency in Chicago reports that almost 8,000 people use their services in a year, but they do not track their clientele by income. An agency located in a wealthy northern suburb of Chicago

reports that they have very few lower-income clients. The average client in the vast majority of these organizations in all the states surveyed is a middle-income family or individual with very serious debt and credit problems.

People contact credit counseling agencies when they are forced to by a specific crisis or when they are motivated by a particular financial goal. People contact credit counseling agencies when they are forced to by a specific crisis (e.g., threats from collection agencies, the possibility of bankruptcy) or when they are motivated by a particular financial goal (e.g., the desire to buy a home). Because credit counseling organizations generally lack the ability to market their services widely, such budget, credit, and homeownership information is available only to individuals who are in dire need of it or seek it out on their own initiative. Banks, schools, and employers enlist the services of these groups because of a specific need, and the trainings they request are often a single session and are not open to the community.

While credit counseling agencies are clearly not designed to provide general financial literacy training to a wide audience, their scope is considerable when measured against the incidence of people in the worst financial situations, namely bankruptcy. In 1998, 1.4 million people filed for personal bankruptcy, a figure 300 percent higher than the number in 1980. In 1998 over 1.4 million people sought help from credit counseling agencies that are members of the National Foundation for Consumer Credit. Some 504,000 of these people entered debt management programs in 1998 for a total of 900,000 in such programs at any one time.³⁸ These figures raise the question of how many of those bankruptcy situations could have been avoided if the filers had received adequate financial literacy training at an earlier age.

³⁸Day, Kathleen, "Credit Counseling Agencies Dealt Setback: Banks Reduce Funding As Bankruptcies Rise," *Washington Post*. July 16, 1999, p. E01 and "Group Decries Bank Rate Hikes," *Associated Press Wire Service*. July 28, 1999.

SOCIAL SERVICE AND COMMUNITY-BASED ORGANIZATIONS

A wide variety of social service and community institutions such as homeownership counseling agencies, homeless shelters, immigrant service organizations, and legal assistance offices are acutely aware that financial problems subvert important goals such as personal development, health, family life, and community stability. Although financial literacy is not usually their primary mission, community-based organizations are increasingly providing some sort of financial literacy programs for their constituents. Many agencies partner with financial institutions or consumer credit counseling services when offering financial education, but increasingly groups are structuring their own financial literacy curricula and courses.

...community-based organizations are increasingly providing some sort of financial literacy programs for their constituents.

The principal strengths of community groups in offering financial literacy training is their keen understanding of the specific needs of their constituents and their ability to tailor programs to fit those needs. Examples from Chicago area social service and community groups offer insights into the potential role and effectiveness of community-based strategies for involving lower-income people in personal financial literacy training.

For example, one Chicago homeless shelter serving recovering substance abusers recently began offering an in-house, eight week money management program to its clients. Trained volunteers run the program, and the seminars are announced at all of the agency's outpatient classes. The agency initiated the program because they discovered that as soon as clients got a permanent address or job, they were hounded by past creditors. Not only are financial crises contributing factors to homelessness, but former clients who are just getting back on their feet find themselves mired in unpaid debts and become at risk of homelessness once again. The shelter's money management program focuses on basic banking because most of the shelter's clients have never had a bank account.

Organizations Serving Immigrants and Refugees

Immigrant and refugee agencies also occasionally offer money management training. Many recent immigrants face both social and language barriers to using mainstream financial institutions, and therefore have high rates of check-cashing outlet and other "fringe banking" use. A representative of the office of Immigrant and Refugee Affairs in Chicago says that most immigrant organizations do not offer personal finance education. Those that do offer financial education integrate it as an informal part of other key programs such as English as a Second Language (ESL) classes.

One organization representing Chinese and Vietnamese immigrants on the north side of Chicago offers basic banking information such as how to write a check and how to open an account as part of its curriculum for teaching students English. A representative of the literacy department of this organization claims that many of her students lead "very circumscribed lives" and would never know to ask about personal finance issues. She claims that additional in-house programs on money management offered in native languages or with a translator would probably be well-attended, but these organizations find themselves short on resources to take on additional projects.

Homeownership Counseling Agencies

Another somewhat different type of service organization with a moderate-income constituency is the homeownership-counseling agency. These groups are becoming more numerous, and their counselors take people through the basic process of buying a home, require strict budgeting on the part of the customer, and help clients learn how to repair their credit. Neighborhood Housing Services (NHS), a national network with many local offices, offers an extensive homeownership program and reports an impressive success rate in graduates buying and keeping their homes. NHS' nationwide education program is called Full Cycle Homeownership (FCH). Most clients are involved in this program for six months to a year. NHS also offers a foreclosure prevention program and a Home Buyers Club.

In Chicago (which has a large and successful NHS program operating in ten neighborhoods), a staff member who runs education programs says that at any given time he counsels/educates 400 clients. A total of 30 to 40 new clients sign up for counseling services every month in Chicago. This staffer claims that a lack of financial education seriously impairs many moderate-income people who wish to buy a home. According to NHS, customers need to know the following things before they are able to consider buying a home: the difference between a broker and a banker, the reality of predatory lenders, how to deal with and learn to trust financial institutions, how to make and stick to a budget, how to clean up their credit, and what the homeownership process entails. When lower-income people possess this knowledge, their ability to acquire and maintain the key asset of a home greatly improves.

Legal Assistance Providers

Legal assistance offices provide a variety of low-cost or pro-bono services to lower-income people, many of which involve financial problems such as small claims court, debt, foreclosure, or bankruptcy. In the process of addressing the current crisis, lawyers often informally try to educate their clients in ways that will help them avoid such problems in the future. This might

involve referring the client to a credit counseling service or providing them with reading materials on financial topics. Some organizations engage in consumer awareness seminars or advocacy initiatives in cooperation with other groups. Legal service organizations' involvement in financial literacy is by its nature crisis driven.

These examples of the role of financial literacy training in relation to social service organizations' central mission is representative of other community programs. Financial literacy is taught as an adjunct of another program, and the curriculum is often chosen opportunistically to reflect immediate client concerns. In other examples, job-training programs for the construction trades may teach ways to save for tools, and programs for seniors teach their students about ATM use and ways to avoid predatory home equity loans. The problem many community groups have with this strategic approach to capturing their clients' interest is the lack of resources to give sufficient attention to the financial literacy add-on to their work.

FINANCIAL INSTITUTIONS

Potential of Financial Institutions' Involvement in Financial Literacy

...many lower-income people do not have relationships with traditional financial institutions and are uninformed about their services and mistrustful of their practices.

Staff members of financial institutions possess extensive expertise about personal finance, and banks and credit unions are potential resources for low-to-moderate income people who need financial literacy training. But many lower-income people do not have relationships with traditional financial institutions and are uninformed about their services and mistrustful of their practices. Because "living in a high poverty neighborhood significantly increases the likelihood of being unbanked,"³⁹ education programs offered by financial institutions to lower-income populations could produce great gains for both sides by educating communities about financial issues and opening up potential markets for the institutions. Programs such as Bank-at-School, promotional workshops that focus on specific bank products and educational seminars on credit, money management, and home ownership could be used to facilitate financial literacy in communities. However, a recent survey of Chicago financial institutions shows that they do not currently serve as major vehicles for disseminating personal financial education in low- and moderate-income communities.

Banks, Schools, and Financial Literacy

One often-cited program that banks (for the purposes of this report this term includes savings and loans or thrifts) have used to engage communities in financial education can also increase a bank's customer base. This program is Bank-at-School. Bank-at-School teams a personal banker with a school class in an ongoing relationship focusing on teaching asset building and money management. Four of seven large banks surveyed in Chicago offer Bank-at-School programs.⁴⁰ Bank-at-School was originally administered by the Illinois Treasurer's Office. Students learn how to manage money and handle a bank account. Program seminars usually take place on a once-a-month basis and focus on issues that the principal, teacher/s, and bank representative deem appropriate. Students are also encouraged to open up their own low- or no-cost savings account through the program. One important feature of this program is that children can deposit money into their accounts directly at the school site. However, one of the large banks that offers this program in the Chicago school system cites security and personnel

³⁹Stegman, Michael A. How Electronic Banking Can Help the Poor Build Wealth: Getting the Most Out of Electronic Benefits Transfer. Washington, DC: Brookings Institution Press, 1999.

⁴⁰Some credit unions also offer bank-at-school-type programs. Details on credit unions' involvement in financial literacy efforts can be found at the end of this section.

concerns with the actual pickup of deposits for these accounts. In many cases, school personnel are actually responsible for delivering deposits to the bank.

There are other ways that banks can work in schools to provide financial literacy trainings. One of the largest banks in Chicago works through the Junior Achievement Program at one school in the city and on a wider scale in the suburbs. A personal banker visits the school weekly and offers basic lessons in economics, job hunting, and financial management. The program consists of 30 to 60-minute classes that run for five to ten weeks.

Another major bank in the Chicago region has an ongoing relationship with three schools in moderate-income neighborhoods. Though the bank does not operate a Bank-at-School program, it provides money management seminars for parents of the students on a semi-regular basis. One of the country's largest banks, headquartered in Chicago, has a "Meet the Bank" program. Representatives of the community education staff visit a school and present information on banking services, how a bank works, and what types of jobs are available in the industry. This institution sends out an inquiry at the beginning of the school year through a mailing list of teachers who might potentially be interested. Teachers then contact the bank to set up the program.

Bank-Sponsored Financial Literacy Workshops

Personal financial education seminars are another tool that banks might use to increase awareness about money management and to encourage unbanked people to open accounts with traditional financial institutions. Most of the banks surveyed from the Chicago area offered some type of education programs. However, these seminars are often marketed through bank branches or to existing bank customers, and most workshops focus on homeownership or credit issues rather than on the most basic financial skills. When banks do offer educational programs in a community setting rather than in the bank branch, it is most likely because they were approached by a community organization to do the training. One of the largest banks in the country reports that they conduct about five community financial literacy workshops a month in the Chicago region. The marketing and outreach techniques used by banks for these programs are often reactive or geared towards existing customers, e.g., through monthly statement inserts. Many lower-income people--especially the unbanked--are not aware that these programs exist.

One of the most effective ways for banks to reach lower-income people is through a partnership with a community organization that has extensive knowledge of the issues of its

constituents. Banks often utilize the staff of community organizations to assist with affordable housing or credit delivery systems provided in response to the Community Reinvestment Act.⁴¹ The community groups serve as points of contact or perhaps as credit or loan counselors. They might also administer downpayment and mortgage programs and provide other services that enable the bank to profit from these services.⁴² It is, however, rare for a bank to enlist a community group as a partner to offer general financial literacy workshops or trainings in lower-income communities.

One example of this type of partnership involves three major banks in Chicago that are working with a group of community organizations through the Chicago CRA Coalition to bank the unbanked.⁴³ The banks partner with community groups in a small number of low-to-moderate income communities through referrals from the Coalition. Coalition members review the curricula for appropriate content, help the banks with marketing strategies, make presentations during the workshops, and offer suggestions for future seminars. This strategy allows for a much higher turnout than might otherwise be expected. Banks could be much more proactive in establishing this type of relationship in order to increase community awareness of financial issues and to increase their customer base.

Banks also partner with consumer credit counseling agencies for financial literacy programs for a number of reasons. Sometimes banks approach credit counseling agencies to provide informational seminars for bank employees or employees of an organization that has a "bank-at-work" or direct-deposit relationship with the institution. These agencies might also offer counseling for a bank in conjunction with a loan or credit card program and many offer debt management programs. As noted earlier, bank credit card companies are significantly reducing their payments to these agencies for debt management programs and are increasing interest rates on debt consolidation loans.

As with all financial literacy programs, bank programs should be judged on their size and reach. For example, the Bank-at-School programs operate on a very small scale. Four of the Chicago area banks surveyed offer school programs, but they reach only 36 schools in the City of Chicago. As Figure 10 shows, Chicago has a total of 765 public, parochial and other non-public schools. Moreover, Figure 11 shows that one bank, which is the smallest institution in the group, operates 21 of the 36 Chicago Bank-at-School programs offered by the six large banks surveyed. The largest bank has only one program in Chicago. So, these programs reach a tiny fraction of the city's schools. In consequence, the number of lower-income students who

⁴¹Under this 1977 statute, regulated financial institutions are required to serve "the convenience and needs" of all parts of their community "including low- and moderate-income geographies". Banks are examined on three aspects of their community reinvestment work: lending, investments and bank services. Financial literacy training would be given credit under the service test.

⁴²Stegman 1999.

⁴³For more information on the Chicago CRA Coalition, see www.nonprofit.net/woodstock or call Woodstock Institute: (312) 427-8070.

benefit from this program is actually extremely small in comparison to the high number of low-income students in Chicago.

Figure 10: Schools in Chicago, Illinois

Type of School	Number of Schools
Public Schools	
Elementary	477
High School	73
Total Enrollment	412,921
Parochial Schools	
Elementary	148
High School	30
Total Enrollment	73,709
Other Non-Public Schools	
Elementary	18
High School	11
K-12	6
Total # of Schools	765

Source: Chicago Fact Book: (<http://www.ci.ch.il.us/WorksMart/PlanAndDevlop/ChgoFacts/Edu.html>). Taken from data provided by Archdiocese of Chicago and Chicago Board of Education, 1996.

Figure 11: Bank-at-School Programs Offered by the Largest Banks in Chicago, by Illinois Assets

Financial Institution	Approximate Illinois Assets	Bank-at-School Programs
Bank #1	\$3.5 billion	21
Bank #2	\$19 billion	0
Bank #3	\$25 billion	9
Bank #4	\$26 billion	0
Bank #5	\$44 billion	5
Bank #6	\$81 billion	1
Total		36

Source: Interviews conducted by Woodstock Institute.

Banks could undoubtedly do more in the area of financial literacy training, but current bank attitudes limit their contributions. Recently, some banks met with various community organizations in Chicago to debate financial literacy and debt problems that arise out of excessive credit card marketing and use. The bankers took the line that the competitive nature of their business dictated vigorous marketing of credit cards even to lower-income people and

to people with multiple credit cards, and that nonprofit groups, not banks, had the major responsibility for teaching financial prudence.

It is not in a bank's interest to inform customers about the customers' best financial interests...

Moreover, as banks' profits from interest rate spreads (the difference between the rates at which they borrow and lend money) decline, they are increasingly seeking profits by raising fees for commercial and personal bank service transactions. It is not in a bank's interest to inform customers about the customers' best financial interests, e.g., moving money out of low-interest passbook accounts to money market accounts. Lastly, banks are increasingly rating customers on their individual profitability to the bank. At some larger banks, tellers punch a customer's account number into a computer and get an immediate rating on, e.g., a five-point scale of how the customer rates on that criterion. More profitable customers get quicker service even in telephone inquiry routing systems. Low-income customers are not likely to receive much attention in such a competitive environment.

The Case of Credit Unions

In some ways, credit unions are better situated than banks to provide financial literacy training to their members. The basic credit union philosophy of providing equitable, cooperative services to all people is a good starting point for serving lower-income families. Credit unions place particular emphasis on thrift for their members. Moreover, one type of credit union is specifically chartered by the Federal regulator, the National Credit Union Administration (NCUA), to serve low-income people. In 1996 there were 356 of these low-income credit unions, up from 244 in 1990.⁴⁴ Some credit unions call themselves community development credit unions (CDCUs) to indicate their additional commitment to improving the economies of lower-income communities.⁴⁵

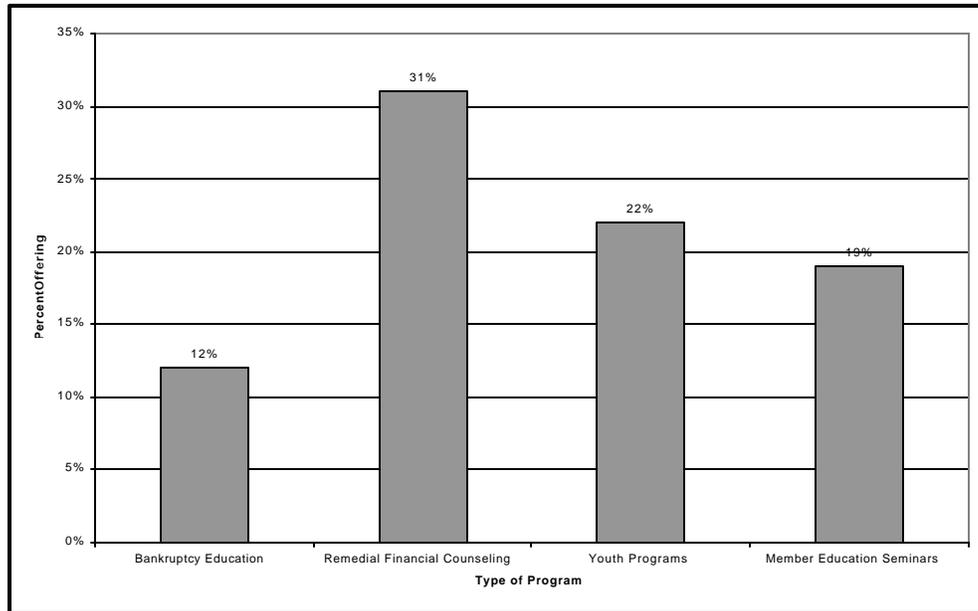
Credit unions are member-owned nonprofit cooperatives and their interest in their members is illustrated by the amount of information the Credit Union National Association (CUNA), a major trade group, has about members. CUNA market research shows that credit unions have specific reasons to become involved in financial literacy programs. Credit union executives are concerned about member bankruptcy, with 21 percent stating it is a serious problem and 46 percent reporting that the problem is growing. About 12 percent of credit unions provide member education seminars focusing on the consequences of bankruptcy.⁴⁶ CUNA research

⁴⁴Williams, Marva E. and Wiles, Marti. On the Move: An Analysis of Low-Income Credit Unions 1990-1996. Chicago, IL: Woodstock Institute. November 1998.

⁴⁵Most of this subset of lower-income credit unions are members of the National Federation of Community Development Credit Unions (NFCDCU). NFCDCU's goal is to build a network of strong, sustainable community-owned financial institutions.

also shows that 19 percent of all credit unions offer member financial education seminars on a regular basis and that 22 percent have special programs for youth. (See Figure 12).

Figure 12: Financial Education Services Offered by Credit Unions



Source: Joyal, Vicki. "The Current State of Member Education is Nothing to Brag About," Supplement, *Credit Union Magazine*. April 1999.

Credit unions' concern about the subject is reflected in CUNA's honesty about the inadequacy of its member credit unions' efforts. An article in *Credit Union Magazine* titled "The Current State of Member Education is Nothing to Brag About" reports that of an average \$5.33 spent per member on marketing, only \$0.35 is spent on member education, though CUNA contests that "member education improves a credit union's image, sets it apart from other financial institutions, and increases the use of all credit union services."⁴⁷

Credit Unions' Level of Commitment to Personal Finance Education

According to CUNA's Credit Union Services Profile, in 1997, 20 percent of all credit unions in the United States offered some type of education seminars focusing on basic budgeting, saving, investing, etc., for their members.⁴⁸ These credit unions claim 58 percent of total credit union membership in the nation. CUNA does not have statistics on the number of members who

⁴⁶Joyal, Vicki. "The Current State of Member Education is Nothing to Brag About," Supplement, *Credit Union Magazine*. April 1999. pp. 5-6A.

⁴⁷Joyal 1999.

⁴⁸Credit Union Services Profile: Services Offered and Operating Characteristics, Credit Union National Association. December 1997.

actually attend these programs; if this figure is recorded, it is done by the individual credit union offering the program. Additionally, approximately 30 percent of all credit unions offer remedial financial counseling for their members. Credit unions with higher assets are more likely to offer these programs. As Figure 13 shows, over 65 percent of credit unions with assets over \$200 million offer such counseling, compared to 12.2 percent of credit unions with under \$200,000 in assets and 31.2 percent of credit unions with assets between \$5-10 million. Also, 11.5 percent of all credit unions provide formal financial planning for their members--again, credit unions with larger assets are much more likely to offer these programs. CUNA officials do not know how many members these programs reach.

Financial institutions with greater assets should be better equipped to offer financial literacy programs to their customers and in the community. The numbers in Figure 13 attest to this reality for credit unions. One example of a very large credit union that offers fairly extensive financial education programs involves a credit union based in a large city in the Pacific Northwest with assets of almost \$3 billion and approximately 250,000 members.

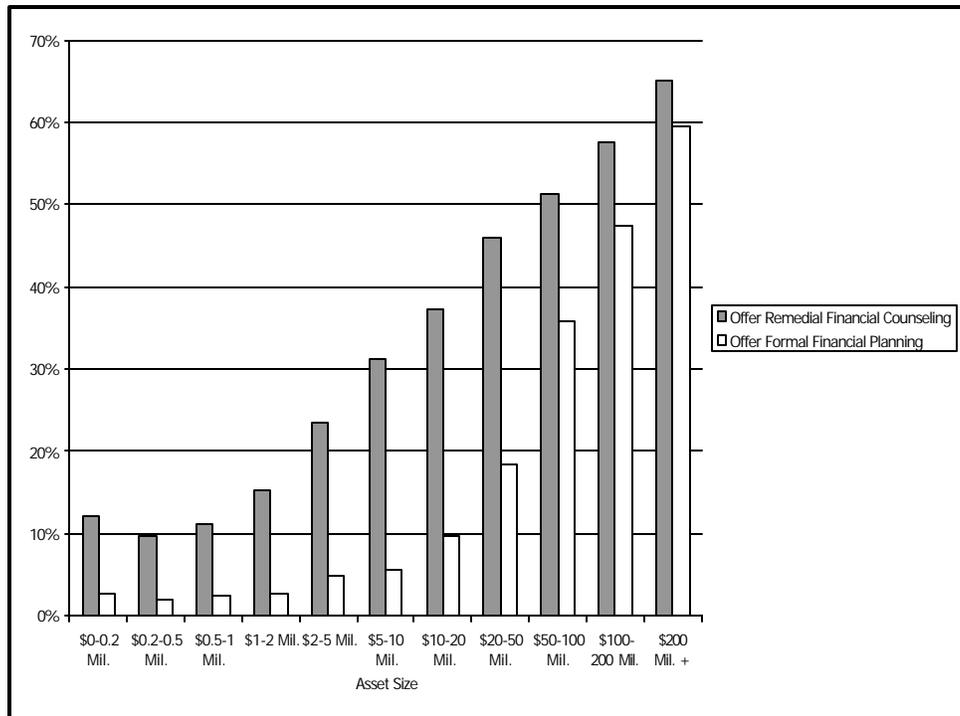
Professionals in the Counseling and Education Department of this credit union are available to present financial education seminars in schools, and counselors meet with members one-on-one on an as-needed basis.⁴⁹ In addition, during the third quarter of 1999, the Department scheduled 18 education seminars for members. These workshops focused on debt management, budgeting, credit repair, home buying and selling, buying a car, and obtaining scholarships. The credit union offers a Student Program that provides students with "Better-Than-Free" checking accounts and low-cost Visa credit cards. Students are offered personal financial counseling and student loan assistance as a part of this program. Students are also given the opportunity to join the Student Advisory Council, a volunteer group that advises the credit union on student's financial concerns and trends. This institution also provides financial counseling for other credit unions, credit union recovery services, and financial planning and consulting.

Commitment to Community Education: Community Development Credit Unions (CDCUs)

The credit union movement places a much greater responsibility on itself than the banking industry does for providing financial literacy education, and the movement judges itself to have fallen short of this goal. But one group of credit unions, the group with the fewest resources plays a role in financial education beyond that played by financial institutions with resources that dwarf those of this group. Figure 13 suggests that smaller credit unions play a minor role in teaching financial skills. But that figure reports data on more formal programs, and community

development credit unions have a reputation for providing their members with informal financial advice on a daily basis as members transact business. One reason these credit unions do not provide formal programs is that many of them, particularly those with assets of less than \$3 million, have no paid staff and rely entirely on volunteers.

Figure 13: Percent of Credit Unions Offering Formal Programs by Credit Union Size



Source: Credit Union National Association 1997 CUNA Survey.

The level of effort CDCUs put into financial skill training in relationship to their size is indicated in figure 14, which reports telephone interview data with four financial institutions of very different sizes. (The financial institutions whose data is recorded in figure 14 were the first and only institutions called to provide this data.) A \$2.7 billion credit union offered the most financial education seminars in its home city in the 3rd quarter of 1999 with a total of 18 sessions. A Chicago CDCU with assets of \$4.7 million came in second with ten sessions and a large national bank conducted just three sessions. Not only do CDCUs out-perform their much larger counterparts on a training by asset size basis, they also focus their attention on families at the lower end of the income scale. The CDCUs surveyed concentrate on lower-income people and communities for these trainings, reporting that often modest-income people make up 75 percent of their audiences. Some small CDCUs in Chicago also work with schools--some of them

⁴⁹As noted previously, credit unions are becoming increasingly involved in school and youth-specific programs. However, specific information on the numbers of credit unions offering such programs was not available at the time of this report.

with as many as ten schools at a time. Some of these programs are "Bank-at-School," but most are purely educational.

Figure 14: Comparison of the Number of Education Seminars Provided by Financial Institutions by Type of Institution

Financial Institution	Total Assets	# Seminars*** 3rd Quarter 1999
Chicago CDCU	\$4.7 million	10
Large National FCU*	\$2.7 billion	18
Medium-Sized Chicago Bank	\$26 billion	5
Very Large National Bank**	\$700 billion	3

Source: Interviews conducted by Woodstock Institute.

*Seminars include all those offered in the CU's home city in the Pacific Northwest.

**Seminars include all those offered in Chicago by this multi-state bank. This bank has Illinois assets of approximately \$19 billion.

***All seminar totals include such topics as basic budgeting, homeownership, etc.

Financial Institutions are on the Sidelines of Financial Literacy

This brief assessment of the scope of financial institutions' educational programs in lower-income communities shows that banks, credit unions, and other financial institutions are not a primary means by which people in these neighborhoods receive personal financial education. Communities must often take the initiative and approach the institution for financial literacy training, and these seminars are usually marketed to people who already have a relationship with that institution. Credit unions have a greater commitment to education than banks, and community development credit unions often live out that commitment for lower-income people to a greater degree than their larger colleagues do.

EMPLOYER-BASED PENSION PROGRAMS

Employer retirement programs offer the opportunity for "forced" financial training. By making a choice among the options offered by a company, employees are learning and acting at the same time. Moreover, they are acting on one of the most important financial choices people make, a choice that will shape their financial futures after retirement. But not every employer offers pension benefits, and those that do may not give their employees enough information to educate them sufficiently about the key choices. The education an employer provides is becoming more critical as companies switch from defined benefit to defined contribution plans. According to the U.S. Department of Labor, "in defined benefits plans, the benefit at retirement is specified through a formula, and the employer bears the investment risk...In defined contribution plans, the employer's current (contribution) is specified, but the amount of retirement benefit is unknown in advance."⁵⁰ Therefore, in defined benefits plans the employer makes many of the decisions while in defined contribution plans the employee is responsible for key decisions including the decision of how much to save.

There are critical questions about employer pension programs that are outside the scope of this study, including the issues of whether employers offer sufficient options, whether too much of the assets in large company plans are in company stock, whether individuals have too much money in low-risk, low-return stable value accounts or whether companies treat their employees fairly when they change the terms of their retirement benefits. The answer to these questions will help determine the size of an individual's retirement benefit. Educated employees are much more likely to monitor their companies' pension benefit decisions effectively.

Who Benefits from Retirement Plans?

In 1994-95, 80 percent of workers in medium and large private firms had retirement plan coverage, compared to 96 percent of state and local government employees and only 42 percent of people who worked for small private firms.⁵¹ These ratios are consistent throughout the 1990s. However, defined contribution plans have increased in scope in recent years. In 1997, 55 percent of employees at medium to large firms participated in 401(k)-type plans and 28 percent of workers at small firms participated in such programs. This is an increase of 11 percent for medium-to-large firms since 1991.⁵²

⁵⁰United States Department of Labor press releases. "Employee Benefits in Medium and Large Private Establishments, 1997" released January 7, 1999 and "Employee Benefits in Small Private Industry Establishments, 1996" released June 15, 1998. Documents can be found at www.dol.gov.

⁵¹Foster, Ann C. "Factors Affecting Employer-Provided Retirement Benefits," *Compensation and Working Conditions*. Winter 1998: 10.

⁵²United States Department of Labor press releases. 1998 and 1999.

Workers are very unlikely to participate in such plans in absence of employer-matched contributions.

The existence of a voluntary plan is, however, no guarantee that workers will participate. There are three important determinants of participation rates: key characteristics of the plan, the income and job level of employees and work-place financial education programs (see figures 15 and 16). Workers are very unlikely to participate in such plans in absence of employer-matched contributions. This is especially true for workers in clerical, blue-collar, and service fields.

In large firms, 56 percent of professional and technical employees contributed to 401K-type plans if their employer also made a contribution in 1997, while only 11 percent of such workers participated in plans when the employer did not contribute. Clerical employees had contribution rates of 51 percent with employer contributions and 8 percent without in the same year. Finally, 38 percent of blue collar and service employees participated in such plans when their employers also contributed; only 8 percent did so in absence of employer contributions.

These rates are even lower for employees of small establishments. In 1996, only 17 percent of blue-collar and service employees paid into such plans when their employers also made contributions—3 percent saved under such plans without employer contributions. These numbers rise for professional employees of small firms to 30 percent and 8 percent respectively.⁵³ Another plan characteristic that affects participation is the time at which employees are eligible to register for the plan. Plans that permit registration in the first year have much higher participation rates than plans that only permit participation after several years of employment.

..incentives are as important as program content and structure in attracting students and in influencing their behavior.

The second important determinant of participation rates is a worker's job status, which is, of course, correlated to income. Blue collar and service employees are much less likely to participate in 401k type plans than professional and technical staff. In addition to income, this finding may be related to financial knowledge, length of employment or other variables. But employer contributions have a much stronger effect than worker status. This finding reinforces the experience of many financial literacy programs that incentives

are as important as program content and structure in attracting students and in influencing their behavior. Lastly, there is strong evidence that participation in and contributions to voluntary savings plans are significantly higher when employers offer frequent retirement seminars. Moreover, this effect is much stronger for lower-paid than for more highly paid workers.⁵⁴

⁵³US Department of Labor press releases. 1998 and 1999.

⁵⁴Bayer, P.J., Bernheim, B.D., and Scholz, J.K., "The Effects of Financial Education in the Workplace: Evidence from a Survey of Employees," National Bureau of Economic Research, Working Paper 5655. July, 1996.

Figure 15: Percent of Full-Time Employees Participating in Employee Benefit Programs*, Small Private Firms, 1996

Employee Group/ Employee Benefit Program	All Full-time Employees	Professional, Technical, and Related Employees**	Clerical and Sales Employees***	Blue-collar and Service Employees****
All retirement plans	46%	56%	53%	37%
Tax-deferred earnings arrangements with employer contributions	24%	30%	31%	17%
Tax-deferred earnings arrangements without employer contributions	4%	8%	4%	3%

Source: "Employee Benefits in Small Private Industry Establishments, 1996." United States Department of Labor Bureau of Labor Statistics.

*Except for certain tax-deferred earnings arrangements, employers pay some or all of the costs for each benefit.

**Includes professional, technical, executive, and administrative occupations.

***Includes clerical, administrative support, and sales occupations.

****Includes production, craft, repair, laborer, and service occupations.

Figure 16: Percent of Full-Time Employees Participating in Employee Benefit Programs*, Medium and Large Private Establishments, 1997

Employee Group/ Employee Benefit Program	All Full-time Employees	Professional, Technical, and Related Employees**	Clerical and Sales Employees***	Blue-collar and Service Employees****
All retirement plans	79%	89%	81%	72%
Tax-deferred earnings arrangements with employer contributions	46%	56%	51%	38%
Tax-deferred earnings arrangements without employer contributions	9%	11%	8%	8%

Source: "Employee Benefits in Medium and Large Private Establishments, 1997." United States Department of Labor Bureau of Labor Statistics.

*Except for certain tax-deferred earnings arrangements, employers pay some or all of the costs for each benefit.

**Includes professional, technical, executive, and administrative occupations.

***Includes clerical, administrative support, and sales occupations.

****Includes production, craft, repair, laborer, and service occupations.

Employer Financial Education Efforts

Due in part to U.S. Department of Labor rules regarding retirement plan disclosure and to the tight labor market of the mid-1990s, employers are an increasingly important source of financial literacy education for many Americans. A recent Merrill Lynch survey reported that about 38 percent of employers of all sizes across many sectors offered some type of financial education to their employees.⁵⁵ Another survey broke down that figure by size and type of company, with larger companies and public employers of every size level being more likely to offer financial information programs of various types.⁵⁶

The obvious limitation of employer-based financial education is that it cannot reach the unemployed, but a more subtle issue is that good financial education is more likely to be a “benefit” used to recruit upper level employees. For all levels of employees, the typical focus of the material is on retirement or possibly investment planning, rather than money management or basic saving advice. Investment education and advice, in particular, have become important benefits for recruiting upper level employees over the past few years. Despite these considerations, human resource departments are increasingly aware of their potential role in providing training to moderate-income employees and the need for education on a list of broader money management topics, including budgeting, saving, homeownership, insurance, tax rules, and estate planning.⁵⁷

What besides labor law motivates employers to offer financial literacy training? Studies conducted by the U.S. Navy and others indicate that financial stresses outside the workplace can lower worker productivity and increase absenteeism, which can amount to significant avoidable costs for employers.⁵⁸ This suggests that investment in financial education for employees can create a positive return for the company. Employers that do not offer financial training most often cite administrative difficulties and cost, but other barriers include a lack of employee interest or a company’s belief that money management skills are a low priority or simply not the company’s responsibility.⁵⁹

Training commonly takes the form of a single workshop or a series of seminars conducted by an outside consultant at the company’s facilities. These workshops often take place on paid time during a long lunch, just after work, or on a Saturday. Spouses or partners are frequently allowed to attend. Participation is generally voluntary; some types of employees appear to be

⁵⁵Tiras, S. “Cover the Basics in Financial Education,” *HR Magazine*, November 1997. p. 124.

⁵⁶*Employee Benefit Plan Review*, April 1996. Page 22.

⁵⁷Tiras, p. 119.

⁵⁸Garman, Leech and Grable, *The Negative Impact of Employee Poor Personal Financial Behaviors on Employers*. 1997.

⁵⁹Tiras, p. 124.

more likely to attend. One survey conducted at a chemical plant in the southwestern U.S. found that persons who are older, have been working for the company longer, are married, and who have better than average health and financial stability were more likely to attend voluntary workshops.⁶⁰ As many as a fourth of their employees, many of whom did not attend the classes, reported having stressful financial concerns and/or problems with credit or debt.

The main drawbacks of employer-based programs are that they are less likely to reach lower-income workers and that the topics covered are geared towards retirement and investment choices. Additional emphasis on saving and budgeting is needed for low-and-moderate income families. Moreover, small companies, whose workers are likely to be paid less, are also less likely to offer any type of program. The evidence that frequent retirement seminars significantly increase voluntary pension scheme participation is, however, reason enough to encourage more employers to provide such training.

⁶⁰Kratzer, C., Brunson, B., Garman, J. , and Joo, S. "Financial Education in the Workplace: Results of a Research Study," *Journal of Compensation and Benefits*. 1998. p. 26.

INDIVIDUAL DEVELOPMENT ACCOUNT PROGRAMS (IDAs)

Financial literacy is a means to an end. Financial literacy programs seek to increase people's ability to use their money wisely and build assets. A specific asset-building program might achieve the end goal but might also increase participants' financial understanding of other asset-building strategies. In the late 1980s and 1990s, an interest developed in Individual Development Accounts or IDAs, which are an asset-building strategy for low-income people.⁶¹ A generally bipartisan policy discussion has since ensued over the value of IDAs, which were first initiated by community groups working to develop the assets of lower-income people in the early 1990s.⁶²

Michael Sherraden, one of the earliest proponents of IDAs, describes them as:

"Special savings accounts that are designed to help people build assets for increased self-sufficiency and long-term economic security. Account holders receive matching funds as they save for purposes such as buying a first home, going to college, or starting a small business."⁶³

IDAs are specifically structured to build the assets of moderate-income individuals and families. Savings can only be used for specified purposes. Otherwise, participants lose their matching funds. Dollar matches can range from 1:1 to 7:1, with the average match being \$2 for every dollar saved up to a predetermined limit.

There are currently over 200 IDA programs operating or in planning stages in the U.S. Ten foundations are funding a demonstration and evaluation of IDAs known as the Downpayment on the American Dream Policy Demonstration. The hope is that if these programs do in fact act as successful incentives for lower-income people to save, the federal government will heavily supplement the role of foundations. Currently, the federal government spends over \$100 billion in tax expenditures that help middle-income households build assets through their homes and retirement plans. There is a strong case for providing similar tax breaks for families who are too poor to take advantage of the ones that are currently in place.

⁶¹Several key reports examined asset inequality and strategies to reduce that inequality. They include Robert Friedman, *The Safety Net as a Ladder*, 1988; Michael Sherraden, *Assets and the Poor*, 1991; and Oliver and Shapiro, *Black Wealth, White Wealth*, 1995.

⁶²Sherraden, Michael, Page-Adams, Deborah, and Johnson, Lissa. Start-Up Evaluation Report: Downpayment on the American Dream Policy Demonstration. St. Louis: Center for Social Development. January 1999, p. 3.

⁶³Sherraden et al. 1999. p. 3.

The existence of IDA pilot programs indicates an increased understanding that saving is important for lower-income families and such families can in fact save effectively. In the past, there have been numerous public policy disincentives for lower-income families to save (i.e., very low asset limits for government assistance programs). This new trend focusing on asset-building calls for a serious expansion of financial literacy programs for such families.

...saving is important for lower-income families and such families can in fact save effectively.

IDA Programs as Model Forums for Financial Literacy

IDAs offer a model forum for providing financial literacy training to lower-income people. According to the Office of Thrift Supervision (the Federal regulator for savings and loan institutions), "Successful IDA programs have as a mandatory and key component the provision of education to the participants. IDA participants often lack the economic literacy required to be successful beyond the program."⁶⁴ Because the majority of low-income people are exposed to financial literacy training as the result of a direct incentive or crisis, IDA programs can be very effective in training a "captive" audience. Participants of financial literacy trainings that are a part of an IDA program learn general money management skills *while learning how to apply those skills towards the specific goals that they set out for the program*. Many IDA programs offer educational training for as long as the account holder is involved in the program. That training often goes beyond general financial literacy. "In addition to receiving economic literacy training, IDA participants are often required to take part in specific training and skills development related to their individual asset acquisition (e.g., homeownership counseling or business planning)."⁶⁵

What do IDA Participants Need to Know?

A recent report issued by the Corporation for Enterprise Development (CFED) identifies the core skills that IDA participants need in order to become successful savers:⁶⁶

- ❖ Gathering the information needed to make sound (financial) decisions: Resources available, record keeping, product comparison.

⁶⁴Individual Development Accounts (IDAs): Strategy for Asset Accumulation. Washington, DC: Office of Thrift Supervision, November 1998 p. 18.

⁶⁵ Individual Development Accounts (IDAs): Strategy for Asset Accumulation p. 17.

⁶⁶Flacke, Tim, Grossman, Brian, and Jennings, Stephanie Individual Development Account Program Design Handbook: A Step by Step Guide to Designing an IDA Program. Washington, DC: Corporation for Enterprise Development. 1999. pp. 4.25-4.26.

- ❖ Making financial decisions: Identifying/separating needs and wants, determining net worth, creating a budget, and implementing a saving and spending plan.
- ❖ Assessing financial decisions: Costs and benefits of decisions, adjusting budget plan, gathering additional information to improve financial situation.

The list of what IDA participants need to know about personal finance can be generally extrapolated to the lower-income population as a whole. This model helps families learn how to discuss finances, figure out their asset and debt position, open a bank account, track expenses and income, manage credit, read bank statements, identify predatory lenders, and become more knowledgeable consumers.⁶⁷

IDA Programs in Illinois

Both Chicago agencies that are participating in the Downpayment on the American Dream Policy Demonstration, South Shore Bank and the Women's Self Employment Project (WSEP), mandate financial literacy courses as a part of their IDA programs. WSEP has created its own curriculum entitled "Money and Assets." They utilize the curriculum to run an eight session or eight week program for the predominately low-income African American women who are enrolled in their entrepreneurial training program. In addition to basic financial knowledge, the sessions include material on saving for education, homeownership, small business development, and retirement. Teaching strategies include small group activities, budgeting workbooks, role playing, and the use of financial planning calendars.

South Shore Bank offers one-day money management orientations that are run by personal bankers for their IDA participants. Persons who do not qualify for IDAs but are interested in the program are also allowed to attend these orientation sessions. The Bank also runs a "Savers Club" that has monthly meetings where IDA participants seek advice on building their savings. Participants are required to attend six club meetings a year. In one year, the 50 participants in the bank program saved a total of \$15,000, not including matches. Most of the participants are saving for homes.

Effectiveness of IDA Education Programs

Because IDA programs are in the early stages of development, it is still unclear what impact the financial literacy trainings have on participants. An interesting finding is that programs help solve a variety of problems to encourage savings. One program, for example, got involved in participants' health care concerns:

⁶⁷Flacke et al. pp 4.27-4.28.

"The economic literacy program identified five participants who could save money if they quit smoking, but Medicaid refused to pay for the (nicotine) "patches." Our sponsoring organization bought them all "patches" and two have already quit smoking and are saving money."⁶⁸

Another program discovered that participants already enrolled in the organization's economic development programs were more likely to be successful in the IDA program than other participants were. The motivation behind the participants' original interest in homeownership or business development classes naturally carried over to the asset-development program.

The authors of an interim report on the IDA experiment also suggest that IDA programs that offer financial literacy programs in conjunction with active savings are more effective than programs that first offer trainings and then encourage clients to save.⁶⁹ This implies that people might be more likely to actively respond to what they learn in financial literacy trainings when a specific product, action, or goal is set forth along with the training. These types of outcome-based trainings that are run by organizations with a clear understanding of the personal financial goals of their members can be a useful guide for other types of organizations that seek to offer financial literacy training for lower-income people.

...people might be more likely to actively respond to what they learn in financial literacy trainings when a specific product, action, or goal is set forth along with the training.

⁶⁸Sherraden et al. 1999, p. 26.

⁶⁹Sherraden et al. 1999, p. 31.

PART III: RECOMMENDATIONS

While many organizations and institutions have financial literacy education as part of their agendas, the sum of their efforts reaches far too few people, with far too little systematic training. On the demand side, the evidence suggests that outside of elementary or high school, people sign up for training when they have a specific problem or goal. There is not much evidence that financial literacy courses offered outside that context, or outside of a captive situation like the workplace, will attract much interest.

Low-income people are particularly at risk for the following reasons: They have little or no financial cushion to absorb economic emergencies or errors of judgement; some basic concepts might challenge the arithmetic skill levels of a subset of this population; and they are increasingly subject to high-pressure marketing of debt products by mainstream financial companies. In spite of these barriers, it is crucial to note that most low-income people consistently display enormous skill in handling their basic finances on an everyday basis. The challenge is to find ways to add to those skills and to low-income families' ability to choose among basic and complex financial products.

While the variety of training programs currently offered could be improved in a number of ways, the greater challenge is to figure out how to reach significantly more people with more substantive training. The following recommendations address those challenges.

1. Financial Literacy Mandates in Schools should be Strengthened and Expanded

While teachers complain about the increasing weight of state mandates to teach specific topics, financial literacy training should be regarded as a basic part of education. Schools offer the best opportunity to reach the greatest number of people at a critical time in their lives. The arguments for starting in grade school are that understanding financial issues is a cumulative process, that high-school students are confronted with spending and credit decisions, and that many low-income neighborhoods have high drop-out rates in high school.

2. Consumer Credit Counseling Agencies Need Help to Combat Exploitative For-Profit Firms

Consumer credit counseling agencies are the end-of-the line teachers whose customers are often on the verge of bankruptcy. But their capacity is small and they compete against the much more effectively advertised for-profit debt consolidators, many of whom charge

exorbitant fees for their work. Even at their best, these agencies still offer relatively little *preventative* counseling or education, which is sorely needed for the adult population.

3. Appropriate Teaching Materials are Needed for Low-Income People

Despite the mountain of existing financial literacy teaching materials, many community organizations in low-income communities assert that little of it is useful for their constituents. The use of graphics and technological programs such as computer animation to teach ATM use have been tried successfully for low-income populations in South Africa and should be expanded here. Multilingual formats are also crucial for this population.

4. Financial Literacy must be Treated as a Long-Term, Repetitive Process

Financial literacy workshops have very limited use unless they are connected to a specific action such as opening a savings account. A series of workshops reinforced by other sources of teaching are much more likely to change people's behavior. Savers clubs offer group support and financial problem solving. Middle-income newspaper readers get reinforcement and new financial information on a regular basis. Low-income community organizations should offer a variety of learning opportunities using schools, banks, churches, libraries, and other local institutions.

5. Workplace Training Needs to be Much More Effective and Reach More People

Retirement benefit programs that kick in when a new employee joins a firm and offer an employer match encourage significantly more participants than programs without those characteristics. Incentives and opportunities are powerful teaching tools. The same effect may work well in companies that offer credit union membership and automatic payroll deductions. The challenge is to extend these programs to smaller companies and to lower-income workers in larger companies.

6. Programs Should Exploit Moments of Motivation

Few people seek financial knowledge in absence of a specific goal that motivates such learning. Suitable goals range from saving for holiday expenses to saving for a downpayment for a home. Job training programs for people leaving welfare and entering the work force are examples of prime opportunities for financial literacy training. Also, the most useful programs are those that are offered in the local community rather than in a downtown office.

7. Financial Institutions have a Continuing Responsibility for Clear and Instructive Advertising and Honest Dealing, and for Marketing Their Products in Lower-Income Communities

Whatever the adequacy of financial literacy programs, businesses should assume responsibility for honest and clear advertising of prices, terms, and conditions. Such clarity itself contributes to financial learning. Financial institutions have a particular responsibility under fair credit laws to disclose credit terms adequately. Federal regulators should be vigilant in correcting inadequacies in those disclosures, as should state regulators operating under state law.

8. Federal Regulators Should Place More Emphasis on the Service Test Under the Community Reinvestment Act (CRA)

The comparative absence of mainstream businesses in some lower-income communities robs those communities of a competitive marketplace and allows high-cost and fraudulent business to thrive. Under the Service test component of CRA exams, banks are evaluated on the numbers and locations of bank branches and ATMs; the types of products that they offer for lower-income people; the extent to which they offer financial education programs and other service-related issues. However, regulators have historically placed less emphasis on this test than on the Lending and Investments portions of CRA exams.

9. Federal and State Policies Should Provide Incentives for Low-Income People to Save, as They do Middle- and Upper-Income Households

There are no equivalents for lower-income Americans of the tax-breaks that the Federal government provides for homeowners and households that contribute to tax-deductible retirement accounts. For example, the Earned Income Tax Credit (EITC) is an income-building strategy. Income-building obviously leads to asset-building, but programs such as EITC are not sufficient in helping lower-income families build assets. At the very least, asset-limits for low- and moderate-income people receiving government assistance should be reduced. More proactively, the Federal government should support the best strategies that emerge from IDAs or similar experiments to encourage asset building for lower-income families through tax expenditures.

Conclusion

This report's critique of financial literacy programs for lower-income households should not obscure the fact that most lower-income people understand their economic situation and

struggle hard to get by. What such families need, according to many financial literacy providers, are strategies that enable them to use their money for their *future* benefit and information about how to avoid the predatory practices of unscrupulous financial firms. Below a certain income level, of course, getting to the end of the month with food on the table is enough of a challenge. However, even those families living in abject poverty need help to avoid financial and credit traps. There is an enormous gap between the need for such knowledge and what the range of concerned institutions and organizations currently provides.

APPENDIX: NATIONAL RESOURCES FOR LOCAL FINANCIAL LITERACY PROGRAMS

A number of national and government programs provide resources to on-the-ground financial literacy trainers. The following is a summary of some of these major programs. Web page addresses and phone numbers have been provided where appropriate.

National Organizations and Initiatives

Consumer Action

www.consumer-action.org

(415) 777-9648

Consumer Action is a nonprofit, membership-based organization that serves consumers through a 4,000+ network of community groups nationwide. Consumer Action runs the National Consumer Resource Center, operates a free consumer hotline and offers free multilingual publications on consumer and personal finance issues. The organization is engaged in consumer advocacy, education, and technical assistance.

Consumer Federation of America (CFA)

www.consumerfed.org

(202) 387-6121

The Consumer Federation of America publishes pamphlets on consumer issues, including the highly-requested publication "66 Ways to Save Money." The Federation has distributed more than one million copies of this money management guide to individuals, primarily through referrals by consumer credit counseling agencies and the Cooperative Extension Service. This group targets its materials to moderate-income people and partners with other consumer groups as well as private corporations to market its materials.

Consumers Union

www.consumer.org

(914) 378-2000

Consumers Union is a nonprofit testing and information organization for consumers. They publish *Consumer Reports*, advocate on behalf of consumers, and coordinate research and education projects on consumer, legislative, and regulatory issues.

Financial Literacy 2001

www.Financial-literacy.org

(715) 365-2750

This program is a joint project of the Investors Protection Trust, National Association of Securities Dealers, North American Securities Administrators Association, and State Securities

Agencies. The basic goal of Financial Literacy 2001 is to increase and improve the teaching of financial literacy in public high schools. Financial Literacy 2001 has focused its curricula on saving and investing information.

During the Year One phase of the free teaching guide and training aspect of the program, 15,000 free copies of the curriculum were sent to teachers nationwide; 11,000 free copies will be sent out during the second year. The educators who received these materials were picked out of a national database and were chosen because of an assumed or acknowledged interest in personal finance education and because of the need of the community where they teach. The leaders behind this project have chosen to focus on marketing the program to "non-economics" teachers such as vocational-technical, home economics, and consumer education teachers, particularly in areas where there is a need for this type of information.

Financial Literacy 2001 has created a web site where teachers can share resources and best practices and inquire about financial literacy contacts in their states. The project intends to sponsor 100 state-level training programs annually. Typically, 80-120 teachers attend each of these sessions.

Jump\$tart Coalition for Personal Financial Literacy
www.jumpstartcoalition.org
(888) 45-educate

Jump\$tart is a Washington-based partnership of approximately 80 organizations and individuals ranging from educators, government agencies, and business leaders that promotes the teaching of personal financial literacy in schools. The coalition's main activities are: 1) the creation of a clearinghouse of brochures and books about personal finance for grades K-12; 2) a national public relations campaign for improving financial literacy; and 3) the creation and promotion of curriculum standards for various grades. Jump\$tart has been heavily involved in the initial organization of state-specific coalitions formed for the purpose of providing financial skills education in schools.

Junior Achievement (JA)
www.ja.org
(719) 540-6200

Junior Achievement is the world's largest nonprofit economic education organization. Its mission is to teach business and entrepreneurship skills to young people. JA has developed curricula for students in grades K-12 and currently reaches almost 4 million elementary, middle, and high school students in the U.S. through its school programs.

Money2000

www.money2000.org
(217) 333-4901

Money2000 is a program that is run through the Cooperative Extension System (CES). It is designed to help participants increase their net worth by increasing savings and reducing debts. The program offers personalized financial education classes, materials, and other resources.

National Center for Financial Education (NCFE)
www.ncfe.org
(619) 232-8811

NCFE is a nonprofit organization of financial planners founded in 1982 that works to educate, motivate, and empower the public to do a better job of spending, saving, investing, insuring, and planning. They primarily offer curriculum resources to teachers and the public.

National Community Reinvestment Coalition (NCRC)
www.ncrc.org
(202) 628-8866

NCRC is a coalition of 700 organizations working on issues of community reinvestment and economic development across the country. NCRC has developed a financial literacy training series in English and Spanish. Organizations that provide financial literacy training can attend a training course offered by NCRC to learn how to best use this material.

National Consumer Law Center (NCLC)
www.consumerlaw.org
(202) 986-6060

NCLC advocates for low-income consumers nationwide. NCLC produces consumer education materials that are distributed through a network of legal service providers, Older-Americans-Act groups, immigrant organizations and others. They produce bilingual (English/Spanish) publications on how to open a bank account, the high cost of credit, predatory lenders, and rent-to-own stores. NCLC trains advocates (legal service, immigrant, and domestic violence workers) on how to use the materials for their clients. Attorneys affiliated with NCLC take up people's cases pro-bono if they have been victims of fraud or if they have been "scammed."

National Consumers League
www.natlconsumersleague.org
(202) 835-3323

National Consumers League is a nonprofit advocacy group that represents consumers on marketplace and workplace issues. The League operates the National Fraud Information

Center, develops training materials, conducts workshops, manages four coalitions, and publishes four consumer newsletters.

National Council on Economic Education (NCEE)

www.nationalcouncil.org

(212) 730-7007

NCEE is a nonprofit partnership of educators, business leaders, and labor groups that seeks to offer and promote economic education. It provides training sessions and materials for educators across the country. NCEE publishes materials, develops curricula, and distributes teacher strategies and resources for classroom use. NCEE has a nationwide network of state councils and over 260 university-based centers collectively called "Economics America." This program trains approximately 120,000 teachers a year in economic education. These teachers then instruct about 7 million students a year in basic economics. NCEE also has an "Economics International" initiative that seeks to promote economics education worldwide. The Council has begun a five-year nationwide Campaign for Economic Literacy to increase economic literacy among students and adults.

National Endowment for Financial Education (NEFE)

www.nefe.org

(303) 741-6333

The National Endowment for Financial Education (NEFE) and the Cooperative Extension Service (CES) created the High School Financial Planning Program (HSFPP) in 1986 to increase and facilitate the teaching of financial education in high schools. CES personnel train teachers to use program materials developed by NEFE for use in the classroom. The ten hour course is implemented in existing high-school courses, such as social studies, business or mathematics. The program is a public service and is entirely free. Over the last year in Illinois, 6,888 students in 100 schools statewide participated in the program, and CES trained 645 teachers across the state. Topics covered include managing income and credit, saving to achieve goals, and protecting assets.

National Foundation for Consumer Credit (NFCC)

www.nfcc.org

(301) 589-5600

Consumer credit counseling offices conduct credit counseling and assist in debt repair at no or low-cost to consumers already in financial trouble. NFCC, a national association of over 1,300 nonprofit credit counseling offices, maintains educational materials on buying, spending, and borrowing and publishes a free newsletter, "Kids & Money." Consumer Credit services are generally targeted to adults that have debt problems.

National Institute for Consumer Education (NICE)

www.nice.emich.edu

(734) 487-2292

The mission of NICE is to empower consumers so that they are better informed. Established in 1973 through Eastern Michigan University, NICE is a clearinghouse and professional development center for financial education. NICE works with schools, communities, and workplaces. The Institute conducts workshops, produces educational publications, maintains a clearinghouse of materials, offers consulting services, and works on public policy issues surrounding financial literacy issues. The primary audience for NICE's services are educators, government offices, and the media.

Neighborworks Network

www.nw.org

(202) 376-2400

This is a network of almost 200 agencies that promote homeownership programs for moderate-income people throughout the country. (In 1998, network agencies created or preserved about 14,000 affordable housing units and repaired about 13,000 units). Most of the financial education that local Neighborhood Housing Services (NHS) agencies do is one-on-one counseling for prospective homebuyers. People hear of their services through word of mouth, a telephone 800 service, a cable network where they advertise, and from lenders/financial institutions. Most people are referred to the counseling services of network agencies because of poor credit, lack of money for a downpayment, or because "they don't have the first clue how to go about buying a house" according to a Chicago-based NHS representative. Neighborworks Network's nationwide education program is called Full Cycle Homeownership (FCH). This three-step program is free and begins with orientation classes that are offered once a week and leads into confidential one on one counseling (2nd step). The third step is the home buying process. The counseling sessions enable clients to get a free copy of their credit report and focus on budget-forming and any other issues that are specific to the customer. Most clients are involved in FCH for six months to a year. The Network also has a foreclosure prevention program and a Home Buyers Club for prospective buyers that meets once a month. Many clients of NHS are unbanked.

Federal Agencies and Programs

The Federal government has broad and diverse interests in the financial literacy of the public. In addition to the national Cooperative Extension Service funded by the U.S. Department of Agriculture and operated through land grant universities, many other federal agencies have

financial literacy programs or disseminate financial education information or materials to other organizations. Federal agencies are also important sources of funds for other organizations and often have strong supportive relationships with national coalitions and advocacy groups.

Consumer Information Center (CIC)

www.pueblo.gsa.gov

(202) 501-1794

The Consumer Information Center (CIC) was established as a separately funded operation within the office of the United States General Services Administration in 1970. CIC helps federal agencies and departments develop and distribute consumer information to the public. It maintains a clearinghouse of free and low-cost booklets published by federal agencies and produces the Consumer's Resource Handbook and the Consumer Information Catalog.

Department of the Treasury

www.treas.gov/eft/index.htm

The Department of the Treasury is working to implement the nation's Electronic Funds Transfer (EFT) program. EFT is the system through which recipients of federal cash benefits receive their payments electronically. Treasury provides a host of fact sheets, newsletters, and other printed materials on EFT and direct deposit. It also provides grants to community organizations that offer educational workshops related to EFT.

Federal Deposit Insurance Corporation (FDIC)

www.fdic.gov

(800) 934-3342

FDIC has published a useful resource for parents and teachers about how to teach children the basics of money management. It is available for free and is marketed in FDIC's Consumer Newsletter and on-line. They also have an interactive website for kids called the "Learning Bank." Most of FDIC's materials relate to teaching young people the basics of financial literacy.

Federal Reserve Board of Governors

www.bog.frb.fed.us

(202) 452-3693

The Federal Reserve Board creates and publishes consumer education materials and brochures on financial issues. The diverse range of topics includes information on shopping for the best credit card, picking the best mortgage rate, and fair lending laws. Most of these materials are published both on paper and on-line. The Reserve Board has also produced a video that explains basic topics such as budgeting for saving, using compounding to help your savings

grow, understanding risk, and choosing banking services. Their consumer related publications are targeted to adults with various levels of knowledge on banking topics.

The Federal Reserve System includes twelve district banks, all of which operate financial education programs. The Federal Reserve Bank of Chicago, for instance, provides financial literacy through its Division of Public Affairs and Department of Consumer and Community Affairs. The Division of Public Affairs focuses on outreach and publications for educators, while Consumer and Community Affairs reaches out to individuals and community groups. The Department of Consumer and Community Affairs creates educational materials and makes presentations on topics such as basic banking, mutual funds, EFT '99 (special focus on senior citizens), consumer auto leasing, credit cards, and fair lending.

Federal Trade Commission (FTC)

www.ftc.gov

(202) 326-2222

The Federal Trade Commission is responsible for monitoring business practices and bringing suits against companies that defraud or otherwise harm consumers. It offers information on-line and in pamphlets for consumers on high cost loans, credit card debt, how to manage money during marriage or divorce, avoiding bankruptcy, and many other household financial topics.

Securities and Exchange Commission (SEC)

www.sec.gov

(202) 942-8088

The SEC has a Department of Consumer Education and publishes many free brochures and pamphlets on investing wisely and avoiding fraud in the securities industry. The SEC has started a campaign called "Facts on Savings and Investment" which provides educational material. It has an on-line quick guide called the "Financial Facts Tool Kit." All publications are free and are targeted to adults who are currently investing in the stock or other securities markets.

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Chicago Public Schools

www.cps.k12.il.us

Cooperative State Research, Education and Extension

www.reeusda.gov

Illinois State Board of Education

www.isbe.state.il.us

National Foundation for Consumer Credit

www.nfcc.org

Personal Financial Employee Education, Virginia Tech Center for Organizational and Technological Advancement (COTA)

www.chre.vt.edu/pfee

Federal Trade Commission (FTC)

www.ftc.gov

Junior Achievement

www.ja.org

For examples, see Lois A. Vitt, Carol Anderson, Jamie Kent, Deanna M. Lyter, Jurg K. Siegenthaler, and Jeremy Ward, *Personal Finance and the Rush to Competence: Financial Literacy Education in the U.S.* (Fannie Mae Foundation, 2000) (www.fanniemaefoundation.org/programs/pdf/rep_finliteracy.pdf); Katy Jacob, Sharyl Hudson, and Malcolm Bush, *Tools For Survival: An Analysis of Financial Literacy Programs.* A fairly large percentage of individuals reported what are considered "good" cash-flow management practices: 89 percent of households had a checking account, 88 percent paid all their bills on time, and 75 percent reconciled their checkbook every month. However, fewer than half reported using a spending plan or budget. Financial literacy is the confluence of financial, credit and debt management and the knowledge that is necessary to make financially responsible decisions—decisions that are integral to our everyday lives. Financial literacy includes understanding how a checking account works, what using a credit card really means, and how to avoid debt. In sum, financial literacy impacts the daily issues an average family makes when trying to balance a budget, buy a home, fund the children's education and ensure an income at retirement. A lack of financial literacy is not a problem only in emerging or develo