

FINANCIAL LITERACY: EMPOWERING AMERICANS TO PREVENT THE NEXT FINANCIAL CRISIS

HEARING

BEFORE THE

OVERSIGHT OF GOVERNMENT MANAGEMENT,
THE FEDERAL WORKFORCE, AND THE
DISTRICT OF COLUMBIA SUBCOMMITTEE

OF THE

COMMITTEE ON
HOMELAND SECURITY AND
GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

ONE HUNDRED TWELFTH CONGRESS

SECOND SESSION

APRIL 26, 2012

Available via the World Wide Web: <http://www.fdsys.gov>

Printed for the use of the Committee on Homeland Security
and Governmental Affairs



U.S. GOVERNMENT PRINTING OFFICE

75-211 PDF

WASHINGTON : 2012

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512-1800; DC area (202) 512-1800
Fax: (202) 512-2104 Mail: Stop IDCC, Washington, DC 20402-0001

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**FINANCIAL LITERACY:
EMPOWERING AMERICANS TO PREVENT
THE NEXT FINANCIAL CRISIS**

THURSDAY, APRIL 26, 2012

U.S. SENATE,
SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT
MANAGEMENT, THE FEDERAL WORKFORCE,
AND THE DISTRICT OF COLUMBIA,
OF THE COMMITTEE ON HOMELAND SECURITY
AND GOVERNMENTAL AFFAIRS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 2:33 p.m., in Room SD-342, Dirksen Senate Office Building, Hon Daniel K. Akaka, Chairman of the Subcommittee, presiding.

Present: Senators Akaka, Begich and Johnson.

Also Present: Senator Merkley

OPENING STATEMENT OF SENATOR AKAKA

Senator AKAKA. I call this hearing of the Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia to order.

Aloha and good afternoon, everyone.

I want to welcome our witnesses to today's hearing. Financial Literacy: Empowering Americans to Prevent the Next Financial Crisis. I want to thank all of you for being here.

As many of you know, this is the Subcommittee's fifth and my final, oversight hearing examining efforts to enhance the financial capability of all Americans.

As Chairman, I have worked to promote financial literacy initiatives that help American families make smart choices to invest in their futures.

The recent financial crisis put to rest any illusions that we can ignore our Nation's shortfalls in financial education without suffering serious economic harm. We must act decisively to make sure Americans are empowered to make sound financial decisions.

The Financial Literacy and Education Commission (FLEC), which I worked to create in 2003, plays an important role in improving Federal coordination and collaboration on financial literacy activities. We must make sure the Commission has the funding and authorities it needs to fulfill its mission.

To fully coordinate and streamline Federal financial literacy efforts, the Commission may need an independent budget rather

than just rely on contributions from agencies. It also may need enhanced authority to coordinate member agencies' actions.

I want to close by noting that I have found it incredibly rewarding to champion financial literacy and economic education during my time in the Senate. I am very pleased that financial literacy will continue to have a strong and dedicated champion in my good friend, Senator Merkley, who is here with us today, and my good friend also, Senator Ron Johnson.

My passion for these issues is rooted in personal experience. Growing up in Hawaii, I was lucky to have parents and teachers who taught me how to save and raised me in a culture that valued saving and spending responsibly.

Yet, despite these strong values, my family struggled with financial insecurity, and we did not even have a bank account. My upbringing informs my belief that financial literacy education efforts must begin at the local level with families and communities and with the Federal Government playing an important supporting role.

I see my own parents in the millions of unbanked and underbanked families across the Nation. Often for reasons beyond their control, many hardworking people who do their best to provide for their families find themselves shut out of the mainstream financial system. This is where the Federal Government has a valuable role to play.

I strongly support programs like Bank On USA, which have demonstrated how government can bring together local officials, non-profits, and private firms to work together to make sure all families have financial security.

The sheer scale of our Nation's financial illiteracy means a significant amount of work remains to be done. However, rather than be discouraged by the challenge ahead of us, I am really inspired by the dedicated witnesses here today, especially the educators who have graciously taken the time to appear before us today.

I have faith that if we work together over the coming years, we can empower all Americans to make informed financial decisions and prevent the next financial crisis. I look forward to hearing from our witnesses today.

I would like to now call upon Senator Johnson for his opening statement.

Senator JOHNSON.

OPENING STATEMENT OF SENATOR JOHNSON

Senator JOHNSON. Thank you, Mr. Chairman. And aloha.

Senator AKAKA. Aloha.

Senator JOHNSON. Aloha to everybody in the audience. I also want to thank the witnesses for taking time to appear before us. I will note that it looks like we may have some roll call votes about 3:20 so that will probably disrupt things a little bit.

I, like you, Mr. Chairman, have a deep-seated belief in the importance of financial literacy. But I do think we may have some disagreement in terms of whose role is it. Is this really a legitimate role of the Federal Government or is this something that can be much more effectively and efficiently handled on a local level?

One of the reasons I actually decided I could run for Federal office like this is because in my 10 years leading up to running for election, I was heavily involved in local education, volunteering 50 or 60 percent of my time on my last endeavor as the business co-chair of a Partners in Education Council. And almost the entire efforts of that council had to do with providing basic life skills, training, and one of those key components was financial literacy.

One of the things we talked about at the very end of that process was the next step after high school, a comprehensive counseling model to make sure that children and their parents had the full range of options in terms of what the next step after high school would be.

So again, I think it is incredibly important to provide financial literacy training. But when you really start taking a look at what role of the Federal Government should be playing in it and when you take a look at our own finances here in the Federal Government, \$5.33 trillion worth of deficit spending during this Administration, a \$1.3 trillion a year deficit again this year, you really have to wonder, I mean, is this kind of the pot calling the kettle black here. I mean, should we really be relying on the Federal Government trying to teach our youth how they should be responsible?

One of the key components in terms of young people starting their life successfully is not getting into debt. One of the problems we are finding is students taking on all of these loans and really digging themselves in a deep hole with not only credit card debt but again just taking a look at financing their education and taking a look at the type of degree programs that they are pursuing.

A relatively depressing article was just released earlier this week from the Associated Press (AP). I do not want to quote the study because I do not think it is complete but it is basically reporting that current Bachelor of Arts (BA) graduates, only one in two are gainfully employed in the area of training.

And if you take a look at just the average debt load of students graduating in the 2009–2010 school year from public institutions, is about \$12,000, private is about \$18,000.

So again, we are encouraging our young people to pursue degree programs sometimes that are not particularly valued in the workplace, and we are also encouraging them to assume a fair amount of debt, and that is the Federal Government pushing that on them.

So, I guess the thrust of my questions is going to be really about: Is this a real proper role for the Federal Government or not? And I just want to throw out, this is a little, I will not say totally on point, but I think it describes what I am talking about in terms of the role of the Federal Government, how effective it is—Pat, if you want to put that up.

I have had my staff take a look at conditions, economic conditions from 1960 until today, from then versus now. If you take a look at three product areas, market areas that have basically been affected by the free market, clothing, food, and shelter in inflation-adjusted dollars the per-household expense for clothing, food, and shelter actually is below 1960 levels.

Again, that is the power, the wonder of the free-market system in sharing the lowest possible price and cost, the highest possible level of quality and customer service.

In two sectors that the government largely controls, education and healthcare, you can see the difference. Education has gone up 206 percent on a per-household basis. Healthcare is up 481 percent.

So again, that sort of underscores the point, is government, is the Federal Government really the right entity to be pushing financial literacy.

So thank you, Mr. Chairman.

Senator AKAKA. Thank you very much, Senator Johnson.

Now, I am going to call on Senator Merkley for his opening statement.

OPENING STATEMENT OF SENATOR MERKLEY

Senator MERKLEY. Thank you very much, Mr. Chairman, and thank you for the series of hearings including the one today where we will also have a panel from the Consumer Financial Protection Bureau (CFPB). But thank you for your lifetime of leadership on financial education, going back to the Excellence in Economic Education Act (EEE) Act, if you will. The work that you did a couple of years later to establish the Financial Literacy Commissions.

Like you, I was fortunate to have parents who stressed financial education from the very beginning. I think I was about 5 years old when my parents sent me to the bank to get my bank account, earlier than that I got my piggy bank, and they taught me to take part of every allowance and store it away, stash it away. And I am doing the same with my children today.

But I must say the world has become a lot more complicated financially since I was a child. When I got out of graduate school and came to work for Secretary Weinberger in the Department of Defense (DOD), at that point I applied for a credit card, and I was turned down. I applied for my MasterCard, got my rejection letter, said you do not have 2 years of work history yet. And so, 2 years later I applied again, got my credit card.

What a difference from the weekly set of letters my children receive trying to get them to open credit card accounts and with all kinds of different qualifications.

We did not have payday loans, 500 percent loans preying on folks. We did not have deregulated predatory mortgages. We had a system of Savings and Loan where you deposited in your corner savings and loan and they provided a low-cost loan to buy your house.

And as the complexity of the marketplace has evolved, we have not geared up financial education. Despite your best efforts which have been substantial, we still have not met the challenge.

And so, I do look forward to trying to help carry forward the message, you have so clearly established, that financial literacy is a key part of preparation for living in a complex society.

This whole set of lessons was reinforced when I was Director for the Habitat for Humanity and worked with many families who would not have been able to be homeowners. They worked in the service economy, did not earn enough in wages but for habitat interest free loans and sweat equity where the families help build the homes.

But a key piece of those families being able to be successful, to make sure they were able to make their home payments lower than

the market but still substantial was financial literacy and that education that they went through as part of the habitat experienced was critical to the ongoing success.

So, I do think this is extraordinarily important. I look forward to continuing to work on it. I think this is a bipartisan world in which education is so powerful and the quality of life, the quality of financial life that our citizens have. Thank you for your leadership.

Senator JOHNSON. Mr. Chairman, I neglected to request that I received a statement from the Education Finance Council (EFC). I would like to have that included in the record please.

Senator AKAKA. Certainly. That will be included in the record.

Senator AKAKA. I now welcome our first panel witness. Sheila Bair, former chairman of the Federal Deposit Insurance Corporation (FDIC) and Senior Adviser at the Pew Charitable Trusts.

Nearly 5 years ago, Ms. Bair was sitting in that same chair appearing as the lead witness at the Subcommittee's first financial literacy hearing.

Welcome back, Sheila, it is good to see you again. As you know, it is the custom of the Subcommittee to swear in all witnesses. So please, stand and raise your right hand.

Do you solemnly swear that the testimony you are about to give the Subcommittee is the truth, the whole truth, and nothing but the truth so help you, God?

Ms. BAIR. I do.

Senator AKAKA. Thank you. Let the record note that the witness answered in the affirmative.

Before we start, I want you to know that your full written statement will be part of the record, and I would like to remind you to please limit your oral remarks to 5 minutes.

Ms. Bair, would you please proceed with your testimony.

TESTIMONY OF HON. SHEILA BAIR,¹ FORMER CHAIRMAN, U.S. FEDERAL DEPOSIT INSURANCE CORPORATION AND SENIOR ADVISOR, THE PEW CHARITABLE TRUSTS

Ms. BAIR. Chairman Akaka, Ranking Member Johnson, Senator Merkley, Aloha.

Senator AKAKA. Aloha.

Ms. BAIR. Thank you very much for the opportunity to testify today on ways to improve the effectiveness of Federal financial literacy initiatives and the performance of the Financial Literacy Education Commission.

And may I also say it is a distinct pleasure to be your bookends. I was glad I was here at your first oversight hearing and I am very glad to be here with you for your last oversight hearing. Thank you very much for including me.

As this Subcommittee knows, financial education has long been of interest to me. I have written children's books and stories which deal with basic financial topics.

I created Treasury's Office of Financial Education when I served as the Assistant Secretary for Financial Institutions; and when I later became Chairman of the Federal Deposit Insurance Corpora-

¹ The prepared statement of Ms. Bair appears in the appendix on page 49.

tion, I created an Advisory Committee on Economic Inclusion, or Come-In for short. This important committee helped guide the FDIC's work in promoting a banking system which is inclusive and serves the needs of all Americans, regardless of income status or financial acumen.

After many years of promoting financial education, we have learned some important things. For young people, building financial education into core curricula and having it taught every year is more effective than "one-off" financial education classes.

For adults, financial education offered in connection with a specific financial event, be it opening a banking account, applying for a credit card or taking out a mortgage, will be more effective than financial training which is offered in the abstract. We also know that financial education can make a difference though much more work needs to be done in defining and measuring the key metrics of success.

For instance, when I chaired the FDIC, we completed a survey of adults who had completed our Money Smart curriculum and found that it did have a positive impact by making it more likely that they would open a bank account, save money, and a budget.

We also noted that an important part of financial literacy is having information presented in a way that consumers can understand and use to make appropriate choices. Thus, disclosures for financial products and services needs to be presented in a format that is clear and understandable.

This brings me to important work the Pew Charitable Trusts is doing on consumer financial security. In recent years, Pew has generated a variety of research focused on enhancing consumer financial security and understanding long-term economic mobility. Helping people make beneficial financial decisions is integral to this work.

This is particularly important for checking accounts which allow consumers to transact and save often serve as a gateway to the use of more sophisticated financial products and services.

Unfortunately, when Pew studied the checking account disclosures provided by the 10 largest banks, we found a median of 111 pages of information. Last fall Pew released the results of a longitudinal study of 2000 low income Los Angeles area households, 1000 with and 1000 without a banking account, which explores the connections between financial services, the populations they serve or are failing to serve, and the financial stability of those populations.

Pew found that nearly one in three households listed unexpected and unexplained fees as the reason for leaving banking while only 27 percent attributed their departure from banking to job loss or lack of funds.

Given the need for consumers to understand and maintain their checking accounts, we believe that the Consumer Financial Protection Bureau should require all financial institutions to provide a clear, concise, and uniform disclosure that would present account holders with easy to understand information about important fees and terms.

In addition, I urge the CFPB to prohibit practices that have no business purpose other than to maximize fees and that are difficult

or impossible for consumers to avoid like transaction reordering since this practice makes it very difficult for consumers to manage their money and avoid these charges.

While at the FDIC, we issued guidance to our supervised banks to halt this practice. Transactions need to be processed in a fee-neutral manner that responsible consumers can understand and follow.

Pew's Safe Small-Dollar Loans Research Project is currently evaluating the complicated issue of payday lending. Here is another reminder that empowering Americans to manage their finances effectively requires meaningful price disclosures.

The case of payday lending reminds us that consumers must be enabled to understand not just what it initially costs to obtain a financial product but also to calculate the ongoing costs and risks of using those products.

Consumers need to be educated so that they are less susceptible to debt trap which too often accompanies payday loans. Payday loans are not an easy fix to temporary emergency cash needs as their marketing suggests. Frequently borrowers use these loans for recurring expenses. They also find that they must repeatedly take out new loans to pay off the old ones.

Indeed, the profitability of the payday lending model is driven by repeat usage. This is why I supported the creation of a small dollar loan pilot program when I was at the FDIC to encourage responsible alternatives to payday loans.

This program recognizes the value of safe and affordable small dollar loans. Two of the most important features of this program are a minimum repayment term of 90 days and solid underwriting practices.

One final point which I would like to make brings us back to the importance of teaching positive behaviors. Hoping to instill positive financial behaviors in certain areas such as saving and investing can also promote positive behaviors in other areas like credit usage.

Just one example. Pew found that renters earning \$40,000 to \$100,000 a year use payday loans more frequently than homeowners who earn only \$15,000 to \$40,000 a year. Since home ownership has traditionally been a primary asset building vehicle, and we hope it will return to that, this finding suggests that asset accumulation can have a positive impact on reducing reliance on high-cost credit.

Thank you very much for the opportunity to testify today and I would be happy to answer your questions.

Senator AKAKA. Thank you very much, Ms. Bair. I appreciate you testifying at this hearing, despite being under the weather.

Ms. BAIR. Thank you.

Senator AKAKA. Ms. Bair, I commend you for your work both as Chairman of the FDIC and as a children's book author, to promote the value of good saving and spending habits. As you know, I am very grateful to my fourth grade teacher who used a piggy bank to teach important lessons about saving and managing money that I still follow to this day.

When it comes to financial education, how important is it that we start early, and what is the most effective way to bring financial literacy into our schools?

Ms. BAIR. Well, I think it needs to start very early. Children even in preschool start understanding what money is about. They like to play store. Money can be a wonderful tool for teaching math and math can be a wonderful tool for teaching children about financial management.

My view has always been that it should be in core curricula year after year. It can easily be integrated into math with evermore increasingly sophisticated concepts being introduced with each grade.

Literature class and history classes also offer wonderful opportunities to teach great literature as well as historical lessons about financial catastrophes that are brought about through, time-old problems of speculation, greed, excess leverage.

So, I do think there is a wealth of educational materials that can be woven into the curricula year after year and offered and reinforced year after year in our schools.

Senator AKAKA. Thank you. While at Treasury, you founded the Department's Office of Financial Education. I am interested in your thoughts on how the office has performed in carrying out its mission, how the current structure compares to the original vision, and any proposals you have to improve the office's effectiveness.

Ms. BAIR. Well, I know you are going to be hearing from the Treasury Department later and will want to hear their views. I think the mandate has seemed to have gotten somewhat broader since I left and I think that is fine.

I do think there does need to be a very sharp focus, though, on financial education and coordination of various Federal efforts on financial education.

And if I would have one suggestion it might be to elevate the office perhaps to be in the Office of the Secretary. I think, making sure it is a priority issue, making sure that the head of the office has the power and the imprimatur at a very senior level to coordinate these programs and assure that there is effective coordination, efficiency. Sharing of research I think would be important. So, perhaps elevating the office might be a good thing.

Senator AKAKA. I commend you for initiating the landmark 2009 FDIC national survey of unbanked and underbanked households. The results are incredibly valuable in helping us design the most effective policies to address this critical issue. In 2012, it is simply not acceptable that close to 30 million U.S. households are either unbanked or underbanked.

Would bringing these households into the banking system have broader economic benefits that would justify greater investments in programs such as the Model Safe Accounts Pilot or Bank On USA?

Ms. BAIR. Well, I think certainly in terms of helping and improving the efficiency of low-income support programs, reducing unnecessary fees and costs associated with alternative financial transactions, I think those can all be accomplished by getting more people into banks as long as it is the right type of account.

We know that some bank accounts can be very expensive too and inappropriate for people who are inexperienced with finances. We modeled, as you have mentioned here, safe accounts at the FDIC

as well to make sure that they are streamlined and simple and not laden with fees and are appropriate for lower income Americans.

So, I do think there is a lot of return to get on that type of initiative. But I think absent even spending Federal money in those programs a lot more can be accomplished.

The FDIC, and the banking regulators can perhaps do more in this area working with Treasury's leadership, the Fed and the Office of the Comptroller of the Currency (OCC) in terms of providing appropriate incentives for banks to provide these basic accounts. Community Reinvestment Act (CRA) credit is certainly an important tool.

So, I think there are, even outside budgetary constraints which I know are severe right now, there are ways I think that the regulatory community, with Treasury's leadership, can help make those types of accounts more broadly available.

And frankly, I think that would be supported by the industry too. I think unfortunately these types of accounts can not be very profitable. They are not big profit leaders and so relying on the private sector by itself to innovate and develop and market these types of products is probably not going to happen. But through regulatory coordination and encouragement I think you can get there.

Senator AKAKA. You have noted that a consumer who knows the right questions to ask, understands economic fundamentals, and most importantly has the confidence to challenge products that seem too good to be true—

Ms. BAIR. Right.

Senator AKAKA [continuing]. Is a regulator's best weapon in consumer protection.

Would you please elaborate on how a financially literate consumer increases regulators' efficiency and effectiveness?

Ms. BAIR. Right. Well, yes, I mean, for one thing they will know to ask questions and understand that they should say no to a product that they do not fully understand.

I look back at these horribly complex adjustable-rate, subprime mortgages that really were heavily marketed in lower income neighborhoods and targeted to people who had tarnished credit records in the past.

So, we know that they had trouble in the past managing their finances, and just understanding the basic difference between a fixed rate and a floating rate.

There is misleading marketing of these products too. They were advertised as fixed rate even though they were only fixed rate for 2 or 3 years. But if you look closely enough at some of the disclosures you could see that there was a payment reset.

But, just understanding that basic difference between a fixed rate and a floating rate and if you have a floating rate you are at risk of your payment going up I think would have forewarned a lot of people away from these products.

So, just basic information like that, making sure folks have a better understanding of the fundamental concepts I think could have avoided a lot. We needed more robust regulation too and more responsible behavior in the mortgage origination community. But better informed consumers certainly could have helped avoid a lot of

these unaffordable mortgages that were made and subsequently ended up in foreclosures.

Senator AKAKA. Thank you.

Senator JOHNSON, your questions.

Senator JOHNSON. Thank you, Mr. Chairman.

Ms. Bair, my background is in accounting and in manufacturing. My manufacturing background always causes me to look for the root causes of a problem.

Ms. BAIR. Right.

Senator JOHNSON. Now, an awful lot of what we are talking about with financial literacy we are trying to attack some of these abusive financial practices and abusive financial products. I mean, can you describe for me what is sort of the root cause of some of these payday loans?

Ms. BAIR. Well, I think people in need, people in financial need is really what is causing it obviously. The ultimate problem is to have a robust economy, more jobs, better paying jobs because people turn to these products when they then become in financial straits.

Some of those, though, financial problems can be avoided, I think, by better skills in learning how to budget money, learning how to live within your means.

So, I do think financial education can play a role in terms of having better financial management skills to avoid the need that you have to turn to emergency high-cost credit to begin with.

But, the higher-priced products are particularly targeted to people who are in need and do not have a lot of sophistication or have a past history of misuse of products. That is the conundrum you face when you try to make credit more available to people who in the past have had trouble on managing credit.

So, I think, as a Nation and as a government, we need to ask, as a matter of good conscience, when do we say enough is enough. Can we live with the 500 percent rate? Can we live with the 3000 percent interest rate? I think at some point we have to say it is better to just deny that credit as opposed to, say, it should be available at any cost to people who cannot afford it.

Senator JOHNSON. Is there anything in Federal law currently with the ability to prevent those types of abuses?

Ms. BAIR. There is—for the military there is but not otherwise, I think and I do not know if you need to go to rate regulation. There may be at some point where something is so abusive it would violate the basic tenets of Federal consumer protection laws. But certainly, I think, better disclosure and better provision of alternatives.

There are a number of credit unions that have piloted alternative, small-dollar loans that can be used, that have longer repayment terms and much lower interest rates. We piloted on a voluntary basis; a number of banks did the same type of thing.

So, market competition is always good. And I think banks are well-positioned to provide lower cost alternatives because they already have the infrastructure in place. But the payday lending infrastructure is a very expensive one. It is usually a storefront operation. It is labor intensive so they are very high cost.

So, I think banks if they can have the appropriate business and regulatory environment to provide low-cost alternatives are well-positioned to do that.

Senator JOHNSON. So, why do not basic laws against usury apply here?

Ms. BAIR. Well, sometimes they do. Usury laws are State by State. They vary by State. There is a question of whether they apply to Internet transactions. So, that can be another issue. Some States have laws that openly accommodate payday loans. So, it is a matter of State law.

Senator JOHNSON. OK. Is there any evidence, again we are basically talking about individuals that really are in tough economic situations.

Ms. BAIR. Right.

Senator JOHNSON. I am not sure that financial literacy is going to be particularly effective with that population base. Is there any evidence that it is?

Ms. BAIR. Well, I think it can be preventative. I think with better financial education can we help everybody? No. Can we help more? Yes. And I think, again, in the public schools in particular which is your broadest venue for providing financial education, having basic financial concepts taught, integrated into the core curricula of math especially so you are not really adding to cost is very important.

I think making sure that it includes money management skills and understanding basic concepts about, risk and return, compounding interest, how compounding interest will hurt you if you borrow money and take a long time to pay it back, getting those types of notions built into core curricula in school, I think when folks become adults they can more responsibly manage their money, basic budgeting skills.

And so, they have plans. So they have \$500 in the bank account if the car breaks down or there is an unexpected doctor's appointment. But, that is hard to do. So, I think it really needs to get into the public schools and be offered year after year, I mean, enforced year after year.

Senator JOHNSON. You just mentioned compound interest. Certainly one of my concerns in these artificially low rates that I think you just recently wrote about. We are certainly robbing seniors of their ability to have a decent return on their life savings.

Ms. BAIR. Right.

Senator JOHNSON. We are also robbing youth of the wonder and power of compound interest rates now. Can you just kind of speak to that?

Ms. BAIR. Right. Well, that is true. I wrote a book "*Rock, Brock, and the Savings Shock*". It is about compounding interest. I used a five percent interest rate back then and obviously that is dated.

The power of compounding obviously is much more difficult to teach when you are talking about these extraordinarily low interest rates.

Though even at two percent for a long enough period of time, it can start gaining some momentum. I do think, though, as I said, we are talking about financial education, but I do think there are

risks associated with this very long, protracted period we have had of near zero interest rates.

Certainly, it has hurt savers. It has hurt pension fund managers, those trying to manage retirement savings in a way that will produce enough of an income to provide the promised benefit. What are we getting on the positive side?

So, my sense is, as I said, is that it is time to perhaps start turning the ship. I do not suggest doing anything radical overnight but I think signaling that perhaps it is time to think of a transition period out of this or at least let the market bump rates up a little bit. If that is where the market wants to go, it would be well advised.

Senator JOHNSON. I looked at the history of the U.S. borrowing costs from 1970 to 2000. It averaged 5.3 percent.

Ms. BAIR. Right.

Senator JOHNSON. The last few years were at about one and a half percent.

Ms. BAIR. Yeah.

Senator JOHNSON. Do you have any prediction when that little bubble is going to burst or when we—

Ms. BAIR. I think that is one of the problems, if we have continued Federal Reserve buying of longer-dated Treasury bonds, we really do not know whether that has camouflaging reduced investor interest in longer dated Treasury securities. We will presumably find that out when Operation Twist concludes in June.

But I do think, and one of the points I made in the column, I think the Fed is, I do not fault the Fed, I think the Fed feels that fiscal policy is still frankly not being managed very well.

So, they are trying to make up for it through monetary policy and I just think there is only so much you can do through monetary policy. So, it might be a good thing to bump those rates up a little bit. Maybe a little bond market discipline that people will start focusing on some of our short- and longer-term fiscal issues here and deal with them in a more effective way.

Senator JOHNSON. Thank you very much.

Thank you, Mr. Chairman.

Senator AKAKA. Thank you very much, Senator Johnson. Senator Merkley.

Senator MERKLEY. Thank you very much, Mr. Chairman, and thank you, Ms. Bair. I appreciate the work you have done before and the work that you are doing now. In your testimony, you note that unexpected fees drive customers out of bank accounts, I believe, one out of three who leave the banking system. You also mentioned transaction reordering.

Ms. BAIR. Yes.

Senator MERKLEY. And I certainly have heard from lots of folks who, because the order of their transactions were reordered to having the largest transaction first with a string of perhaps small things like buying a soda pop or something, all of them then had \$35 fees associated with that. So, instead of one \$35 fee there were now eight. And one of the reactions is, what, I am going to shut down my checking account.

Who would have the authority, if anyone, does the Consumer Financial Protection Bureau have authority to address the issues like

the chronology of transactions being changed by a financial institution?

Ms. BAIR. Yes, I think, well, you have a representative testifying but my view is that, yes, that is within their power. And we, at least for the banks that the FDIC supervised, we put out guidance saying that the practice should stop.

I think a lot of it has stopped already fortunately—unfortunately, because of litigation as much as anything. But there is no reason for it other than to maximize fees, and I think a lot of responsible banks do not do it.

But it damages customer trust. They feel like they are tricked, they are gamed. And it is not good. You cannot see it. You cannot do anything about it.

So, I do think it is a good example of a practice that there is no legitimate business purpose for and it should be banned. Absolutely.

Senator MERKLEY. Thank you. I want to return to the payday loans for a moment. You mentioned that the military has restrictions through those statutes that we passed.

Ms. BAIR. Right.

Senator MERKLEY. And I remember the vivid testimony on how the 500 percent interest rates around military bases were demoralizing our young male and female GIs and quite frankly having a devastating impact on families.

And the military leaders came before the Senate and said this is a terrible impact on families, a terrible impact on national security as a result, can you do something about it? And we did do something about it.

But why is something that is very good for military families not also very good for all American families?

Ms. BAIR. Well, I would not disagree with you on that. I think it is hard. Flat numerical interest rate restrictions have had a checkered history when we have tried them in the past. And of course, interest rate environments can change. I think Talent Amendment's was 36 percent. That was when, maybe a standard interest rate was 18 or 20 percent and now it is so much lower. So, 36 percent even sounds pretty high. So, there is always that issue.

My preference is always to try to get competition to drive interest rates down combined with robust disclosures so that people understand what they are getting themselves into.

But, I think it is a legitimate issue to be concerned about; and especially with lower income folks, they get trapped into the serial loans that they keep paying and repaying and repaying.

It really is wealth stripping. It does undermine other Federal support programs that we try to provide to assure everyone has a basic income and standard of living.

So, I guess, Senator, my preference still would be to try to let market competition get it down with better disclosure but I can certainly see a policy justification for having a Federal limit if Congress wanted to do that.

Senator MERKLEY. When I was in the Oregon legislature, led an effort to put a 36 percent cap on Oregon's payday loans, a successful effort. One of the concerns was that it would eliminate the industry and the availability of short-term loans. It did cut into about

a third the number of storefronts; but instead of having a storefront every three blocks, there is a storefront about every 10 blocks.

Ms. BAIR. Right.

Senator MERKLEY. And so, huge savings to low income families.

I was very struck by going into a food bank and having the director of the food bank say the biggest single factor that she had noticed was that she no longer had folks coming into the food bank who have been driven to bankruptcy by the 500 percent interest rates on payday loans, it had a big impact. She said then with the economy turned down the loss of jobs has gone the other direction.

Ms. BAIR. Yeah.

Senator MERKLEY. But there are two challenges that Oregon has. One is that we did put a law on Internet lenders and made those loans unenforceable in Oregon. However, Internet lenders are using remotely created checks in order to essentially gain the right to extract the funds in a fashion that State regulators cannot get their hands around.

The other challenge we have is that the State law cannot control national banks. And nationally chartered or federally chartered banks are starting to move into the payday loan row.

Any thoughts on those two pieces?

Ms. BAIR. Well, again, there may be legal issues but I tend to interpret the CFPB's authority there pretty broadly. So, I think that might be a discussion that you need to have with the CFPB.

Federal preemption of State laws is something that has troubled me for a long time. When I was at Treasury in 2001 and 2002, I had objected then to the OCC's efforts to preempt mortgage protections that were being, anti-predatory lending laws that were being enacted State-by-State. And I left Treasury and later the OCC went ahead with that.

You and I can argue about whether usury limits and rate regulations are a good thing or a bad thing. But I think we should all agree that if States want to protect their own citizens, they should have the ability to do that.

And so, I would hope that perhaps that is an area that legal authorities could be explored with the CFPB.

Senator MERKLEY. Thank you. You had mentioned the strategy of integrating financial concepts into regular curriculum.

Ms. BAIR. Right.

Senator MERKLEY. You also note in your testimony the need to test the efficacy of better research, test efficacy of programs. Has there been research that has compared, if you will, the stand-alone financial literacy class perhaps required in high school or students who take it in high school versus the incorporation of financial literacy concepts more broadly?

Ms. BAIR. It is more anecdotal. I do not think there are good control groups. It would be nice to see research like that. I do know the one-off type of, high school classes, the research that has been done on it has been pretty weak in terms of showing that they are very effective in changing behavior.

I noticed that your next panel of witnesses will be talking about a new research agenda for the FLEC. And I think this is an area where we are desperately in need for better, stronger survey data, perhaps studies that could actually track, find a few school districts

that are doing this, and more and more are, and actually track the behavior of those students over a period of time versus a control group where that type of education is not introduced. I think it will be extremely helpful.

Senator MERKLEY. That would be very helpful. Thank you.

Ms. BAIR. Thank you.

Senator AKAKA. Thank you very much, Senator Merkley. Senator Begich.

Senator BEGICH. Thank you very much, Mr. Chairman. I know financial literacy has been an issue that you and I have talked about more than once, and I am glad to see this hearing moving forward and some discussion about it.

Thank you for being here. When I was in high school, I peer-taught financial and personal finance back when it was required to graduate, a quarter credits.

Let me ask a couple of questions. In Alaska, for example, if you are a first-time homeowner and you wanted to utilize the Alaska Housing Finance Corporation loan program, you can receive I want to say it is a quarter-point or maybe it is an eighth of a point but I think it is a quarter-point off your loan interest if you show that you have gone through a first-time home owner program in the sense of learning financial industry but home ownership understanding.

Why not, with our loan programs that we federally guarantee, offer the same thing for first-time homeowners?

Ms. BAIR. Well, that is interesting. Certainly. There is a lot of research that shows good programs can reduce default rates.

Senator BEGICH. That's right.

Ms. BAIR. If the government is guaranteeing the mortgages, yes, that might make some sense.

Senator BEGICH. We have one of the lowest default rates, if not the lowest, in the country.

Ms. BAIR. That is great.

Senator BEGICH. And I think part of it is these first-term buyers actually understand the responsibility. It is not just buying a house and getting a payment but they actually have to take care of the lawn. There are utility costs. There are variables in their utility costs. It depends on usage of your house, gas heat versus electric, and a variety of things.

I guess you kind of answered the question that if we are putting the guarantees up, we are the platinum basically, we should require some opportunity for them, at least first-time buyers it seems to me.

Ms. BAIR. Right. I would think so. I think that would be, again lower default rates should save the government money in terms of their guarantee so that would make a lot of sense.

Senator BEGICH. And create more capacity for more loans because you do not have those default rates because you are not putting loan reserves and those kinds of things.

Ms. BAIR. That is right.

Senator BEGICH. Let me, if I can follow on the commentary about, I have met with credit card companies. I have met with credit unions, I have met with banks, a variety of different groups

and they are all very supportive of financial literacy but it is kind of disjointed.

Ms. BAIR. Yes, it is.

Senator BEGICH. For example, I mean, I just did a refinance and they were very excited to give me I think it was an eighth off if I made sure my direct auto pay was with a bank account with their bank. But I had no incentive of any kind to talk about financial literacy.

Do you think the private sector has or would be motivated in this arena? I mean, you think they would be but maybe not because we guarantee most of these loans. I mean, what is your experience.

Ms. BAIR. Yes, I think you get a mixed effort in the private sector. There is a lot of money thrown at it. There is a lot of curricula developed but some of it is of mixed quality. And I think there may be, with any business sector you have your better players and the ones who are not so good in dealing with their customers.

To the extent you know some financial institutions make money over late fees, right?

Senator BEGICH. Right.

Ms. BAIR. Or repeat overdrafts. And so bad financial behavior can generate income so perhaps it is a conflict between providing good financial education and improving financial skills and potential profit motives.

So, I think the better managed banks do not approach it that way. I think they realize that it is ultimately in their long-term interest to have customers who do not overdraw their accounts and pay their loans on time.

But you do get somewhat of a mix in quality I think which is why I think it is appropriate for there to be a Federal coordination effort.

Senator BEGICH. Coordination research.

Ms. BAIR. Yes, exactly.

Senator BEGICH. I note Senator Johnson was talking about some of the areas. We did something when I was mayor. We had an area of town that, as Senator Merkley described, every few blocks you would have a payday, I think it was every six feet there was a payday lender.

And we encouraged through some land economic incentives to have a credit union move into the area with some conditions, and they now average, and it is one of the most impoverished areas of the most urban area of Alaska, Anchorage, Credit Union One.

And they actually have an education center within their credit union. For an "A" average, I forget the number, but it was one of their fastest growing branches out of the whole State because they had no low cost entrance in. So, you would not have all of these fees and all this stuff but they also did an education. If you became a member, part of the membership was, here is some education.

So, it seems like there are some players out there that are trying to figure out, especially in the lower income neighborhoods, how do we, in essence, create competition against the payday lenders. And I think there are some banks and in this case there was a credit union who was very aggressive about it.

Do you see that in low income neighborhoods that there is opportunity as I just described or is it pretty limited?

I mean, there is a risk because it is a lot of capital investment these facilities have to make. Payday lenders, they just show up with a little box and a little storefront, a little flashing lights that says open 24 hours, bring your check, we will give you a deal.

Ms. BAIR. Right. So, I think there is opportunity there and I think credit unions and the Community Development Financial Institutions (CDFIs) typically will lead this. They will innovate. They will come up with the models to have these successful products, and you will find the larger banks once the smaller institutions have pioneered this type of effort, you will see the larger institutions coming in which is why I think, supporting credit unions and CDFIs is important.

It saddens me. We have had a lot of CDFIs fail as a result of the crisis because they serve the more distressed economic neighborhoods. But there are still a lot of them out there too doing a lot of good work in this area.

And so, yes, I think there is opportunity and I think there are other people out there just like your credit union that are pioneering methods that can make economic sense for all providers.

Senator BEGICH. Let me ask you one last question. I have just about a minute left. We passed, I did not vote for it but it is the initial public offering (IPO) legislation recently. Some call it a jobs bill but put that all aside. I did not vote for it. I think there are some problems in the future.

But it will create, and I will use the people who sold this bill, new opportunities for investors. My worry is how do we ensure those folks who may not be so understanding of what that is all about are educated before they find out they just bought into a project that is never going to turn a profit, never give them a dividend.

They thank them for the angel investment. They are 65 years old, just retiring. Any thoughts on that? Because we are about to enter this and, I can tell you the e-mail Web sites are going to be popping up overnight and selling you a lot of goods. And the reality is we know with venture capitalists, angel investors, that the return rate, it is one out of 50 if you are lucky on a good day.

Ms. BAIR. Well, I think the relationship with risk and return is something that is so basic and that really needs to be in the schools year after year. If it sounds too good to be true, it is. If it has a high rate of return, it is going to be very high risk. You are probably going to lose your money.

Senator BEGICH. Right.

Ms. BAIR. That is something, a basic, that a lot of people do not understand right now. I can only hope that the Security and Exchange Commission (SEC) somehow finds a way to have red flashing lights on all of those investments that this is very high risk and you should not be putting money into this unless you are prepared to lose it.

Senator BEGICH. Very good. Thank you very much. Thanks for your testimony.

Thank you, Mr. Chairman.

Senator AKAKA. Thank you very much, Senator Begich.

Let me call on Senator Johnson for his questions.

Ms. BAIR. OK.

Senator JOHNSON. I had just one quick question. You were talking about curriculum. Is there a model that you have seen that would really be, kind of a drop-in for local school districts that does what you had suggested it do?

Ms. BAIR. I think there are pieces of it. Part of the problem I think with financial education is it is very piecemeal. Part of the problem with trying to get it in the education system is the education system itself is very balkanized so there are discrete aspects of a lot of different school programs that I think are good. One that has the perfect model, no, I could not give that to you.

Senator JOHNSON. As long as it is a short answer, one quick last question.

Ms. BAIR. Sure.

Senator JOHNSON. In terms of who is taking the risk, I mean, is it not the fact that these banks can just take these loans and just sell them and get rid of them and not hold on to the risk? Is that not part of the real problem too? They have to have a much greater vested interest in educating the consumers to be able to pay off loans.

Ms. BAIR. Right. Well, you are right. That is exactly what happened. When it used to be that a bank would make a loan and hold it in their portfolio, they had every incentive to make sure the borrower could repay the loan. With securitization, the risk was passed off.

That is why I really like the risk retention component of Dodd-Frank. I hope that regulators finalize that and have very narrow exceptions because I think the best way to make sure that lenders will make responsible mortgages, ones that people can repay is to make sure that they take a good chunk of the loss if the loan goes bad, absolutely.

Senator JOHNSON. OK. Thank you very much.

Ms. BAIR. You are welcome.

Senator JOHNSON. Thank you, Mr. Chairman.

Senator AKAKA. Thank you.

Ms. Bair, let me just ask one final question. I was very surprised that the median length of checking account disclosures provided by major banks is 111 pages.

Ms. BAIR. Yes.

Senator AKAKA. My question is what barriers have you observed to banks adopting Pew's model disclosure box and why have only two major banks adopted your model?

Ms. BAIR. Right. Well, we have two. I will say the cup is a little bit full not a lot empty.

I was talking to the staff earlier about that. We hear arguments about costs. We hear, well, we have our own disclosure and we think that works. And that may or may not be true.

Now, we have heard more recently that, well, they do not want to get ahead of the regulators at the CFPB, and I hope they do, that the CFPB goes ahead with a uniform disclosure that they will just wait for the CFPB to do that.

So, we have heard a lot of reasons. But I do think this is one, so much of Federal disclosure laws in the past have focused on credit products because it used to be that is really where the costs and the risks were that deposit accounts really now have become

so fee laden, and there are so many different ways you can end up paying money that you did not understand that you were going to have to pay that I think having uniform disclosure for deposit accounts really its time has come and I do hope the CFPB moves ahead with it.

Senator AKAKA. I want to thank you very much, Ms. Bair, for your valuable testimony and your responses to our questions this afternoon.

Ms. BAIR. My pleasure.

Senator AKAKA. And I want to wish you well.

Ms. BAIR. Thank you, Senator, you too. Thank you very much.

Senator AKAKA. Now I would like to ask the second panel of witnesses to please come forward. Let me introduce them.

Ms. Melissa Koide, the Deputy Assistant Secretary for the Office of Financial Education and Financial Access, at the Treasury Department.

Ms. Alicia Puente Cackley, Director for Financial Markets and Community Investments, U.S. Government Accounting Office. And Dr. Camille Busette, Assistant Director, Office of Financial Education, Consumer Financial Protection Bureau.

As you know, it is the custom of the Subcommittee to swear in all witnesses. So, I ask you to please stand and raise your right hands.

Do you solemnly swear that the testimony you are about to give the Subcommittee is the truth, the whole truth, and nothing but the truth so help you, God?

Ms. KOIDE. I do.

Ms. CACKLEY. I do.

Ms. BUSETTE. I do.

Senator AKAKA. Thank you. Let it be noted for the record that the witnesses answered in the affirmative.

Before we start, I want you to know that your full written statements will be made part of the record and I would like to remind you to please limit your oral remarks to 5 minutes.

Ms. Koide, would you please proceed.

TESTIMONY OF MELISSA KOIDE,¹ DEPUTY ASSISTANT SECRETARY, OFFICE OF FINANCIAL EDUCATION AND FINANCIAL ACCESS, U.S. DEPARTMENT OF THE TREASURY

Ms. KOIDE. Sure. Thank you very much, Chairman Akaka and Ranking Member Johnson.

I really appreciate the opportunity to be with you this afternoon to discuss the matter of improving Americans financial capabilities. This is, I think we all realize, one of the most critical issues we face as a country particularly as we begin to emerge from the financial crises.

On behalf of my colleagues at the Treasury Department, I would like to thank you in particular, Senator Akaka. You have clearly demonstrated leadership over the years and a tireless commitment to improving the financial lives of families across the country.

Today I am going to focus my remarks on the steps that we at the Treasury Department are taking to help strengthen Americans

¹ The prepared statement of Ms. Koide appears in the appendix on page 55.

financial knowledge and skills. While I am new to my position as the Deputy Assistant Secretary for Financial Education and Financial Access and Consumer Protection, Treasury's work has been led by a dedicated career staff and has been ongoing for many years.

Treasury's financial capability efforts are focused on the needs of families and individuals. We know strong households are key building blocks of our communities as well as our Nation. And the past 5 years have made it clear that our country's financial stability and long-term resilience is deeply tied to the financial health and stability of the Nation's families.

Our country is stronger when families are able to pay their bills on time, when they are able to manage and maintain their homes, when they are able to build credit and also strong credit records, and able to build savings.

To ensure that Americans are able to successfully manage their finances, we must ensure that they have a solid understanding of personal finance. We need to make sure they have access to financial information and advice, and that they have tools and products that enable them to make wise financial decisions.

The basics I think we all recognize begin at home and in our schools but we cannot stop there. Families also need financial information throughout their life when they are making both routine decisions as well as big financial ones.

New technologies are increasingly providing an avenue to deliver financial information and advice at scale. Families are also benefiting from high-tech, low-touch financial help. Online financial tools, mobile applications, and even video games are being developed and tested to help people develop decisionmaking skills and make wise, informed, real-time decisions.

This is an area that we are going to be focusing on more deeply at the Treasury Department in addition to some of the other areas that I have described in my written testimony.

I am now going to call your attention to some of the work that we have been doing with the Commission, the Financial Literacy and Education Commission, and also the President's Advisory Council on Financial Capabilities.

These two initiatives draw national attention to improving the financial skills of individual Americans. They also, I believe, highlight the Administration's commitment to tackling these pressing issues.

As you know, Congress established the 21-agency Financial Literacy and Education Commission to focus on the importance of financial literacy and to better coordinate the work of the Federal agencies.

Treasury chairs the Commission and the Consumer Financial Protection Bureau recently joined as Vice Chair. The Commission last fall developed a broad planning framework for the field.

Through regularly scheduled public meetings, the Commission highlights notable programs and strategies and also facilitates partnerships among Federal agencies.

In order to strengthen interagency efforts, the Commission will launch this spring a research agenda. It was created by a working group led by Federal Reserve Board staff and it will serve as a

roadmap for coordination and collaboration on Federal and private sector research over the coming 3 to 5 years.

The Commission will also soon announce the details of a new clearinghouse that will highlight federally funded research and evaluations to strengthen and emphasize the need to test and measure what is effective.

Treasury is also going to be rolling out an online portal to facilitate information sharing and collaboration among members. The portal will help agencies share information, work together, and very importantly avoid duplication.

Finally, I would like to note some of the important work of the President's Advisory Council on Financial Capability. I like to think of it as a brain trust composed of more than a dozen national leaders from the private sector with a broad range of perspective and expertise.

To date, the Council has made a number of recommendations including calls for greater metrics and standards, support for more research and evaluation, strategies to encourage employer-based financial education efforts and greater use of technology-based tools.

Treasury and the White House are pursuing a number of the Council's recommendations. For example, we are assisting the Financial Industry Regulatory Authority (FINRA) Foundation to support a follow-up survey of its 2009 National Financial Capability Study. This new survey will provide rich information and help us assess American's skills. It will help to shape and inform the broad financial education field as well as our efforts among Federal Government agencies.

To close, I realize I am out of time, I just want to reiterate that we realize this is critical to the long-term economic stability of families, their knowledge, and their skill sets with respect to their personal finances. We are committed to continuing to work in this area.

I look forward to your questions.

Senator AKAKA. Thank you.

Ms. Cackley, please proceed with your testimony.

TESTIMONY OF ALICIA PUENTE CACKLEY,¹ DIRECTOR, FINANCIAL MARKETS AND COMMUNITY INVESTMENTS, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Ms. CACKLEY. Thank you. Chairman Akaka, Ranking Member Johnson, thank you so much. I am pleased to be here today to testify as part of Financial Literacy Month 2012.

Financial literacy plays an important role in helping to ensure the financial health and stability of individuals and families. Economic changes in recent years have further highlighted the need for all Americans to be empowered to make informed financial decisions.

In my statement today, I will discuss first the Federal Government's role in promoting financial literacy, including the role of the Government Accountability Office (GAO). Next, the advantages and risks of financial literacy efforts being spread across multiple Fed-

¹ The prepared statement of Ms. Cackley appears in the appendix on page 61.

eral agencies, and finally, opportunities to enhance the effectiveness of Federal efforts going forward.

The Federal Government plays a wide-ranging role in promoting financial literacy. Efforts to improve financial literacy in the United States involve an array of public, nonprofit, and private participants. But among those participants the Federal Government is, indeed, distinctive for its size and reach and for the diversity of its components, which address a wide range of issues and populations.

At forums of financial literacy experts that we held in 2004 and 2011, participants noted that the Federal Government can use its built-in bully pulpit, its convening power, and other tools to draw attention to the issue of financial literacy, as well as serve as an objective and unbiased source of information about the selection of financial products and services.

During his confirmation hearing, GAO's Comptroller General, Gene Dodaro, noted that financial literacy was an area of priority for him. Since then, he has initiated a multi-pronged strategy for GAO to address these issues.

First, we will continue to evaluate Federal efforts that directly promote financial literacy. Second, we will encourage research of the various financial literacy initiatives to evaluate the relative effectiveness of different approaches. Third, we will look for opportunities to enhance financial literacy as an integral component of certain regular Federal interactions with the public. And finally, we have recently instituted a program to empower GAO's own employees in the area of financial literacy.

In terms of evaluating Federal financial literacy efforts, in prior work we cited the 2009 report by the RAND Corporation in which 20 Federal agencies self-identified as having 56 Federal financial literacy programs.

However, after subsequent analysis we found substantial inconsistency in how different agencies define their financial literacy programs and whether they counted related efforts as one or multiple programs. We developed a more consistent set of criteria and have more recently identified 16 significant Federal financial literacy programs or activities among 14 agencies, as well as four housing counseling programs among three federally-supported entities operating in fiscal year (FY) 2010.

Having multiple Federal agencies involved in financial literacy offers advantages as well as risks. Some agencies have deep and long-standing expertise and experience addressing specific issue areas or populations. In addition, providing information from multiple sources can increase consumer access and the likelihood of educating more people. However, the participation of multiple agencies in financial literacy efforts also raises the risk of inefficiency and the need for strong coordination of their activities.

In general, we have found that coordination and collaboration among Federal agencies has improved in recent years, in large part as a result of the multiagency Financial Literacy and Education Commission. At the same time, we have found instances of overlap in which multiple agencies or programs including the new Consumer Financial Protection Bureau share similar goals and activi-

ties, which underscores the need for careful monitoring of these efforts.

In our ongoing work, we have been pleased to see that the Commission, the CFPB, and others have several efforts underway, such as a research clearinghouse being developed by the Commission that seeks to enhance evaluation and effectiveness of Federal financial literacy programs.

We believe that these measures are positive steps and that identifying the most effective programs and activities will help Federal agencies to make the most of scarce resources, potentially by consolidating their financial literacy efforts.

The Consumer Financial Protection Bureau was charged by statute with a key role in improving Americans' financial literacy and is being provided with the resources to do so.

As the Bureau's activities evolve and are implemented, it will be important to evaluate how these efforts are working and make appropriate adjustments that might promote greater efficiency and effectiveness.

Mr. Chairman, this concludes my prepared statement. I would be happy to respond to your questions.

Senator AKAKA. Thank you very much. I am informed that we have votes that have been called. I have about a minute left to get to the floor. So, I will call a recess and we will probably be about 45 minutes for a number of votes and then we will reconvene.

Thank you very much. We are in recess. [Recess.]

This hearing will come to order.

Now, I would like to call on Dr. Busette. Please proceed with your testimony.

TESTIMONY OF CAMILLE BUSETTE,¹ PH.D., ASSISTANT DIRECTOR, OFFICE OF FINANCIAL EDUCATION, CONSUMER FINANCIAL PROTECTION BUREAU

Ms. BUSETTE. Thank you, Chairman Akaka. I want to thank you very much for the chance to appear before you today on a topic of critical importance to the Consumer Financial Protection Bureau and our Nation, Financial Literacy: Empowering Americans to Prevent the Next Financial Crisis.

I want to especially thank you, Chairman Akaka, for your pioneering leadership in helping enact policies to increase financial education and financial access for all Americans.

The CFPB's Office of Financial Education is a testament to your many contributions to the financial well-being of American consumers and to your longtime and vigorous champion for the financial empowerment of all Americans.

To successfully navigate our complex financial system, all Americans, regardless of income and level of educational attainment, must be equipped with the financial knowledge and skills sufficient to make informed financial choices.

The Dodd-Frank Act's creation of the CFPB's Office of Financial Education provides Americans with an office dedicated to serving as a trusted resource for financial information and to improving the financial literacy of Americans.

¹The prepared statement of Ms. Busette appears in the appendix on page 73.

The Bureau has focused early resources on providing critical information to consumers via our Web site, www.ConsumerFinance.gov, and our Consumer Response Center.

We have launched initiatives to make costs and risks clearer for consumers, and our signature Know Before You Owe Mortgages initiative is focused on simplifying and streamlining duplicative mortgage forms that have been confusing homebuyers for many years.

We also created and are piloting a Financial Aid Comparison Shopper to help students navigate the complex world of student loans, compare financial aid packages and to understand the payments they will face after graduation.

We released a prototype credit card contract that is shorter and clearer than current credit card agreements and aimed to keep it at a seventh-grade reading level to make it accessible to as many consumers as possible.

Through our Office of Consumer Engagement, the Bureau has launched "Ask CFPB," an interactive tool which allows consumers to obtain information about financial services and products.

The Bureau has produced consumer information to highlight the financial consequences of various checking-account overdraft fee choices. Each of these is part of a larger effort to provide Americans with understandable information that helps them make better, more informed financial choices to achieve their financial goals.

American consumers will be better served if financial education effectively imparts fundamental knowledge and skills. Because there is no clear consensus about the conditions under which financial education is most effective, earlier this year we launched our initial Financial Education Program Evaluation Project, using a quantitative methodology to identify what elements of financial education programs increase consumers' ability to manage their finances, and why.

We intend to use the study's insights to provide guidance to practitioners about how to design and support effective education programs. We are also identifying innovations in financial education that will help consumers successfully navigate common financial challenges. We will consult with innovators over the next couple of months to understand how these innovations can help consumers and how we can use them to improve Americans' financial literacy.

American consumers benefit when the fruits of our work and of organizations that are excelling in financial education are shared broadly. So, we have held listening sessions with financial education providers, addressed faith communities and community organizations, held webinars, and spoken at numerous conferences and events. We had the pleasure of participating in Financial Literacy Day on the Hill last week.

Our outreach efforts inform how we approach financial education and how we structure our work so that it most benefits American financial consumers.

While Federal agencies involved in financial education have different missions, regulatory authorities, expertise, and resources, the CFPB is the only Federal agency whose focus and mandate is the protection and education of the American financial consumer.

But there is a lot we can learn from each other so the Bureau is coordinating with financial education efforts already underway in the Federal Government. The Bureau's Director serves as the Vice Chair of the Financial Literacy and Education Commission, and Bureau staff are engaged with each of the Commission's working groups.

In addition, we meet regularly with Department of Treasury staff members in the Office of Financial Education and Financial Access to leverage our respective activities.

As the economy continues to recover from the worst financial crisis since the Great Depression, American families focused on building more secure financial futures must be able to evaluate the choices available to them in the financial marketplace.

We must seek to ensure that individuals and families have the knowledge and skills to manage their financial resources effectively and to plan for future life events. It is only with knowledgeable and informed consumers that we will be able to fully and responsibly harness the financial system's tremendous capacity to fuel growth and investment, which is critical to our continued economic recovery.

The CFPB's Office of Financial Education looks forward to working with this Subcommittee, other agencies, the private and non-profit sectors, and others to improve the financial literacy of all Americans.

Thank you again for the opportunity to testify today. I look forward to answering your questions.

Senator AKAKA. Thank you very much, Ms. Busette.

GAO has conducted two forums on financial literacy where the Federal Government's role in promoting greater financial literacy was addressed. My question to each of you on this panel is: What unique capabilities does the Federal Government contribute to financial literacy efforts? Ms. Koide.

Ms. KOIDE. I would be happy to start. It is a really important question and I think one we need to think through particularly since we have had the Commission in existence and it is important to make sure that the work of the Federal Government is really, if you will, moving the needle with respect to financial education.

I think in terms of its unique ability, it is hard to miss the fact that the financial education needs of families and individuals are very complex and they are varied. They pertain to the big decisions the families make and they also pertain to the small decisions that people make on an individual daily basis.

Do I use my debit card? Do I use my credit card? What is the smart decision on how I am managing my finances are? What are my longer-term goals and my short-term goals?

I think the fact that the Federal Government with the different agencies and the regulators have unique knowledge and expertise pertaining to many of those different facets of a consumer's financial life.

I think that it is important that the Federal Government can be leveraging those unique levels of expertise among the different agencies to provide that kind of information to consumers their particular needs but then also making sure that we are coordinating across the agencies and learning from each other.

I think the Federal Government has a particularly important role to play in terms of research and evaluation and really drilling down to make sure that we understand what works when it comes to these different financial matters.

And then of course, there is the role of the Federal Government in terms of moving policy. The Dodd-Frank Act includes a number of financial education provisions including the creation of the CFPB and the Office of Financial Education.

So, I think it has a wide-ranging set of levers that it can use. And then the one last thing that I should mention is it also has direct connections to communities which is a really important piece of all this, and it goes to Senator Johnson's point earlier, it's resources to communities, it's resources to localities, it's introducing ideas and research and innovation that I think can ultimately help to move the needle in consumer's financial skills.

Senator AKAKA. Thank you. Ms. Cackley.

Ms. CACKLEY. Thank you. Yes. This is a subject that our two forums definitely addressed. The participants of those forums felt very strongly about the role of the Federal Government in addressing financial literacy issues and they spoke about a number of different things that they thought were important.

One, as Ms. Koide said, is just the deep experience of different agencies of the Federal Government, experience with certain subject matter, and experience with certain populations that need to be served in terms of providing financial literacy.

Another important point is the fact that the Federal Government can certainly serve as an unbiased and objective source of information whereas the private sector often has a certain set of interests in mind. When they are providing information to the public, the Federal Government can be an unbiased source.

Another issue is the different distribution channels that the Federal Government has available to provide information, through things like the Social Security statement or VA benefits. These are distribution channels that the Federal Government can use to provide information.

And then there are things like just the fact that the Federal Government has a built-in bully pulpit that the government can use to raise these issues to a higher level than anyone else.

And again, the convening power of the Federal Government to really bring folks together and address the issue in a much more coordinated fashion.

Senator AKAKA. Thank you. Ms. Busette.

Ms. BUsETTE. I would concur with my colleagues on this panel that each Federal agency has its own mission and expertise; and for that reason, each agency makes a unique contribution to the financial literacy of Americans.

Collectively, the Federal Government serves hundreds of millions of Americans. So, Federal agencies have the opportunity to integrate financial literacy efforts with other activities in a manner that achieves broad reach across the country.

As you know, Congress mandated that our Director serve as the Vice Chair of the Financial Literacy and Education Commission. That role affords us the opportunity to assist in the coordination of financial literacy efforts throughout the Federal Government so

that the unique opportunities to serve broad swaths of American consumers are optimized. It also allows us to identify the most effective approaches and target our efforts accordingly.

Senator AKAKA. Thank you very much.

Ms. Koide, GAO has recognized the Commission's progress in recent years promoting public-private partnerships and recommended building on this progress to implement the goals of the 2011 national strategy for financial literacy.

As the official responsible for directing the activities of the Commission and the President's Advisory Council on Financial Capability, how will you leverage these coordinating entities to make sure public and private resources are used efficiently to implement the strategy?

Ms. KOIDE. Yes, I am happy to answer that. It has been something that we have been thinking about quite a bit since I joined the Treasury Department 4 weeks ago but I am happy to share with you where my head is on this really important opportunity, frankly, that this position holds with respect to financial education.

As I said in my opening remarks, I really look at the role of the President's Advisory Council on Financial Capability as being a brain trust for the Federal Government but especially for Treasury and the Administration with respect to where we should be driving our work at the Federal level in financial education efforts.

And I think there are some really important and complementary ways in which the two bodies can work together to drive efficiency. A number of the recommendations, for instance, that have come out of the President's Advisory Council are recommendations that I think the Commission is already moving in the direction of helping to implement.

Some of the big ones are around issues of making sure that we are truly rolling out means of assessing effectiveness in the range of the different programs that the Commission is doing itself or supporting at the local level.

Another area that the Commission has defined some focus around is youth and really boosting the financial knowledge of our youth. And I think there are some important ways in which the Commission, through the different agencies such as the Department of Education, the FDIC, and some of their money smart curriculum targeted at youth, are leading the charge.

But I would also say that I think the work of the Commission and frankly the work of the financial education field are at a point where we need to really define what are some concrete goals that we want to achieve and how can we do that together as a body of Federal agencies.

So, the work that I am going to be doing over the next few months or so is going to be working with the Commission, building on the knowledge from the President's Advisory Council, what are we trying to achieve and how are we going to set up some metrics to pursue these goals.

Senator AKAKA. Ms. Koide and Ms. Busette, schools can play an important role in improving the financial capability of young people. As you know, one of the three things the President's Advisory Council is emphasizing is the need for financial education to take its rightful place in American schools.

Ms. KOIDE. Absolutely.

Senator AKAKA. How is the Commission, working primarily through the Department of Education, collaborating with State and local governments to accomplish this goal? Ms. Koide.

Ms. KOIDE. I am happy to start off with giving a few examples. A couple I just mentioned and Chairman Bair mentioned some of these as well which are testing various types of curriculum that can be embedded into the education courses.

Other approaches have been actually trying to embed, if you will, banks and credit unions into the schools so that the children are learning in a real tangible, hands-on way what it means to manage your finances.

I think the Department of Education, I would be happy to get more details for you, has been also trying out some other research approaches around how you can include financial education into schools.

I think the learnings from each of these different strategies are going to be things that we will be looking at more closely across the agencies through the work of the Commission.

Senator AKAKA. Thank you. Ms. Busette.

Ms. Busette. Chairman Akaka, we certainly agree with the Council's theme that financial education should take its rightful place in American schools.

Students need to be provided with effective financial education before they enter into financial contracts and make important financial decisions.

As you are probably aware, research has revealed that financial education in schools can have a very significant impact on encouraging healthy financial behaviors later in life.

And research has also shown that the right access, education and incentives, even for low income students and families, particularly when they are incentivized to save, can leave students with savings, making them more likely to enroll in college.

At the Bureau, we definitely embrace the concept of having a financial education throughout the school system. We are working with key stakeholders that have spent many decades working in this particular area to highlight policy opportunities and to promote innovative approaches to financial literacy for youth.

Senator AKAKA. Thank you.

Ms. Cackley, the Commission's 2011 national strategy and its accompanying implementation plan appeared to address many of GAO's prior recommendations.

How many of GAO's recommendations for improving the national strategy have been implemented and for those outstanding recommendations would you please elaborate on the benefits of implementation?

Ms. CACKLEY. Certainly. There have definitely been some of our recommendations that have been addressed. We recommended fostering new partnerships with non-Federal sectors and organizations and the Commission has taken a number of steps in this regard, among them the National Financial Education Network, which is a partnership with State and local government, and also facilitating the President's Advisory Council on Financial Capability, which is a partnership with the private sector.

We also recommended that the Commission provide for an independent review of Federal programs and activities and the Commission has done this. There has been both a report by the RAND Corporation and also a graduate student who did a review of Federal programs and provided that to the Commission.

We recommended that the Web site MyMoney.gov measure customer satisfaction and also test usability of the Web site. They did do a measure of customer satisfaction. We do not know yet if they have tested the usability of the Web site, and that is something we can follow up on.

We also recommended that the national strategy for financial literacy incorporate some additional elements, this is something we are reviewing in ongoing work. We are reviewing the newest national strategy and we will be providing an assessment later this year of that.

Senator AKAKA. Thank you.

My next question is for Ms. Koide and Ms. Busette. One of the Subcommittee's most successful oversight efforts has been its work together with GAO and an interagency Coordinating Council to reform and remove the security clearance program from the GAO high risk list, an achievement that no other DOD program has accomplished.

A critical factor in this success was top agency officials' commitment to developing close working relationships that enabled them to resolve differences and hold each other accountable for achieving results.

I strongly urge the Commission to analyze the security clearance reform efforts. Many of the practices, particularly the development of tools and metrics to objectively measure progress, are worth following.

As you both know, last year GAO recommended that Treasury and CFPB closely coordinate financial literacy roles and activities. I understand your respective offices meet once a month to do this.

What joint actions have your offices initiated as a result of these meetings and do you have plans to enhance these efforts?

Ms. Busette. Chairman Akaka, the goal of our monthly meetings that you mentioned is to coordinate the activities and to inform each office of future plans so that we achieve maximum synergy.

To that end, we have collaborated on the activities of the financial literacy and education commission, the upgrade of the MyMoney.gov site and on informing each other of research and innovation plans. We certainly look forward to continuing and broadening that collaboration.

Senator AKAKA. Thank you, Ms. Busette. Ms. Koide.

Ms. Koide. Sure. I would just add, again, I am a month in so I have not been able to be a part of these prior conversations but we could not be more happy about having the CFPB joining us as Vice Chair.

I think that the Bureau is going to bring both a wealth of information, a wealth of knowledge, and real strength in terms of our ability to help shape and craft the direction that the Commission is headed. It is going to be a really important partnership when it

comes to setting out what goals we are trying to achieve with the Commission.

So, we are quite pleased.

Senator AKAKA. Thank you.

Ms. Koide, I strongly support GAO's recommendation that the Commission incorporate into the national strategy a description of the resources required for implementation.

This would help policymakers make informed decisions on allocating resources. Would the Commission provide Congress a supplemental report that clearly identifies the level of resources required to accomplish the strategy's goals?

Ms. KOIDE. I appreciate the question and I appreciate the presentation of the opportunity to do that; and by all means, we would welcome the chance to come back in and talk to you about how we are going about achieving our goals with the Commission, what are the metrics we are going to set up for ourselves in moving the needle in financial education.

So, we welcome the opportunity to have those conversations with you.

Senator AKAKA. Thank you for that.

Ms. Cackley, would you care to comment on the benefits of providing policymakers with information on the resource requirements needed to effectively implement the national strategy?

Ms. CACKLEY. Certainly. We have recommended that the Commission itself as part of its strategy describe the resources required and the appropriate allocation of those resources. We felt that determining resources and their best allocation is key to ensuring the most efficient and effective implementation of a national strategy for financial literacy.

Senator AKAKA. Thank you very much. I want to thank this group of witnesses for their statements and responses, and I look forward to working with them on these issues. Of course, the end result we all hope for is that this can be put together to prevent the next financial crisis from happening.

Ms. KOIDE. Agreed.

Senator AKAKA. So, I want to thank you very much for your testimony and your responses. Thank you.

Ms. KOIDE. Thank you.

Ms. CACKLEY. Thank you.

Ms. BUSETTE. It has been a pleasure. Thank you.

Senator AKAKA. Now, I would ask our third panel of witnesses to come forward. I welcome Dr. Brigitte Madrian, Professor at the Harvard Kennedy School; and Dr. Mark Calabria, Director for Financial Regulations Studies at the Cato Institute. Ms. Sharra Jones, Math Instructor, at Oak Park Elementary School in Mississippi and Mr. Michael Martin, Academy of Finance Instructor, Lansdowne High School in Maryland and Mr. Evan Richards, Graduate of the Academy of Finance and undergraduate student at Towson University.

As you know, it is the custom of this Subcommittee to swear in all witnesses, so I ask you to please rise and raise your right hand.

Do you solemnly swear that the testimony you are about to give this Subcommittee is the truth, the whole truth, and nothing but the truth so help you, God?

Ms. MADRIAN. I do.

Mr. CALABRIA. I do.

Ms. JONES. I do.

Mr. MARTIN. I do.

Mr. RICHARDS. I do.

Senator AKAKA. Let the record note that our witnesses answered in the affirmative.

Before we start, I want you to know that your full written statements will be part of the record and I would like to remind you to please limits your remarks to 5 minutes.

Professor Madrian, please proceed.

TESTIMONY OF BRIGITTE MADRIAN,¹ PH.D., AETNA PROFESSOR OF PUBLIC POLICY AND CORPORATE MANAGEMENT, JOHN F. KENNEDY SCHOOL OF GOVERNMENT, HARVARD UNIVERSITY

Ms. MADRIAN. Thank you. It is a pleasure to be here today. One does not need to search hard to find evidence of poor financial decisionmaking by U.S. households. Individuals do not shop around for financial products and consequently pay far more than necessary for products such as credit cards and home mortgages.

When interest rates are falling, many homeowners fail to refinance. Individuals do not understand the factors that should matter most in making investment choices; for example, they chase past returns and pay too little attention to investment fees.

Individuals hold poorly diversified portfolios with heavy exposure to investments like employer stock. Individuals neglect to enroll in their 401(k) savings plans even when their employer is offering a generous match, and a sizeable fraction of households do not have a rainy day fund to help meet emergency expenses and report that they would have difficulty coming up with \$2000 from any source in less than 30 days.

One also does not need to search hard to find evidence that many U.S. households are not particularly financially literate. Individuals do not understand how inflation impacts their purchasing power. They do not understand how the interest rate environment impacts their investment options. They do not understand the power of compound interest. They do not understand how to diversify against labor market and financial market risks, and they do not understand the salient characteristics of many different financial investments.

Unfortunately, there is no evidence that the financial capabilities of U.S. households have been improving over time. Not surprisingly, there is a correlation between financial literacy and the quality of financial decisions made by individuals.

Those who are more financially literate are less likely to make financial mistakes and are more likely to report confidence in their financial decisions. The consequences of limited financial literacy and poor financial decisionmaking are particularly acute for low income households who have little leeway for coping with financial mistakes.

¹The prepared statement of Ms. Madrian appears in the appendix on page 76.

The positive correlation between financial literacy and the quality of financial decisionmaking has led many to the conclusion that increasing financial literacy through financial education will improve financial outcomes.

But what do we really know about how well financial education works? The evidence on whether financial education improves financial outcomes is suggestive at best. The most substantial problem in the research on financial education and financial outcomes is that if financial education programs are available and take-up is voluntary, those who receive financial education are likely to be quite different from those who do not receive financial education.

In particular, those who are capable of making better financial decisions in the first place may be those who recognize the value of and invest the time in obtaining financial education.

If so, we would likely observe a positive relationship between financial education and better financial outcomes, but it would be unclear what part of that relationship is due to differences in the types of people who do and do not get financial education, and what part is due to the actual provision of financial education.

From a research standpoint, the ideal approach for ascertaining the effectiveness of financial education would be through randomized controlled trials, the same approach that is used to ascertain the effectiveness of different medical treatments.

A population would be randomly assigned to either receive or not receive financial education, and then outcomes for both groups would be followed over time.

Unfortunately, there have been very few studies that have used this approach to study the impact of financial education. The conclusions of the very small number of studies that have used this approach paint a mixed picture, with some finding no significant difference in financial outcomes for those who do and do not receive financial education, and others finding some evidence that financial education may have small beneficial effects on outcomes such as savings and credit utilization.

From a policy standpoint, the biggest current need on the financial education front is a better understanding of whether financial education is effective and, if so, what types of financial education interventions work best.

It makes no sense to fund programs that do not work, and yet we know very little about what does and does not work because most financial education interventions have not been implemented in a way that allows for convincing analysis of their efficacy.

Here are the broad questions on which further research would be most valuable. What are the basic financial competencies that individuals need? What type of financial education content works best and for whom?

Some of the emerging literature suggests that actionable, rule-of-thumb based financial education may be more effective than principles-based content, at least for certain groups.

What type of delivery works best? Courses, apps, games, things like that. How do we induce the people who need financial education to get it?

School-based programs have the advantage that, while in school, students are a captive audience, but schools can only teach so

much. Most of the financial decisions that individuals face in their adult lives have little relevance to elementary and high school students.

How do we deliver financial education to adults before they make mistakes when we do not have a captive audience?

These are important questions and ones about which unfortunately we have very little, to say.

Despite the dearth of evidence, financial literacy is in short supply, and increasing the financial capabilities of the population is a desirable and beneficial goal.

I believe that well designed and well executed financial education initiatives can have an effect. But to design cost effective financial education programs, we need better research on what does and does not work.

Thank you.

Senator AKAKA. Thank you very much, professor. Director Calabria.

**TESTIMONY OF MARK CALABRIA,¹ PH.D., DIRECTOR,
FINANCIAL REGULATIONS STUDIES, CATO INSTITUTE**

Mr. CALABRIA. Chairman Akaka, thank you for the invitation to appear today and let me begin by commending you for your long efforts toward increasing financial literacy.

I believe this is a goal we all share. I think we would all like to see consumers make better, more informed choices. I think we do have to separate out, when evaluating public policy, though, that intentions are one thing and outcomes are another.

I think we also need to separate out the difference between means and ends. For instance, I look at financial education which is an attempt to improve financial literacy as ultimately about not simply imparting more knowledge but also improving decision-making and behavior. So again, the ultimate objective is to change behavior, to help improve behavior.

I should say, maybe stating the obvious, that we can and do spend a considerable amount of resources on financial education as does the financial services industry. I will note that State and local governments also spend a considerable amount of resources on financial education particularly in the form of classroom hours and the compensation and the time of educators.

I think it is important to keep in mind, however, that dollars or hours should not be our measure of success. They are a measure of cost. The true measure of success is, again, whether households are making good financial decisions and behaving in a responsible manner.

I think the notion that an informed consumer makes a better one is appealing, but that notion leaves us with little concrete guidance. Whether financial literacy programs actually make a "better" consumer is ultimately an empirical question.

I would say, having read some of the very large literature there is on this, much of which is peer-reviewed, again I would echo I think mixed was maybe the word that was used. I would agree with that.

¹ The prepared statement of Mr. Calabria appears in the appendix on page 82.

I would say you could take a variety of different conclusions from that literature. I would say that it is very hard to read that literature and walk away with the conclusion that there is a strong, consistent, positive impact on financial literacy on the behavior.

I do think that there is a strong impact of financial literacy on knowledge. There does seem to be some suggestion that these classes, the courses, people end up learning more but there does not seem to be a strong suggestion that they consistently change their behavior and such.

So with that, again, I think we need to be concerned about the impact of that and make sure that those programs are working effectively.

I also do think that there are some potential downsides that we do need to make sure we are taking care of when we address this. For instance, if financial education programs increase consumer confidence without actually increasing knowledge or judgment, then a sense of overconfidence can bias consumers to an under estimation of risks. On the other hand, under-confidence could dissuade consumers from entering into financial transactions that would improve their welfare.

I recognize that striking the appropriate balance is easier said than done but we do need to make sure that we are imparting, if we are going to impart more confidence, we need to impart more knowledge at the same time.

I want to focus for a little bit on housing counseling. Obviously, housing played a very unique role in this financial crisis. First, it is important to recognize we have been funding, at the Federal level, housing counseling since 1969.

While those funding levels remained modest until about the 1990s, they increased dramatically under the second Bush Administration. In fact, by the time of the financial crisis, we were spending close to \$50 million annually in the Housing and Urban Development (HUD)-directed housing counseling dollars.

While we cannot say with any certainty that the housing crises would have been worse or how much worse if we had not spent hundreds of thousands of dollars on housing counselors, we can say that such expenditures did not stop a financial crisis from happening.

Part of this lack of effect is due to whether housing counseling is effective at reducing defaults. Again, the empirical evidence is mixed although I think one of the things we can take away from that empirical evidence is that, on the one hand, light touch counseling, sort of like over the phone or computer-based or home study, seems to have almost no effect on defaults whereas classroom-based, one-to-one intensive counseling does seem to have impact on defaults.

There is also some possibility that counseling might increase strategic defaults. At least one study has found that which, of course, has been linked to underwater borrowers walking away from their mortgages.

I think my primary concern, however, with linking financial literacy to the recent financial crisis is that, in my opinion, it distracts from much needed changes in our financial regulatory system not to mention our monetary system.

At the risk of overgeneralizing, I do not believe we had a financial crisis due to a lack of financial literacy. I believe we had a financial crisis due to very perverse incentives in our financial system that encouraged excessive risk-taking on the part of lenders and borrowers while also reducing incentives for appropriate due diligence on the part of investors and creditors.

And while it is beyond the scope of today's hearing, I should be very clear that, in my opinion, the recently passed, or I should say 2 years ago, Dodd-Frank Act I do not believe fixes our financial system.

Too big to fail is still with us. Moral hazards are bigger problems than they were today before the crisis. So again, while I commend the Chairman's efforts, I think we cannot lose sight of the urgent need for reform in our financial regulatory system.

Let me wrap up by emphasizing that financial education is only going to be as good as the information that is imparted. A very basic question to start out with is what is it that consumers do not know.

If financial education focuses on minor or even relatively irrelevant issues such as, for instance, the impact of pulling a credit report on one's score to the exclusion of central issues like the impact of timely debt payments on one's credit score, then I think consumers can be made worse off. So again, the emphasis has to be on content.

Counseling also runs the risk of having it's substance driven by the bias of both providers and regulators. Take the largely positive image of home ownership presented by many housing counselors or the negative image presented by mortgage prepayment penalties. Both of these images in my opinion were driven far more by bias than fact.

From my own experience working at HUD on Real Estate Settlement Procedures Act (RESPA) reform, I watched lawyers drive mortgage disclosure in such a way that harmed consumers because these lawyers were convinced that mortgage brokers were inherently bad.

Efforts at financial education have to devote more attention to the substance rather than the form. Before we can hope to de-bias consumers, we have to de-bias providers, regulators and quite frankly politicians as well.

I thank you for your attention and look forward to your comments and questions.

Senator AKAKA. Thank you very much, Director.

Ms. Jones, please proceed with your testimony.

TESTIMONY OF SHARRA JONES,¹ MATH INSTRUCTOR, OAK PARK ELEMENTARY SCHOOL IN MISSISSIPPI

Ms. JONES. Chairman Akaka, thank you for the opportunity to be allowed to speak at the hearing on financial literacy today. Once again, my name is Sharra Jones and I am a third grade teacher at Oak Park Elementary School located in Laurel, Mississippi.

¹ The prepared statement of Ms. Jones appears in the appendix on page 92.

I graduated from Millsaps College where I first became exposed to and aware of financial literacy and the Mississippi Council on Economic Education.

Upon my first year of teaching, I began to integrate economics within my math class. My sixth grade math students placed third in competition that year. So, I found the integration to be very effective. Not only did they place third but their test scores increased on the district level and on the State level. The only difference between my math class and the other math class was just the integration of economics.

After my first year teaching, I was chosen to attend the Achieving Demonstrated Economics and Financial Literacy at Millsaps College that was offered by the Mississippi Council on Economic Education and funded by the No Child Left Behind Title II, Part A.

At this former Institute, I gained knowledge on all the concepts of economics as well as entrepreneurship and personal finance. From leaving this training, I was given materials to implement in my classroom. The most effective material, or the one that was my favorite, was the Council of Economic Education virtual economic CD.

The reason why I like that one so much was because it provided a bunch of lists from different literature and lists were given by subject duration, and I was able to increase or decrease the rigor depending on where my students were as well as a financial fitness for life curriculum that I was able to implement in my classroom.

Even though the institute was over, it also provided many professional development opportunities where I was able to collaborate with colleagues, share ideas or exchange ideas. And also, they provided extra information like bringing in the Federal reserve banks to give us more information and teach a lesson on savings.

With my sixth grade students, as I previously mentioned, they made significant gains with the integration. Then I taught fifth grade.

With my 5th grade students, I had 17 out of 20 students who were on the Response to Intervention system (RTI). There I needed to provide intervention three times a week.

So, during those interventions I integrated the economics within the math concept which gave them a real life connection. With the hands-on approach and a desire to learn, they were able to grasp the concept and apply it to the State test and district test.

Now, I am currently teaching third graders. With my third graders, the lesson that we are currently on is savings and investing. We are in a program called Positive Behavior Interventions and Support (PBIS) system which is where you focus on the positive behavior and not the negative behavior.

We reward our kids by giving them Dragon Dollars. They are able to use the Dragon Dollars at the dragon den; and within our dragon den, there are different prize levels that they are able to spend their money on. The bigger the prize, the more money it costs.

So, with my third graders, I do an extra twist because every time we win I have some student who never had enough money to buy the bigger prize. So, I did like a credit situation.

You can borrow Dragon Dollars from me; but realizing when you borrow the Dragon Dollars, for every dragon dollar you borrow you have to pay two back, trying to teach them the concept of it is better to save than to buy it on credit, not unless you can pay it off at one time.

So, when my students figured out that they were losing all of their Dragon Dollars from buying on credit because they were having to pay me twice as much as what it costs, they began to save their own and they learned if I save these, then I can pay what the original price was without paying extra for it.

In conclusion, I think teaching financial literacy to children at a young age is very beneficial as they get older. They are more prepared to make more financial decisions.

And again, thank you for giving me the opportunity to speak.

Senator AKAKA. Thank you very much, Ms. Jones.

Mr. Martin, please proceed with your testimony.

TESTIMONY OF MICHAEL MARTIN,¹ ACADEMY OF FINANCE INSTRUCTOR, LANSDOWNE HIGH SCHOOL, BALTIMORE COUNTY PUBLIC SCHOOLS

Mr. MARTIN. Thank you, Chairman Akaka. I first want to thank you for asking me here to testify before your Subcommittee about a topic as critically important as personal financial literacy.

Educating young people about the real world of personal responsibility when it comes to managing one's finances could never be more crucial than it is in today's economy.

It matters not whether one sees the economic glass as half full or half empty. There are always market pundits who are quick to see Bulls and Bears. What is truly vital is making sure that the glass is full of knowledge when it comes to making sound financial decisions, especially when it comes to educating our youth.

And the best way, indeed the only way, is to get kids learning the real Xs and Os of personal finance. All aspects. It has to be real. It has to be engaging. And it has to be meaningful. That is something I have tried to do at the Lansdowne High School, Academy of Finance (AOF).

At Lansdowne, which is one of just 264 high schools in the Nation that is part of the National Academy Foundation, I have seen first-hand what real-world teaching does for students who hail from the poorest neighborhood in all of Baltimore County.

Ninety-seven percent of our AOF students, nearly half of whom are minorities, graduate, going on to higher education or the military. And each one of them takes knowledge with them, personal knowledge that will, and has, enabled them to confidently make smart financial choices.

It is so satisfying to hear from students who have gone on to college and tell myself that what they are being taught in their finance courses in college is actually much of what they already learned in high school.

I must admit that textbooks, while they certainly have their place, are not the main source of material to teach my students. Instead, my kids get real world, real hands-on lessons designed by

¹ The prepared statement of Mr. Martin appears in the appendix on page 95.

myself and created by the Maryland Council on Economic Education.

I found that if I can reach a student, I can teach a student. The best way is to make it real. For example, my students first learn about investing in the stock market. It is a great way to get them excited right out of the gate.

My passion for investing began about 30 years ago when my late father-in-law gave my wife and I shares of a stock he acquired years before. I was instantly hooked on investing and have been re-investing the dividends from that stock and others ever since. I still own that stock which invests in real estate in the D.C. area.

Today, students are so adept at technology that teaching them is easy, fun and engaging. We are fortunate to have a computer in front of every kid in my room so, why not use them.

Every one of them creates their own personal stock portfolio using a custom Excel chart that I created and then each tracks their holdings the entire course. It only takes me a short time to get them comfortable with Web sites to research stocks and before long they are calculating yields on dividends, PE ratios, and the like. They also complete a two-week long budget lesson that I designed, all using the computer.

Lessons designed by the Council on Economic Education also find their way into my class room, like one of my favorites. "Was Babe Ruth overpaid?" It compares the salary of the Sultan of Swat with stars of today in order to determine how prices of yesteryear relate to today's dollars. It is a fascinating and fun way to get kids excited to learn about a not so exciting topic like the CPI Index. But it works.

I have also designed a real-world project where my students simulate the Federal Reserves' Beige Book for use at its Federal Open Market Committee (FOMC) meetings. It is a great way to incorporate writing and research into the classroom in a way far more interesting and real than simply answering questions in the back of a chapter.

As a former newspaper reporter, I insist that my students write well, and because I am competitive, I feel students need to learn how to work as a team to win or lose together. That is the way the real world operates so why not in school.

To that end, I was extremely fortunate to open an email several years ago from the Maryland Council on Economic Education that was looking for some teams to compete in a State championship on personal finance knowledge. I figured, why not.

So, I took two teams from our not so upscale school to Towson University to go head-to-head with public and private schools from across Maryland. We took second place that year and in the past 2 years our neighborhood kids won the Maryland State Championship and an opportunity to compete for a national title in the Midwest both years, finishing 6th in the Nation last spring in St. Louis.

It was an incredible opportunity for four young men who now find themselves off to college, all doing quite well in various business related majors.

I would like to close by saying way too many people, young and old alike, including a vast number of teachers, simply have no idea

about personal finance, or very little. It has been kept quiet for way too long and it has to change.

Educators need to get educated on how best to instruct students on personal finance to avoid the next looming bubble that is waiting to burst, that collective ignorance of Americans about how best to handle their own money.

With innovative instruction, and groups like the Council on Economic Education, the Federal Reserve's vast education resources and so many other options available, all at limited costs, our students can obtain an education that will truly make a difference and stay with them the rest of their lives. There is nothing more important for our students.

I would like to thank you for allowing me the opportunity to appear before the Subcommittee and I would also like to give you a personal thank you for your service in World War II in the Pacific.

Thank you.

Senator AKAKA. Thank you very much, Mr. Martin.

Now, Mr. Richards, please proceed with your testimony.

TESTIMONY OF EVAN RICHARDS,¹ ACADEMY OF FINANCE ALUMNUS, LANSDOWNE HIGH SCHOOL, BALTIMORE COUNTY PUBLIC SCHOOLS AND UNDERGRADUATE STUDENT AT THE TOWSON UNIVERSITY

Mr. RICHARDS. Thank you so much, Chairman Akaka, for having me here today and for being such a pioneer on this very critical issue.

Coming from a family with two stable incomes growing up, a lot of financial stress was never seen in my house. My parents had enough income to provide for me and my younger brother, while maintaining an adequate household for us. That is, until something known as the great recession hit.

It was not long after that, about the spring of 2009 when my father had emergency back surgery and had to go on short-term disability, followed by long-term disability and ended up being terminated from employment.

We saw a dramatic cut in our household income. It was slashed to a level that we never dreamed of, and we saw it as the end of the tunnel. We were going to try our best to get by, but with no plan set for our future, everything was in jeopardy.

About that fall, I began my junior year, which is when members of the Academy of Finance were open to new aspects of the financial world; things we had never really considered until then. Stocks, bonds and contracts were terms that I became familiar with, and by extensively studying the nuts and bolts of these financial products, I understood that these were items that I would have to face in the near future.

When my senior year came around, this was the time when the major points of the financial world became apparent. We were taught about things such as budgets, where we not only analyzed how personal budgets should be handled, but we took our education a step further and examined how governments handle their budget issues.

¹ The prepared statement of Mr. Richards appears in the appendix on page 97.

We also looked at things such as mortgages, credit cards, and interest rates, which are things that usually begin to hit you right after you finish your schooling, and in these troubling financial times, sometimes right after high school.

My high school education even went a step further, thanks to the Maryland Council on Economic Education, which is an affiliate of the Council for Economic Education (CEE). This gave us an opportunity to finally test ourselves. Do we have enough knowledge to enter the financial world? Can we make it on our own?

And of course, every year the Maryland Council holds a personal finance challenge where schools from across the State were brought together to test their financial knowledge. I am glad to say when Lansdowne High's team in 2010 and 2011 took first place and I was a member of the team that went to St. Louis last year and placed sixth in the Nation.

Obtaining these skills from the Academy of Finance has truly helped me as of last fall when I began my college career at Towson University. Budgets and contracts were two main substances that I truly began to explore in detail as a college student.

For many students across America, this is the first time where we are required to sign a contract and can legally do so, whether it would be for just a college loan or admission to their school. Until this time, many students would not consider these items seriously, and therefore not exactly understand what they are getting themselves into.

Luckily for me, with my Academy of Finance education, I already knew what was occurring and was quite comfortable with all of these new endeavors.

My instructors also pressed the importance of paying for college via scholarships and minimal loans. I was fortunate enough to receive enough scholarship money to attend Towson University full time without paying out of pocket. I consider myself to be extremely lucky to have that opportunity.

However, paying for transportation and books is something that needed my budgeting skills. I knew that instead of paying a ridiculous amount for a textbook, I can shop around, much like you can do with mortgage rates and credit card rates, et cetera, and find the book for a cheaper price.

It is the small things like that, that truly make a difference to college students when they are first entering the financial world, where a huge amount of responsibility is placed on them, possibly for the first time.

So, as I have stated before, the knowledge I have obtained through the Academy of Finance, it is not difficult knowledge. It is basic concepts that you need to survive. I am very fortunate to have it, and I know that by learning these things at such a young age, I will have a "leg up" in the world, and I will be able to make better financial decisions as a result.

These life financial skills will impact all of us, no matter what we do. From farmers to mechanics to top company executives, we all have to learn how to manage finances. For me, a career in business, with a possible tenure in state politics, is what I have in mind for my future. I know that with my financial skills, I can

reach these goals by continuing my education, and just keeping my head straight financially.

Thank you for your time and consideration.

Senator AKAKA. Thank you very much, Mr. Richards.

Ms. Jones, listening to your testimony, particularly the use of Dragon Dollars to teach your students to save, reminded me of my fourth-grade teacher who used a piggy bank in the same way.

As Ms. Bair noted, financial education may be most effective if introduced to children early on. In your own experience, have lessons you have taught your students had a lasting impact on their spending and saving habits?

Ms. JONES. Yes, in my experience it has. I have the younger kids. Whenever they feel that they had an exciting time or fun doing, they go home and share with their parents because they like to take this same concept in school and apply it to something in their daily lives.

I have actually have had parents who come and approach me and ask me about some of the terminology that their child has learned because they are unfamiliar with it. It also gives me opportunities to talk with the parents and maybe give them a little advice or little leg up about savings as well.

Senator AKAKA. Thank you, Ms. Jones. Mr. Martin.

Mr. MARTIN. Yes.

Senator AKAKA. Your ability to transform important economic concepts that students might initially think are boring into engaging lessons is very impressive.

Mr. MARTIN. Thank you.

Senator AKAKA. I have not met many high school teachers who teach their students to simulate the preparation of the Fed's Beige Book. I am interested in learning more about that project and its impact on your students' understanding of broad economic principles and how they apply in their local communities.

Mr. MARTIN. Well, it is a really interesting concept because when I first came across it we were teaching the Fed as part of our lessons and I really did not think the textbook would do it justice.

So, as a newspaper reporter, I decided to turn the classroom into a newsroom and I had all students, I had 35 students involved in this project and each one of them had to interview a local business just as the Federal Reserve does when it does Beige Book.

But first they had to actually read the letter Federal Reserve Beige Book. They had to understand the terminology, the language, the way they wrote it.

Then they had to go out and analyze it in the community and they have the actual data from the community. When they came back, each of those students then had to write a summary and their sector, whether it was housing or banking or whatever it may be.

When they were finished, they had to submit their summary electronically to two students who I selected as managing editors. The students were really good at writing skills.

When that was done, then they put it in the exact format the Federal Reserve did. Well, before we published it, which we actually did, the school actually got us some money. We went out and we published about 500 copies of it even with a Beige Book cover

on the front just like the Fed does and we distributed in the community. We have done that three times now, once each year, and the businesses now look forward to it.

So, it is really a neat concept. The kids love it. Every single kid participates in that project and they had different jobs just like the real world. The managing editors did not have to do the research but they had to create the final product, and it has worked very well.

Senator AKAKA. Thank you. It is good to hear that.

Mr. Richards, this is a question for you. In recent years, I have been troubled by the rapid increase in student debt levels. I am interested in how the education and support you received from the Academy of Finance helped you make informed decisions when it came to deciding how to pay for your education.

Mr. RICHARDS. Well, I would say one of the main concepts that I mentioned in my testimony that really sticks with me today is budgeting.

As Mr. Martin mentioned, there was a project where we were to pretend as if we were going out in the real world and we were to buy an apartment, to pay utilities, to pay all bills, to get groceries, to buy a car, everything.

And at the end of that, I was \$200 in the red. I consider myself extremely lucky to have that opportunity because when you are 17 years old sitting in the classroom, you are not really \$200 in the red. And to be honest, I would have rather done that then than to graduate from college and then be \$200 in the red every month because \$2400 a year in debt is not very good.

So as for paying for college, like I mentioned, I am extremely fortunate. I attend Towson University on full scholarship; but when it comes to transportation and books, I am not. So, here is where my budgeting practices had to come into play.

I know that two times a week I have to fill up for gas. I know that almost a quarter of the funds I receive for schooling have to go toward books. Of course, that is a different story for another day with the price of those.

But I have to remember that especially with the rising prices of gas recently. You have to make sure you know your budgeting skills so when things rapidly change you have to be able to make adjustments to your budget.

And by being a member of the Academy of Finance, I learned all of those skills to a "T" so when I actually have to implement these in the real world, I know exactly what I am doing and I really feel bad for a lot of students who have not really had this opportunity. They should really have access to all of this financial knowledge.

Senator AKAKA. Thank you so much, Mr. Richards.

This next question is for both Professor Madrian and Director Calabria. Many other witnesses today have focused on the need to learn more about what works and what does not work to improve Americans' financial capability. What do you think the top research priorities should be in this field and how can the Commission best support these efforts?

Ms. MADRIAN. I think the top priority should be to document what works and what does not work, and to do that we need to have studies that evaluate more than one way of doing things and

studies that follow people who have access to different types of financial education and compare them with people who do not.

A lot of the research that we have right now, and as I mentioned in my testimony and Mark mentioned this also and Sheila earlier as well, we actually do not know a lot about what is effective and most of the studies that have been done look very narrowly at financial education courses.

But courses only work for students who are enrolled in them. There are a lot of financial decisions that people need to make long after they have graduated from school and for which a course may or may not be the best solution.

So, I think we need to think expansively about what constitutes financial education. And in funding research projects on financial education, I think we should give priority to projects that are comparing multiple approaches and give priority to projects that have a credible strategy for documenting the effectiveness by comparing treatment groups with control groups just as is done in studies in the medical literature to establish the effectiveness of different medical treatments and prescription drugs.

Senator AKAKA. Thank you. Dr. Calabria.

Mr. CALABRIA. Let me start with saying that I pretty much agree with everything that Brigitte has said so let me add a few things and maybe emphasize a few things.

One of the things I would start emphasizing is the statistician in me is that you need a lot of differences in variability for any sort of statistical analysis to tell you anything, and so it is important to have multiple approaches so you can sort of test which ones work. So that is important to keep in mind.

Some of the things I think I would want to know in terms of testing is, (a) it is one thing to educate people and then, a month, 2 months later for them to perform well on a test, how long does it stick with them. Is this knowledge that is there a year later, 2 years later, 3 years later? Is it knowledge that changes behavior later? So, those are some of the things that I think are very important to test.

One of the interesting things, and, I love the Dragon Dollar story. Part of what we think about is it is also combining not just knowledge but also experience.

I would actually emphasize I think a lot of financial consumer protection issues take the perspective that you cannot ever have failure and I think the truth is we learn the most important things and lasting lessons in life through failure.

So, if you can set up circumstances where you borrow and you have to pay back two Dragon Dollars, you remember that. And so my point being is try to set up experiments where students actually fail but they fail in very small ways that are not detrimental but that they learned from it and turn around that.

So again, I would emphasize some of the testing to me needs to not just be knowledge based but also experience based where you are changing the incentives based on the students.

Senator AKAKA. Thank you very much.

This question is for Professor Madrian. It is often a challenge to encourage employee participation in any retirement savings plan.

In 2009, Congress passed legislation to automatically enroll Federal employees in the Thrift Savings Plan (TSP), unless they opt out. You mentioned auto enrollment in your testimony. I would like to hear more about how automatic enrollment helps individuals to save for retirement.

Ms. MADRIAN. Thank you for that question. I have done a fair amount of research on automatic enrollment so I feel like I have something to say on the matter.

Let me just preface this by saying that I think we need to keep in mind the goal. I think the goal is to improve financial outcomes, and financial education is one approach for doing that but there are other approaches that also improve financial outcomes and automatic enrollment is a good example of that: Automatically enroll people into a savings plan and let them opt out if they do not want to be there instead of putting the onus on them to enroll in the first place.

You asked specifically why does it work so well, and based on over a decades worth of research, I can give you a confident answer to that question.

Automatic enrollment works well for two reasons. Number one, people actually want to save for retirement. So, it encourages something that people want to do already. And secondly, it makes a complicated decision easy for them to follow through on.

So, one might ask if people want to save why are they not doing it in the absence of automatic enrollment, and the reason is because it is a complicated task if you are not a financial expert. Enrolling in your savings plan requires making a decision about what asset allocation to have for your savings, and many of those options are not very familiar to individuals, especially to younger, newly-hired employees who do not have a lot of financial experience.

Automatic enrollment separates the participation decision from the decision about how much to save and what the asset allocation is. It allows individuals to start saving and then later on, if they want to choose a different asset allocation, they can do that, but you do not have to do both of those things at the same time.

And I think that an important lesson more generally is that as the financial marketplace becomes more complicated, it becomes more challenging for individuals to make good financial decisions because they do not have the requisite level of knowledge and expertise. And simplifying the process of making a good decision can be an extremely effective tool for changing behavior.

Senator AKAKA. Thank you. Let me ask you a follow-up question. A 2012 retirement confidence survey suggested that automatic escalation, increasing 401(k) contributions over time, may lead to a significant increase in savings, especially for low income workers.

What has the impact of automatic escalation been in the private sector and should Congress consider authorizing automatic escalation in the TSP as we did with automatic enrollment?

Ms. MADRIAN. The evidence from the private sector is that automatic escalation is, in fact, extremely effective at increasing employee savings rates. And you asked specifically is this something that should be considered for the Thrift Savings Plan, and I would say absolutely.

I think the biggest question is would you want to add it as a feature to the TSP where participants who want to have automatic annual contribution increases would opt into that, or would you want to make it automatic like automatic enrollment, a feature you are automatically enrolled in but you have to opt out if you do not want it.

The evidence there from the private sector is if it is a feature you have to opt into, about 25 percent of participants will opt into it and experience the automatic contribution increases every year. If you make it an automatic feature that you have to opt out of, about 25 percent of them will opt out of it.

So, you get a different impact on about half of the participant population depending on whether you make it an opt in or an opt out feature. But I absolutely would make it part of TSP and the only question would be opt in or opt out.

Senator AKAKA. Thank you very much. I appreciate all of you sharing your experiences. This will be helpful to especially in regard to improving financial education in elementary school, as well as high school.

This is something, as I mentioned earlier, I believe will help prevent another economic crisis in the future.

For me, it was in the fourth grade that all of this hit me. My teacher at that time had asked us a question about what we wanted and whether we had the money to purchase it, and of course, in my particular case, I did not have the money.

And so, the question was how are you going to earn it. I had to become very practical about how I was going to earn that money to get what I wanted.

It was good to hear that these lessons are being taught to students today. So, I want to thank you very much for your testimony and let me say thank you for being so patient.

I would also like to thank my friends Senator Merkley and Senator Begich for joining Senator Johnson and me in conducting this hearing.

The hearing record will be open one week for after additional statements or questions from other Members.

So, thank you again for your testimony and your responses and we look forward to working with you to improve our Nation's financial literacy.

This hearing is adjourned.

[Whereupon, at 5:56 p.m., the Subcommittee was adjourned.]

APPENDIX

STATEMENT OF CHAIRMAN DANIEL K. AKAKA

Financial Literacy: Empowering Americans to Prevent the Next Financial Crisis

Hearing
Subcommittee on Oversight of Government Management,
the Federal Workforce, and the District of Columbia,
Senate Committee on Homeland Security and Governmental Affairs

Aloha and good afternoon. I want to welcome our witnesses to today's hearing: *Financial Literacy: Empowering Americans to Prevent the Next Financial Crisis*. Thank you for being here.

As many of you know, this is the Subcommittee's fifth, and my final, oversight hearing examining efforts to enhance the financial capability of all Americans. As Chairman, I have worked to promote and oversee financial literacy initiatives that help American families make smart choices to invest in their futures.

The recent financial crisis put to rest any illusions that we might be able to ignore our Nation's shortfalls in financial education without suffering serious economic harm. We must act decisively to make sure Americans are empowered to make sound financial decisions. The Financial Literacy and Education Commission, which I worked to create in 2003, plays an important role in improving federal coordination and collaboration on financial literacy activities. We must make sure the Commission has the funding and authorities it needs to fulfill its mission.

To fully coordinate and streamline federal financial literacy efforts, the Commission may need direct appropriations and an independent budget rather than just contributions from participating agencies. It also may need enhanced authority to coordinate member agencies' actions.

I want to close by noting that I have found it incredibly rewarding to champion financial literacy and economic education during my time in the Senate.

My passion for these issues is rooted in personal experience. Growing up in Hawai'i, I was lucky to have parents and teachers who taught me how to save, and raised me in a culture that valued saving and spending responsibly. Yet despite these strong values, my family struggled with financial insecurity, and we did not even have a bank account.

My upbringing informs my belief that financial literacy education efforts must begin at the local level with families and communities, with the Federal Government playing an important supporting role. I see my own parents in the millions of unbanked and underbanked families across the Nation. Often for reasons beyond their control, many hardworking people who do their best to provide for their families find themselves shut out of the mainstream financial system. This is where the Federal Government has a valuable role to play.

(OVER)

I strongly support programs like *Bank On USA*, which have demonstrated how government can bring together local officials, non-profits, and private firms to work together to make sure all families have financial stability and security.

The sheer scale of our Nation's financial illiteracy means a significant amount of work remains to be done. However, rather than be discouraged by the challenge ahead of us, I am inspired by the dedicated witnesses here today, especially the educators who have graciously taken the time to appear before us today.

I have faith that if we work together, over the coming years, we can empower all Americans to make informed financial decisions and prevent the next financial crisis. I look forward to hearing from our witnesses today.

-END-

Improving the effectiveness of Federal financial literacy initiatives, and assessing the performance of the Financial Literacy and Education Commission in achieving its statutory mission.

“If you would be wealthy, think of saving as well as getting” Benjamin Franklin

Chairman Akaka. Ranking Member Johnson, thank you for the opportunity to testify today on ways to improve the effectiveness of Federal financial literacy initiatives and the performance of the Financial Literacy Education Commission. It was my privilege to testify to this committee in the past when I served as a government official, and I am pleased to now return in my private capacity as Senior Advisory to the Pew Charitable Trusts.

As this Committee knows, financial education has long been of interest to me in both my personal and professional life. I have written children’s books and stories which deal with basic financial concepts and have made responsible financial management a priority in my own household. In my public life, I created Treasury’s Office of Financial Education when I served as the Assistant Secretary for Financial Institutions, and when I later became Chairman of the Federal Deposit Insurance Corporation, I created an Advisory Committee on Economic Inclusion, or Come-In for short. This important committee helped guide the FDIC’s work in promoting a banking system which is inclusive and serves the needs of all Americans, regardless of income status or financial acumen. At the core of Come-In’s work was the recognition that full economic inclusion cannot be achieved unless those who use banks have command of certain basic financial skills. At the same time, it is essential that banks give their customers adequate information to understand the products and services that they provide, their key features and relative costs.

Why is financial education important? Certainly, it is essential from a consumer protection standpoint. I have often said that a financial regulator’s best ally is a well-informed customer - one who will ask questions and turn away products that they do not understand or that sound too good to be true. But the importance of financial education goes beyond consumer protection, to the very functioning of our market-based economy. Markets cannot function efficiently if consumers do not understand the products they are buying and their relative worth. Consumers taken in by products which sound advantageous to them but are really laden with hidden fees and costs will skew the allocation of economic resources toward inefficient, abusive products to the detriment of other providers which offer more responsible products which provide better value. Thus, an ill-informed consuming public will not only hamper the efficient functioning of our markets, but will also disadvantage those in the financial services community who are trying to do the right thing.

Nowhere is this sad reality more apparent than in the recent financial crisis our country suffered which was brought on by aggressive marketing of unaffordable, in many cases, and abusive mortgages to people with troubled credit histories. To be sure, some of the borrowers who took out these low-doc, teaser rate mortgages were investment professionals who knew what they

were doing and were willing to speculate on home prices continuing to rise. But far too many others were people with safe, affordable 30 year fixed mortgages, who were enticed into complex, adjustable rate mortgages with steep payment resets and stiff prepayment penalties. When I was at the Treasury Department in 2001 and 2002, adjustable rate subprime mortgages - the so-called 2/28s and 3/27s, as well as pick-a-pay loans with negative amortization - were perimeter products, the exception, not the rule offered mostly by unregulated, nonbank mortgage brokers. However, when I returned to public life in mid-2006, as Chairman of the FDIC, I was shocked to learn how these types of products had gone mainstream, and that once responsible mortgage lenders had succumbed to the fat fees and profits generated, in the short term, by these unsustainable loans. Better informed consumers, combined with a much more aggressive regulatory response, could have done much to stem the tide of the subprime debacle that washed upon our nation's shores.

So I commend this Committee, and you in particular, Mr. Chairman, for continuing to make financial education a national priority and to keep up the pressure to make government's financial literacy efforts as effective and meaningful as possible. Financial education must be more than a feel-good, public relations exercise. To be effective, financial education must ultimately change behavior. After many years of promoting financial education, we have learned some important things. For young people, building financial education into core curricula and having it taught year after year is more effective than "one-off" financial education classes. For adults, financial education offered in connection with a specific financial event, be it opening a banking account, applying for a credit card or taking out a mortgage, will be more effective than financial training which is offered in the abstract.

My own priorities have long focused on educating young people at the earliest possible age about the basics of financial management. Moreover, education that focuses on certain core, eternal concepts - compounding interest, the time value of money, the relationship of risk and reward, the risks of excessive leverage- can be far more effective than focusing on the particular financial fad of the day. Moreover, financial concepts can be woven into math problems in any number of creative ways, with increasing complexity and sophistication in the higher grades. Similarly, literature and history are replete with examples of financial greed, speculation, and leverage creating financial calamity for families as well as entire nations.

I also believe we should start thinking about financial education more broadly -- not simply in terms of financial concepts, but also in terms of the ethics of money and financial transactions. I do worry that as a culture, our attitudes toward money have drifted away from the traditional view that money is earned through hard work and effort, and by providing others with a product or service which they value and for which they will pay. Too often, money is viewed today as something to obtain through gimmickry or speculation. We need to underscore in our financial literacy efforts that both parties have an obligation to act ethically and responsibly in a financial transaction. The financial services provider has an obligation to fully explain the product or service being offered, its value to the customer and the full range of its potential costs. Similarly, the consumer of the financial product who willingly enters into a transaction after being fully informed of the costs and benefits has an obligation to make good on his or her obligations. Both consumers and providers need to rebuild much-needed trust in each other through better

ethical behavior which I believe can be facilitated through the incorporation of financial ethics into our educational efforts.

Let me now turn to some specific work that The Pew Charitable Trusts is doing on consumer financial security. In recent years, Pew has generated a variety of research focused on enhancing consumer financial security and understanding long-term economic mobility. Helping people make beneficial financial decisions is integral to this work.

Below, I summarize a number of Pew's latest findings and recommendations. Over time, Pew will monitor the issues that groups such as the Financial Literacy and Education Commission identify, and will evaluate ways to help develop research that furthers the important cause of household economic security in America.

An important part of financial literacy is having information presented in a way that consumers can understand and use to make appropriate choices. Thus, disclosures for financial products and services need to be presented in a format that is clear and understandable. They should convey key terms and conditions with clarity so that consumers can compare products and make purchasing decisions that best meet their needs. Clear disclosures will foster a transparent, fair, and competitive marketplace for all financial institutions by allowing them to compete for customers on a more level playing field.

This is particularly important for checking accounts, which allow consumers to transact and save and often serve as the gateway to the use of more sophisticated financial products and services. Unfortunately, when Pew studied the checking account disclosures provided by the ten largest banks, we found a median of 111 pages, consisting of account agreements, addenda to account agreements, fee schedules, and pages on the bank's website. The banks often used different names for the same fee or service; put the information in different documents, different media (Web or hard copy), or different locations in a document; and did not summarize or collect key information anywhere. Many of these documents are not user-friendly, with much of the text densely printed, difficult to decipher, and highly technical and legalistic. In response, Pew developed a model disclosure box that could be used by financial institutions to provide relevant information to checking account customers. So far, seven financial institutions have voluntarily adopted this box.

In developing the disclosure box, Pew tested different versions with consumers. In Philadelphia, Minneapolis, and Los Angeles, two groups of consumers who had opened a checking account within the past two years: one with parents who had assisted a young adult child and one with adults ages 21 to 35 were convened. Participants described the information in the box as "comprehensive" and "clear," and felt that a concise, easy-to-understand disclosure document would be useful and valuable when opening a checking account. Some suggested that the box would be a good tool to teach their children about the intricacies of a checking account.

Last fall, Pew released the results of a longitudinal study of 2000 low-income Los Angeles area households, 1000 with and 1000 without a bank account, which explores the connections between financial services, the populations they serve or are failing to serve, and the financial stability of those populations. Pew found, not surprisingly, that between 2009 and 2010, a time

of great economic turmoil throughout the country, the ranks of the unbanked (those without a bank account) increased, with more families leaving banking than opening bank accounts.

But what was surprising was that the most common reason these households cited for leaving banking was unexpected or unexplained fees. Nearly one in three listed these fees as the reason for leaving banking. This is particularly relevant given that even in difficult economic times only 27 percent attributed their departure from banking to job loss or lack of funds. The banked could also better sustain their savings behaviors, including those associated with long-term goals such as paying for college, even during economic turmoil and when faced with high rates of job loss and declining household income.

Given the need for consumers to understand and therefore maintain their checking accounts, the Consumer Financial Protection Bureau (CFPB) should require all financial institutions to provide a clear, concise and uniform disclosure that would present accountholders with important fees and terms.

Pew's research demonstrates that bank policies and practices have a central role in allowing consumers to use and manage their money responsibly. Yet unexpected fees continue to plague consumers. For vulnerable populations, these fees can mean the difference between having a checking account and forgoing these services altogether. Providing information in a clear, concise and uniform disclosure box so that consumers can both understand and comparison shop for an account that best meets their needs will promote financial literacy.

In addition, I urge the CFPB to prohibit practices that unfairly maximize fees or that are difficult or impossible for consumers to avoid, like transaction reordering, since this practice makes it very difficult for consumers to manage their money and avoid these charges. While at the FDIC, we issued guidance to our supervised banks to halt this practice. Transactions need to be processed in a predictable manner that responsible consumers can follow. Changes such as these will allow consumers to understand the financial products and services they need in order to build and sustain wealth.

Pew's Safe Small-Dollar Loans Research Project is currently evaluating the complicated issue of payday lending. Here is another reminder that empowering Americans to manage their finances effectively requires more than just simplified price disclosures. Payday loans often come with a clear price tag – say, \$15 per \$100 borrowed. But in this case, the price tag does not begin to tell the story of the typical cost.

Even without considering the ways in which payday loans might help or harm borrowers, two problems are clear. One is that borrowers rarely experience payday loans as the short-term solutions that advertisements claim them to be. Lenders frequently describe payday loans as something to help borrowers deal with emergency cash shortages until the next payday. Yet a variety of research shows that for most borrowers, the reality is quite different. As they struggle to repay the loans in full at the next payday – these are loans that require a single, full repayment – borrowers find that they must use many more than one payday loan throughout the course of the year.

A second key problem with the payday loan market is that the business model fundamentally relies on this kind of repeat usage for its profitability. Yet despite this reality – and despite the fact that, as Pew’s upcoming report will show, most people use these loans to deal with recurring living expenses – the depiction of payday loans as temporary fixes for emergency problems persists.

Pew will publish a variety of research in coming months to further explore these issues and potential solutions. And the CFPB surely will be evaluating what actions are necessary to fulfill its mandate to regulate payday lending. But for purposes of today’s conversation, I would note that the case of payday lending reminds us that consumers must be enabled to understand not just what it costs to obtain a financial product, but also to calculate the ongoing costs and risks of using those products.

People who are struggling to make ends meet desperately want to believe that they can achieve the promise of a payday loan: that is, a small loan that will go away on their next payday and not become a big burden over time. Consumers need to be educated so that they less susceptible to such fictions; but it is also important that companies package their products in realistic ways. That is why I supported the creation of a Small-Dollar Loan pilot program while I was at the FDIC. This program recognizes the value of safe and affordable small dollar loans. Two of the most important features of this program are a minimum repayment term of 90 days, and solid underwriting practices.

There is one final point I would like to make, which will bring us back to the importance of teaching – and helping to instill – positive financial behaviors. There is a variety of research suggesting a correlation between savings and financial well-being.

For example, there appears to be a link between savings and increased ability to withstand financial shocks and avoid risky or harmful credit products. For example, Pew’s research shows that those who rent their homes use payday loans more frequently than home owners. This finding holds true throughout the income distribution: Renters earning \$40,000 to \$100,000 annually use payday loans at significantly higher rates than homeowners earning \$15,000 to \$40,000. Traditionally, home ownership, though not a sure path to increasing savings, has of course been a primary asset building vehicle for many Americans over the years. The link between renting and payday loan usage throughout income segments would seem to indicate that availability of assets can matter as much or more as amount of income.

Other Pew research has shown, for instance, that there is a connection between personal savings and upward economic mobility, both within a person’s lifetime and across generations. These are but two examples of why we must do a better job of instilling savings behavior at all levels of American society.

In conclusion, first let me thank you for the opportunity to testify today on this important issue. There is more we can do to further Americans’ financial literacy. First, we need better research

to test the efficacy of those programs already in place and to test new programs. The fees, terms and conditions of consumer financial products should be clear and provided in ways that allow consumers to comparison shop so that they can choose what best meets their needs. Practices that undermine a consumer's ability to responsibly manage his or her money, like transaction reordering solely for the purpose of maximizing overdraft fees, should be prohibited. Finally, consumers need to be able to understand the ongoing costs of the products they use, as well as any risks involved in their ongoing usage. It is my hope that the Financial Literacy Education Council will continue to focus on all of these concerns. Thank you.

Melissa Koide

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Testimony before the Senate Homeland Security and Government Affairs Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia

“Financial Literacy: Empowering Americans to Prevent the Next Financial Crisis”

April 26, 2012

Thank you, Chairman Akaka and Ranking Member Johnson. I appreciate the opportunity to discuss the matter of improving Americans’ financial capabilities. This is one of the most critical issues that we face as a country, particularly as we begin to emerge from the worst financial crisis our country has experienced since the Great Depression. On behalf of my colleagues at the Treasury Department, I would like to thank you for your leadership and tireless commitment to improving the financial lives of families across the country.

This hearing, like those you have held before it, calls attention to the federal government’s role in helping to empower Americans to make informed financial decisions. Today, I will focus my remarks on the steps we at Treasury are taking to help strengthen Americans’ financial capabilities so that they can become stronger, more informed financial consumers. While I am new to my position as Deputy Assistant Secretary for Financial Access, Financial Education, and Consumer Protection, Treasury’s work – led by dedicated career staff – has been ongoing for many years.

I welcome the opportunity to speak briefly today about Treasury’s focus on financial capability, and our work with the federal Financial Literacy and Education Commission and the President’s Advisory Council on Financial Capability.

Treasury’s financial capability efforts are focused squarely on individuals and families. Strong households are key building blocks of our communities and our nation. And, the past five years have made it clear that our country’s financial stability and resilience is deeply tied to the financial health and stability of the nation’s families.

Empowering individuals to make informed financial decisions is essential to our economic recovery. Our country is stronger when individuals and families are able to pay their bills on time, maintain their homes, manage credit and develop strong credit records, and build savings. But all too often, developing “financial literacy” is treated as separate and distinct from promoting the stability of our financial system. Instead, we should consider it an indispensable part of securing financial stability and sustainable economic growth.

To improve financial literacy, we should use all means at our disposal. Individuals and families need protections from abusive financial products; they need access to responsibly designed

options; and, they need the financial knowledge, skills, and resources to help guide them when the choices are complex, when the terms are unclear, and when the products themselves are misleading.

But, even when the products are safe, making financial decisions can be confusing and risky. Big financial decisions such as purchasing a home can result in acquiring a wealth-building asset or a wealth-depleting liability, with long-term consequences that last well beyond the initial decision. And even seemingly minor decisions – using high-cost credit cards or paying bills late – can create long-term financial problems. The risks are particularly acute for financially fragile families, who often lack savings buffers and access to affordable and appropriate products.

To ensure that Americans are able to build the needed confidence in their financial futures, we must focus our attention to ensure that individuals and families have a solid understanding of personal finance; access to helpful financial information and advice, particularly when the stakes are high; and tools and products to enable wise financial decisions.

The basics begin at home and in schools. But, we can't stop there. Financial information should be provided at key decision points throughout an individual's life – ideally embedded into routine activities and before decisions are made. Financial information and guidance should be tailored to a particular topic and to an individual's needs. The government, the private sector, and public-private partnerships play important roles in providing these ongoing resources. High-quality financial education and personalized financial advice and counseling are critical for guiding families.

New technologies are increasingly providing an avenue to deliver financial information and advice. Families are benefiting from high-tech, low-touch financial help. Online financial tools, mobile applications, or apps, even video games are being developed that give consumers timely personalized information that can help them make wise real-time financial decisions. This is an area that we are particularly focused on at Treasury.

Treasury Initiatives

In addition to our focus on scalable, technology-based financial capability strategies, our work at Treasury continues to support financial education tools for youth, financial education and counseling programs for prospective homebuyers, and tools and resources for Bank On programs. Let me highlight some of our efforts in these areas.

National Financial Capability Challenge

The third annual National Financial Capability Challenge concluded earlier this month. The *Challenge*, which Treasury administers in partnership with the Department of Education, is a financial education awareness-building tool for high school students and teachers. This year, more than 80,000 students and teachers from 1,500 high schools participated. Teachers were provided classroom guides and materials, and students were given the *Challenge* to assess what they learned about important personal finance topics including saving, budgeting, investing, and safe use of credit.

An understanding of the elements of finance is necessary to equip our next generation to manage their finances and to navigate the sometimes vast array of financial products and services they will encounter during their lifetime. Almost 600 students received a perfect score on the *Challenge*; however, the average score remained at last year's level of only 69%. While this is not the improved score that we had hoped for, it's an important marker of our students' financial knowledge and a clear indication that we need more focus on financial education and skills building for our youth. Notably, the *Challenge* is raising the visibility of financial decision-making for high-school students. As one student commented, "It really helped to remind me how important thinking about finances is...." Teachers, also, continue to respond to the *Challenge* and the classroom materials with great enthusiasm.

Financial Education and Counseling Pilot Program

In Fiscal Years 2009 and 2010, Treasury's Community Development Financial Institutions (CDFI) Fund administered the Financial Education and Counseling Pilot Program which has provided grants to organizations for financial education and counseling for prospective homebuyers. Nine awardees received a total of \$6.15 million (\$3.15 million specifically for an organization in the State of Hawaii) to deliver financial education using various approaches such as online tools, classroom instruction and peer-to-peer networks over a three year project period. In addition to addressing the levels of financial capability among low- and moderate-income and low-wealth homebuyers, the pilots also assisted prospective homebuyers with their long-term financial planning and credit building needs.

Early reports from the pilot sites show promising results. In the first year of the Hawaii pilot, the Family Finance Project – led by the Council for Native Hawaiian Advancement – 718 families received financial counseling, with a number of families saving funds through project-sponsored Individual Development Accounts to purchase their first home. The New Mexico pilot similarly provided financial counseling to nearly 700 families. A total of 58% of the New Mexico participants reported that they had increased the amount they had saved for home purchase, with the median savings of \$900. Similarly, 52% reported that they had taken action to raise their credit scores. Those who initially had low credit scores were able to improve the scores 15 points on average, and families with higher initial scores reported even larger increases. The North Carolina site, which focuses on residents of low-income apartment complexes, exceeded its first year enrollment targets by nearly 80% and reported that over the first year, participants increased their savings amounts by 81%.

Bank On USA

Another important Treasury initiative is our work with Bank On projects across the nation. Bank On projects are locally-led coalitions of government agencies, financial institutions and community organizations to help improve the financial futures of unbanked and underbanked individuals and families. These efforts are vital for ensuring that low- and moderate-income families have access to appropriate services and accounts. Over the course of the past year, Treasury has supported research on efforts developed at the local-level to connect individuals and families to financial education and banking products. Last November, Treasury, along with non-profit and government partners, re-launched the JoinBankOn.org website. The site features

an array of resources for local Bank On projects including tools for research; location-specific data on under-banked populations; resources and guides for developing Bank On projects; and highlights from efforts around the country. The FY 2013 President's Budget requests \$20 million for a federal Bank On program within the CDFI Fund. My office will continue to work with the CDFI Fund to determine how best to effectively implement the Bank On program, if funded.

Financial Literacy and Education Commission and President's Advisory Council on Financial Capability

I will now highlight some of the work we and other federal agencies and private-sector leaders are doing as part of the Financial Literacy and Education Commission and the President's Advisory Council on Financial Capability. These two initiatives draw national attention to improving the financial capability of individual Americans. They also highlight the Administration's commitment to using the federal government through inter-agency collaboration and strategic partnerships, to help tackle these pressing issues.

Financial Literacy and Education Commission

Congress established the 21-agency federal Financial Literacy and Education Commission (the Commission) in 2003 to focus on the importance of financial capability and to better coordinate the government's initiatives in this area. Treasury chairs the Commission and provides leadership for the Commission's work. We are excited to note that the Consumer Financial Protection Bureau recently joined the Commission as its Vice Chair.

The Commission puts a spotlight on the importance of financial education and financial capability. Among other accomplishments, the Commission has developed a National Strategy for Financial Literacy – a high-level vision document – which serves as a broad planning framework for its activities. Through regularly scheduled public meetings it has highlighted promising programs and strategies, and it has served as an inter-agency forum that facilitates partnerships among the federal agencies and with private sector entities. Let me briefly highlight a few examples:

- The Federal Deposit Insurance Commission (FDIC) is partnering with the Small Business Administration on a new version of the Money Smart curriculum targeted to small business owners.
- The Department of Education, the National Credit Union Administration (NCUA), and the FDIC are collaborating to deliver training and technical assistance to organizations that provide information on planning for higher education, student loans, and saving for college. This joint effort has reached more than one million low- and moderate-income students and their families.
- Following a presentation by the National Network to End Domestic Violence (NNEDV) at a Commission meeting, the Department of Labor (DOL) partnered with the NNEDV to educate survivors of domestic violence about saving for retirement. The initiative has resulted in a series of educational events. DOL is making plans to make the event an

annual occurrence, and it is planning to support additional activities on protecting retirement and health benefits.

- The Social Security Administration (SSA) is spearheading joint research with several Commission members. For example, it is working with Department of Health and Human Services to increase the minority and bilingual sample size in the American Life Panel, which will help make the survey more useful in assessing financial capability and testing the effectiveness of various interventions. SSA is also working with the Departments of Education and Housing and Urban Development to support retirement-related research, and with Treasury to support research on financial literacy and retirement security of vulnerable populations.

Looking forward, the following three activities are at the top of the Commission's agenda for the coming few months.

Research and Evaluation: The Commission will launch a research agenda on financial literacy this spring. Crafted by a working group led by the Federal Reserve Board, the agenda will be a roadmap for federal and private sector research and evaluation over the coming three to five years. On a related note, the Commission will soon announce the details of a new clearinghouse of federally-funded research, evaluation studies, and other analyses of financial education and financial capability strategies and topics. The clearinghouse will be a component of the new MyMoney.gov website. We envision that it will become the "go to" place for researchers, funders, and practitioners who are interested in keeping up to date on research in this area.

Inter-Agency Communications: Treasury will roll out an online portal to facilitate information sharing and collaboration among member agencies. The portal will go a long way to help agencies share information, work together, and avoid duplication of effort.

Revamped MyMoney.gov Website: The Commission will unveil a new and improved version of the Mymoney.gov site this year. The site will introduce to the public "MyMoney Five," a set of five key focus areas for financial understanding, as follows: Earn Spend, Save & Invest, Borrow and Protect. The Commission developed the terms over the past two years with significant input from the public and experts in financial education.

President's Advisory Council on Financial Capability

In 2010, the President issued an Executive Order creating the President's Advisory Council on Financial Capability (Council), which is tasked with crafting recommendations for increasing financial capability. The Council includes more than a dozen national leaders from the private sector with a broad range of perspectives and expertise.

To date, the Council has made a number of recommendations in several important areas. The initial recommendations called for national financial capability measures and standards; support for more research and evaluation on financial capability issues and strategies; standards for financial education programming; strategies to encourage employer-based financial education efforts; an enhanced role for State, local and Tribal governments to support financial capability; and greater use of technology-based tools to promote financial capability and financial access.

In response to the Council's recommendation on measures and standards, Treasury is assisting the Financial Industry Regulatory Authority Investor Education Foundation (FINRA Foundation) to support a follow-up survey to its 2009 National Financial Capability study. The new survey will provide rich information about the current level of financial capability across the nation. The data will be vital for shaping policies and programs that are targeted to the needs of particular segments of the population.

Conclusion

It is vital that Americans be empowered with the financial information, tools, and resources they need to make fully informed decisions. A successful economic recovery is contingent on families knowing how to manage their budgets, rein in debt, rebuild and maintain strong credit scores, and avoid unnecessary fees and charges. Incorporating financial education early into our schools is an essential first step. Ensuring families have support systems and information to draw on when making financial decisions is also critical. And leveraging technology to deliver timely, personalized financial information and advice is a powerful way to help families move towards financial stability.

Recent indicators suggest our economy is mending; however, long-term economic stability depends on household financial health. The Treasury Department is committed to promoting a financial system that is fair and sound for all. That means we must remove barriers that keep consumers from successfully navigating today's complicated financial world.

Thank you.

United States Government Accountability Office

GAO

Testimony

Before the Subcommittee on Oversight of
Government Management, the Federal Workforce,
and the District of Columbia, Committee on
Homeland Security and Governmental Affairs,
U.S. Senate

For Release on Delivery
Expected at 2:30 p.m. EDT
Thursday, April 26, 2012

FINANCIAL LITERACY

Enhancing the Effectiveness of the Federal Government's Role

Statement of Alicia Puente Cackley, Director
Financial Markets and Community Investment



GAO-12-636T



Highlights of GAO-12-636T, a testimony before the Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia, Committee on Homeland Security and Governmental Affairs, U.S. Senate

Why GAO Did This Study

Financial literacy plays an important role in helping to promote the financial health and stability of individuals and families. Economic changes in recent years have further highlighted the need to empower all Americans to make informed financial decisions. In addition to the important roles played by states, nonprofits, the private sector, and academia, federal agencies promote financial literacy through activities including print and online materials, broadcast media, individual counseling, and classroom instruction.

This testimony discusses (1) the federal government's role in promoting financial literacy, including GAO's role; (2) the advantages and risks of financial literacy efforts being spread across multiple federal agencies; and (3) opportunities to enhance the effectiveness of federal financial literacy education efforts going forward. This testimony is based on prior and ongoing work, for which GAO reviewed agency budget documents, strategic plans, performance reports, websites, and other materials; convened forums of financial literacy experts; and interviewed representatives of federal agencies and selected private and nonprofit organizations.

While this statement includes no new recommendations, in the past GAO has made a number of recommendations aimed at improving financial literacy efforts.

View GAO-12-636T. For more information, contact Alicia Puente Cackley at (202) 512-8678 or cackleya@gao.gov.

April 26, 2012

FINANCIAL LITERACY

Enhancing the Effectiveness of the Federal Government's Role

What GAO Found

The federal government plays a wide-ranging role in promoting financial literacy. Efforts to improve financial literacy in the United States involve an array of public, nonprofit, and private participants, but among those participants, the federal government is distinctive for its size and reach and for the diversity of its components, which address a wide range of issues and populations. At forums of financial literacy experts that GAO held in 2004 and 2011, participants noted that the federal government can use its "bully pulpit," convening power, and other tools to draw attention to the issue, and serve as an objective and unbiased source of information about the selection of financial products and services. In prior work, GAO cited a 2009 report by the RAND Corporation in which 20 federal agencies self-identified as having 56 federal financial literacy programs, but GAO's subsequent analysis found substantial inconsistency in how different agencies defined and counted financial literacy programs. Based on a more consistent set of criteria, GAO identified 16 significant financial literacy programs or activities among 14 federal agencies, as well as 4 housing counseling programs among 3 federally supported entities, in fiscal year 2010. The Comptroller General has initiated a multi-pronged strategy to address financial literacy issues. First, GAO will continue to evaluate federal efforts that directly promote financial literacy. Second, it will encourage research of the various financial literacy initiatives to evaluate the relative effectiveness of different approaches. Third, GAO will look for opportunities to enhance financial literacy as an integral component of certain regular federal interactions with the public. Finally, GAO has recently instituted a program to empower its own employees, which includes an internal website with information on personal financial matters and links to information on pay and benefits and referral services through its counseling services office and a distinguished speaker series.

Having multiple federal agencies involved in financial literacy offers advantages as well as risks. Some agencies have long-standing expertise and experience addressing specific issue areas or populations, and providing information from multiple sources can increase consumer access and the likelihood of educating more people. However, the participation of multiple agencies also highlights the risk of inefficiency and the need for strong coordination of their activities. GAO has found that the coordination and collaboration among federal agencies with regard to financial literacy has improved in recent years, in large part as a result of the Financial Literacy and Education Commission. At the same time, GAO has found instances of overlap, in which multiple agencies or programs, including the new Bureau of Consumer Financial Protection, share similar goals and activities, underscoring the need for careful monitoring of the bureau's efforts.

In prior work GAO has noted the importance of program evaluation and the need to focus federal financial literacy efforts on initiatives that work. Federal agencies could potentially make the most of scarce resources by consolidating financial literacy efforts into the activities and agencies that are most effective. In addition, the Bureau of Consumer Financial Protection offers potential for enhancing the federal government's role in financial literacy, but avoiding duplication will require that it continue its efforts to delineate its financial literacy roles and responsibilities vis-à-vis those of other federal agencies with overlapping responsibilities.

United States Government Accountability Office

Chairman Akaka, Ranking Member Johnson, and Members of the Subcommittee:

I am pleased to be here today to testify on the topic of financial literacy as part of Financial Literacy Month 2012. Financial literacy plays an important role in helping to promote the financial health and stability of individuals and families. Economic changes in recent years have further highlighted the need to empower all Americans to make informed financial decisions. In his statement before you in April 2011, Comptroller General Gene Dodaro emphasized his commitment to promoting greater awareness of the importance of financial literacy in the United States.¹ Since that time, we have engaged in a series of reports and activities aimed at focusing attention on the federal government's financial literacy efforts and providing insight into ways of improving the effectiveness of those efforts.² For example, in October 2011 we held a forum on financial literacy with participants that included representatives of federal, state, and local government organizations; academic experts; nonprofit practitioners; and representatives from the private sector.³ The forum focused on such topics as identifying the most effective approaches to financial literacy and leveraging the unique role of the federal government in promoting greater financial literacy.

In my statement today I will discuss (1) the federal government's role in promoting financial literacy, including the role of GAO; (2) the advantages and risks of financial literacy efforts being spread across multiple federal agencies; and (3) opportunities to enhance the effectiveness of federal financial literacy education efforts going forward. This testimony is based largely on selected prior work we have conducted on financial literacy.⁴ In

¹GAO, *Financial Literacy: The Federal Government's Role in Empowering Americans to Make Sound Financial Choices*, GAO-11-504T (Washington D.C.: Apr. 12, 2011).

²GAO, *2012 Annual Report: Opportunities to Reduce Duplication, Overlap and Fragmentation, Achieve Savings, and Enhance Revenue*, GAO-12-342SP (Washington D.C.: Feb. 28, 2012); *Highlights of a Forum: Financial Literacy: Strengthening Partnerships in Challenging Times*, GAO-12-299SP (Washington D.C.: Feb. 9, 2012); and *Financial Literacy: A Federal Certification Process for Providers Would Pose Challenges*, GAO-11-614 (Washington D.C.: June 28, 2011).

³GAO-12-299SP.

⁴GAO-12-342SP, GAO-12-299SP, GAO-11-614, GAO-11-504T, and GAO, *Highlights of a GAO Forum: The Federal Government's Role in Improving Financial Literacy*, GAO-05-93SP (Washington D.C.: Nov. 15, 2004).

conducting that work, we collected information on the purpose, beneficiaries, and subject matter of federal financial literacy programs and activities through interviews with staff of federal agencies and through budget justifications, strategic plans, and other documents. We also reviewed the Financial Literacy and Education Commission's 2011 national strategy and implementation plan and memorandums of understanding and other documents related to collaboration among federal agencies. In addition, we convened forums of financial literacy experts and interviewed representatives of organizations that address financial literacy within the federal, state, private, nonprofit, and academic sectors.

The work on which this statement was based was largely performed from May 2011 to February 2012 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

There is no single definition for financial literacy, which is sometimes also referred to as financial capability, but it has previously been described as the ability to make informed judgments and to take effective actions regarding current and future use and management of money. Financial literacy encompasses financial education—the processes whereby individuals improve their knowledge and understanding of financial products, services, and concepts. However, being financially literate refers to more than simply being knowledgeable about financial matters; it also entails utilizing that knowledge to make informed decisions, avoid pitfalls, and take other actions to improve one's present and long-term financial well-being. Federal, state, and local government agencies, nonprofits, the private sector, and academia all play important roles in providing financial education resources, which can include print and online materials, broadcast media, individual counseling, and classroom instruction.

Evidence indicates that many U.S. consumers could benefit from improved financial literacy efforts. In a 2010 survey of U.S. consumers prepared for the National Foundation for Credit Counseling, a majority of

consumers reported they did not have a budget and about one-third were not saving for retirement.⁵ In a 2009 survey of U.S. consumers by the FINRA Investor Education Foundation, a majority believed themselves to be good at dealing with day-to-day financial matters, but the survey also revealed that many had difficulty with basic financial concepts.⁶ Further, about 25 percent of U.S. households either have no checking or savings account or rely on alternative financial products or services that are likely to have less favorable terms or conditions, such as nonbank money orders, nonbank check-cashing services, or payday loans.⁷ As a result, many Americans may not be managing their finances in the most effective manner for maintaining or improving their financial well-being. In addition, individuals today have more responsibility for their own retirement savings because traditional defined-benefit pension plans have increasingly been replaced by defined-contribution pension plans over the past two decades.⁸ As a result, financial skills are increasingly important for those individuals in or planning for retirement to help ensure that retirees can enjoy a comfortable standard of living.

The Federal Government Plays a Wide-Ranging Role in Promoting Financial Literacy

Efforts to improve financial literacy in the United States involve a range of public, nonprofit, and private participants. Among those participants, the federal government is distinctive for its size and reach, and for the diversity of its components, which address a wide array of issues and populations. At our forum last year on financial literacy, many participants said that the federal government had a unique role to play in promoting greater financial capability.⁹ They noted that the federal government has a built-in "bully pulpit" that can be used to draw attention to this issue. Participants also highlighted the federal government's ability to convene the numerous agencies and entities involved in financial literacy, noting

⁵Harris Interactive Inc., prepared for The National Foundation for Credit Counseling, *The 2010 Consumer Financial Literacy Survey Final Report* (April 2010).

⁶FINRA Investor Education Foundation, *Financial Capability in the United States, Initial Report of Research Findings from the 2009 National Survey, A Component of the National Financial Capability Study* (New York, N.Y.: Dec. 1, 2009).

⁷Federal Deposit Insurance Corporation (FDIC), *FDIC National Survey of Unbanked and Underbanked Households* (Washington, D.C.: December 2009).

⁸GAO, *Defined Benefit Pensions: Survey Results of the Nation's Largest Private Defined Benefit Plan Sponsors*, GAO-09-291 (Washington, D.C.: Mar. 30, 2009).

⁹GAO-12-299SP.

that the government has a powerful ability to bring people together. In addition, some participants noted the federal government's ability to take advantage of existing distribution channels and points of contact between the government and citizens to distribute messages about financial literacy. In our ongoing work, we have found examples of federal agencies acting on such opportunities—for example, the Securities and Exchange Commission has worked with the Internal Revenue Service to include an insert about its investor education resources, including its "Investor.gov" education website, in the mailing of tax refund checks.

At our first forum on financial literacy in 2004, participants noted that the federal government can serve as an objective and unbiased source of information, particularly in terms of helping consumers make wise decisions about the selection of financial products and services.¹⁰ Some participants expressed the belief that while the private sector offers a number of good financial literacy initiatives, it is ultimately motivated by its own financial interests, while the federal government may be in a better position to offer broad-based, noncommercial financial education.

In preliminary results from an ongoing review, we have identified that, in fiscal year 2010, there were 16 significant financial literacy programs or activities among 14 federal agencies, as well as 4 housing counseling programs among 2 federal agencies and a federally chartered nonprofit corporation. We defined "significant" financial literacy programs or activities as those that were relatively comprehensive in scope or scale and included financial literacy as a key objective rather than a tangential goal.¹¹ In prior work, we cited a 2009 report that had identified 56 federal

¹⁰GAO-05-93SP.

¹¹According to our criteria, significant financial literacy and education activities were those for which primary goals were to educate, inform, or encourage individuals to make informed judgments and take effective actions regarding the current and future use and management of money. However, we excluded (1) those for which financial literacy was only a minimal component; (2) programs that provided financial information related to the administration of the program itself (e.g., information on applying for student financial aid or evaluating Medicare choices) rather than information aimed at increasing the beneficiaries' financial literacy and comprehension more generally; (3) activities or programs that were purely internal to the agency, such as information provided to agency employees on their employment and retirement benefits; and 4) activities that represented individualized services or advice (e.g., assistance with tax preparation or development of a debt management plan). We included as federal programs those of NeighborWorks® America, a government-chartered, nonprofit corporation that receives federal funding for housing counseling, including through an annual appropriation from Congress.

financial literacy programs among 20 agencies. That report, conducted by the RAND Corporation, was based on a survey that had asked federal agencies to self-identify their financial literacy efforts.¹² However, our subsequent analysis of these 56 programs found that there was a high degree of inconsistency in how different agencies defined financial literacy programs or efforts and whether they counted related efforts as one or multiple programs. We believe that our count of 16 significant federal financial literacy programs or activities and 4 housing counseling programs is based on a more consistent set of criteria.¹³

During his confirmation hearing, Comptroller General Dodaro noted that financial literacy was an area of priority for him, and he has initiated a multi-pronged strategy for GAO to address financial literacy issues. First, we will continue to evaluate federal efforts that directly promote financial literacy. In addition to our recent financial literacy forum, we have ongoing work that focuses on, among other things, the cost of federal financial literacy activities, the federal government's coordination of these activities, and what is known about their effectiveness. Second, we will encourage research of the various financial literacy initiatives to evaluate the relative effectiveness of different financial literacy approaches. Third, we will look for opportunities to enhance financial literacy as an integral component of certain regular federal interactions with the public. Finally, we have recently instituted a program to empower GAO's own employees. This program includes a distinguished speaker series, as well as an internal website with information on personal financial matters and links to information on pay and benefits and referral services through GAO's counseling services office.

¹²GAO, *List of Selected Federal Programs That Have Similar or Overlapping Objectives, Provide Similar Services, or Are Fragmented Across Government Missions*, GAO-11-474R (Washington, D.C.: Mar. 18, 2011); and *Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue*, GAO-11-318SP (Washington, D.C.: Mar. 1, 2011). Angela A. Hung, Kata Mihaly, and Joanne K. Yoong (RAND Corporation), *Federal Financial and Economic Literacy Education Programs, 2009* (Santa Monica, Calif.: 2010), accessed April 19, 2012, http://rand.org/pubs/technical_reports/2010/RAND_TR857.pdf.

¹³Our review was based on programs in place in fiscal year 2010; at least three of the programs in place at that time were not funded in fiscal year 2012.

Having Multiple Federal Agencies Involved in Financial Literacy Offers Advantages as Well as Risks

Having multiple federal agencies involved in financial literacy efforts can have certain advantages. In particular, providing information from multiple sources can increase consumer access and the likelihood of educating more people. Moreover, certain agencies may have deep and long-standing expertise and experience addressing specific issue areas or serving specific populations. For example, the Securities and Exchange Commission has efforts in place to protect securities investors from fraudulent schemes, while the Department of Housing and Urban Development (HUD) oversees most, but not all, federally supported housing counseling. Similarly, the Department of Defense (DOD) may be the agency most able to efficiently and effectively deliver financial literacy programs and products to servicemembers and their families. However, as we stated in a June 2011 report, relatively few evidence-based evaluations of financial literacy programs have been conducted, limiting what is known about which specific methods and strategies—and which federal financial literacy activities—are most effective.¹⁴

Further, the participation of multiple agencies highlights the need for strong coordination of their activities. In general, we have found that the coordination and collaboration among federal agencies with regard to financial literacy have improved in recent years, in large part due to the multiagency Financial Literacy and Education Commission. The commission was created by Congress in 2003 and charged, among other things, with developing a national strategy to promote financial literacy and education, coordinating federal efforts, and identifying areas of overlap and duplication. Among other things, the commission, in concert with the Department of the Treasury, which provides its primary staff support, has served as a central clearinghouse for federal financial literacy resources—for example, it created a centralized federal website and has an ongoing effort to develop a catalog of federal research on financial literacy. The commission's 2011 national strategy identified five action areas, one of which was to further emphasize the role of the commission in coordination. The strategy's accompanying Implementation Plan lays out plans to coordinate communication among federal agencies, improve strategic partnerships, and develop channels of communication with other entities, including the President's Advisory Council on Financial Capability and the National Financial Education Network of State and Local Governments. The Financial Literacy and

¹⁴GAO-11-614.

Education Commission's success in implementing these elements of the national strategy is key, given the inherently challenging task of coordinating the work of the commission's many member agencies—each of which has its own set of interests, resources, and constituencies. Further, the addition of the Bureau of Consumer Financial Protection, whose director serves as the Vice Chair of the commission, adds a new player to the mix.

In our recent and ongoing work, we have found instances in which multiple agencies or programs share similar goals and activities, which raises questions about the efficiency of some federal financial literacy efforts. For example, four federal agencies and one government-chartered nonprofit corporation provide or support various forms of housing counseling to consumers—DOD, HUD, the Department of Veterans Affairs, the Department of the Treasury, and NeighborWorks America. Other examples of overlap lie in the financial literacy responsibilities of the Bureau of Consumer Financial Protection, which was created by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). The act established within the bureau an Office of Financial Education and charged this office with developing and implementing a strategy to improve financial literacy through activities including opportunities for consumers to access, among other things, financial counseling; information to assist consumers with understanding credit products, histories, and scores; information about saving and borrowing tools; and assistance in developing long-term savings strategies. This office presents an opportunity to further promote awareness, coordinate efforts, and fill gaps related to financial literacy. At the same time, the duties this office is charged with fulfilling are in some ways similar to those of a separate Office of Financial Education and Financial Access within the Department of the Treasury, a small office that also seeks to broadly improve Americans' financial literacy. In addition, the Dodd-Frank Act charges the Bureau of Consumer Financial Protection with developing and implementing a strategy on improving the financial literacy of consumers, even though the multiagency Financial Literacy and Education Commission already has its own statutory mandate to develop, and update as necessary, a national strategy for financial literacy. As the bureau has been staffing up and planning its financial education activities, it has been in regular communication with the Department of the Treasury and with other members of the Financial Literacy and Education Commission, and agency staff say they are seeking to coordinate their respective roles and activities.

The Dodd-Frank Act also creates within the bureau an Office of Financial Protection for Older Americans, which is charged with helping seniors recognize warning signs of unfair, deceptive, or abusive practices and protect themselves from such practices; providing one-on-one financial counseling on issues including long-term savings and later-life economic security; and monitoring the legitimacy of certifications of financial advisers who advise seniors. These activities may overlap with those of the Federal Trade Commission, which also plays a role in helping seniors avoid unfair and deceptive practices. Further, the Department of Labor and the Social Security Administration both have initiatives in place to help consumers plan for retirement, and the Securities and Exchange Commission has addressed concerns about the designations and certifications used by financial advisers, who often play a role in retirement planning.¹⁵ Officials at the Bureau of Consumer Financial Protection told us that they have been coordinating their financial literacy roles and activities with those of other federal agencies to avoid duplication of effort.

Program Evaluation and the Bureau of Consumer Financial Protection May Offer Avenues to Enhance Effectiveness

In prior work we have noted the importance of program evaluation and the need to focus federal financial literacy efforts on initiatives that work. Relatively few evidence-based evaluations of financial literacy programs have been conducted, limiting what is known about which specific methods and strategies are most effective. Financial literacy program evaluations are most reliable and definitive when they track participants over time, include a control group, and measure the program's impact on consumers' behavior. However, such evaluations are typically expensive, time-consuming, and methodologically challenging. Based on our previous work, it appears that no single approach, delivery mechanism, or technology constitutes best practice, but there is some consensus on key

¹⁵The Federal Trade Commission's Division of Consumer and Business Education plans, develops, and implements various web-based financial literacy activities that focus on consumer protection, some of which have focused on scams targeted at seniors. The Department of Labor's Retirement Savings Education Campaign seeks to increase retirement savings through workplace plans so that employees are better prepared for a secure retirement. The Social Security Administration's (SSA) Special Initiative to Encourage Savings focuses on saving and retirement issues and informing the public about SSA's programs related to old-age, survivors, and disability insurance system. The Securities and Exchange Commission's efforts to address concerns about the designations and certifications used by financial advisers have included conducting focus groups with investors on the topic and improving the disclosures that financial advisers must provide to clients.

common elements for successful financial education programs, such as timely and relevant content, accessibility, cultural sensitivity, and an evaluation component.

There are several efforts under way that seek to enhance evaluation of federal financial literacy programs. For example, the Financial Literacy and Education Commission has begun to establish a clearinghouse of evidence-based research and evaluation studies, current financial topics and trends of interest to consumers, innovative approaches, and best practices. In addition, the Bureau of Consumer Protection recently contracted with the Urban Institute for a financial education program evaluation project, which will assess the effectiveness of two existing financial education programs and seeks to identify program elements that improve consumers' confidence about financial matters. We believe these measures are positive steps because federal agencies could potentially make the most of scarce resources by consolidating financial literacy efforts into the activities and agencies that are most effective.

The Bureau of Consumer Financial Protection was charged by statute with a key role in improving Americans' financial literacy and is being provided with resources to do so. As such, the bureau offers potential in enhancing the federal government's role in financial literacy. At the same time, as we have seen, some of its responsibilities overlap with those of other agencies, which highlights the need for coordination and may offer opportunities for consolidation. As the bureau's financial literacy activities evolve and are implemented, it will be important to evaluate how those efforts are working and make appropriate adjustments that might promote greater efficiency and effectiveness. In addition, the overlap we have identified among programs and activities increases the risk of inefficiency and emphasizes the importance of coordination among financial participants. This underscores the importance of steps the Bureau of Consumer Financial Protection has been taking to delineate its roles and responsibilities related to financial literacy vis-à-vis those of other federal agencies, which we believe is critical in order to minimize overlap and the potential for duplication.

Chairman Akaka, Ranking Member Johnson, this completes my prepared statement. I would be happy to respond to any questions you or other Members of the Subcommittee may have at this time.

For future contacts about this testimony, please contact Alicia Puente Cackley at (202) 512-8678 or at cackleya@gao.gov. Contact points for

our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. Jason Bromberg, Mary Coyle, Roberto Piñero, Rhonda Rose, Jennifer Schwartz, and Andrew Stavisky also made key contributions to this statement.

Testimony of Camille Busette
Assistant Director
Office of Financial Education, Division of Consumer Education and Engagement
Consumer Financial Protection Bureau
Before the Subcommittee on Oversight of Government Management,
the Federal Workforce, and the District of Columbia
U.S. Senate Committee on Homeland Security and Governmental Affairs
Hearing on "Financial Literacy:
Empowering Americans to Prevent the Next Financial Crisis"

April 26, 2012

Chairman Akaka, Ranking Member Johnson, and Members of the Subcommittee, thank you for the opportunity to appear before you today on a topic of critical importance to the Consumer Financial Protection Bureau (CFPB) and our nation – financial literacy and empowering Americans to prevent the next financial crisis. I want to especially thank you, Chairman Akaka, for your pioneering leadership in helping enact policies intended to increase financial education and financial access for all Americans. The CFPB's Office of Financial Education is a testament to your many contributions to the financial well-being of American consumers. You have been a longtime and vigorous champion for the financial empowerment of all Americans.

To successfully navigate our complex financial system, all Americans, regardless of income and level of educational attainment, must be equipped with the financial knowledge and skills sufficient to make informed financial choices. The Dodd-Frank Wall Street Reform and Consumer Protection Act's creation of the CFPB's Office of Financial Education provides Americans with an office dedicated to serving as a trusted resource for financial information and to improving the financial literacy of Americans.

My testimony will provide an overview of the financial education initiatives currently underway at the Bureau and, particularly, in our Office of Financial Education.

Providing Consumers with Actionable Financial Information

The Bureau has focused early resources on providing critical information to consumers via our website – www.ConsumerFinance.gov – and our Consumer Response Center. We also have launched several initiatives in the vein of making costs and risks clearer for consumers. Our signature *Know Before You Owe Mortgages* initiative is focused on simplifying and streamlining

duplicative mortgage forms that have been confusing homebuyers for many years. We also created and are testing a *Financial Aid Comparison Shopper* to help students navigate the complex world of student loans. The Comparison Shopper helps students to compare financial aid packages and to understand the payments they will face after graduation.

We released a prototype credit-card contract that is shorter and clearer than current credit-card agreements. We tried to keep the prototype to the seventh-grade reading level to make it accessible to as many consumers as possible.

Through our Office of Consumer Engagement the Bureau has also launched "Ask CFPB," an interactive tool which allows consumers to obtain information about a variety of financial services and products. In addition, the Bureau has produced information for consumers to highlight the financial consequences of various checking-account overdraft fee choices. Earlier this year, the Office of Financial Education coordinated with Volunteer Income Tax Assistance (VITA) sites around the country to help tax filers eligible for the Earned Income Tax Credit think of potential refunds as opportunities to contribute to a qualified savings vehicle.

Each of these efforts is part of a larger endeavor at the Bureau to provide Americans with understandable information that helps them make better, more informed financial choices to achieve their financial goals.

Research and Innovation

American consumers will be better served if financial education is effective in imparting fundamental knowledge and skills. Because there is no clear consensus about the conditions under which financial education is most effective, earlier this year the CFPB's Office of Financial Education launched its initial Financial Education Program Evaluation Project. This project uses a quantitative methodology to identify what elements of two existing financial education programs do or do not increase consumers' ability to manage their finances, and why. We intend to use the insights produced by this study to provide guidance to practitioners about how to design and support effective education programs. The results will be widely shared with participating Financial Literacy and Education Commission agencies and other stakeholders. As the research project proceeds, we will also facilitate the sharing of programmatic best practices, evaluation methodologies, and common metrics that promote effective financial education among practitioners and other researchers.

The Office of Financial Education is also focused on identifying innovations in financial education that will help consumers successfully navigate common financial challenges. As a first foray, we will be holding listening sessions and consulting with innovators within the next two months. Our objective is to understand how these innovations can be helpful to consumers and how we can leverage them to increase the financial literacy of Americans.

Outreach

In addition to the efforts undertaken to reach consumers more broadly at the Bureau, the CFPB's Office of Financial Education is also engaged in significant outreach targeted to its particular

mission. American consumers benefit when the fruits of our work and of organizations that are excelling in financial education are shared broadly. We have held listening sessions with financial education providers, addressed faith communities and community organizations, held webinars, and spoken at numerous conferences and events. We also had the pleasure of participating in Financial Literacy Day on the Hill last week. Our outreach efforts continue to inform how we approach financial education and how we structure our work so that it most benefits American financial consumers.

Coordination with the Financial Literacy and Education Commission and with Treasury

Federal agencies involved in financial education have different missions, regulatory authorities, expertise, and resources. The CFPB is the only federal agency whose focus and mandate is the protection and education of the American financial consumer. The Bureau has taken a thoughtful approach to leveraging, complementing, and coordinating with financial education efforts already underway in the federal government. The Bureau's Director serves as the Vice Chair of the Financial Literacy and Education Commission (FLEC), and Bureau staff are engaged with each of the Commission's working groups. For example, the Office of Financial Education is engaged in ongoing efforts with FLEC partners to implement the FLEC National Strategy, and to pursue a coordinated approach to research and outreach. In particular, the Office of Financial Education will work with the FLEC to educate consumers about the Bureau's new remittances rule, which will become effective in January of 2013. Also, as part of our efforts to collaborate across agencies, our office meets regularly with Department of Treasury staff members in the Office of Financial Education and Financial Access to coordinate and leverage our respective activities.

These are just a few of the initial activities we are undertaking to serve American consumers and give them the best tools and opportunities to understand financial choices, challenges, and consequences.

Conclusion

As the economy continues to recover from the worst financial crisis since the Great Depression, it will be especially important that American families who are focused on building more secure financial futures are able to evaluate the choices available to them in the financial marketplace. We must seek to ensure that individuals and families have the knowledge and skills to manage their financial resources effectively and plan for future life events. It is only with knowledgeable and informed consumers that we will be able to fully and responsibly harness the financial system's tremendous capacity to fuel growth and investment, which are critical to our continued economic recovery. The CFPB's Office of Financial Education looks forward to working with this Committee, other agencies, the private and non-profit sectors, and others to improve the financial literacy of all Americans.

Thank you again for the opportunity to testify today. I look forward to answering your questions.

Financial Education: What Do We Know?

Remarks by

Brigitte Madrian, Harvard Kennedy School

Prepared for the Hearing

*"Financial Literacy:
Empowering Americans to Prevent the Next Financial Crisis"*

COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS

Subcommittee on Oversight of Government Management,
the Federal Workforce, and the District of Columbia

Thursday, April 26, 2012

One does not need to search hard to find evidence of poor financial decision-making by U.S. households:

- Individuals do not shop around for financial products and consequently pay far more than necessary for products such as credit cards and home mortgages
- When interest rates are falling, many homeowners fail to refinance and take advantage of lower rates
- Individuals don't understand the factors that should matter most in making investment choices; for example, they chase past returns and pay too little attention to investment fees
- Individuals hold poorly diversified portfolios with heavy exposure to employer stock driven in part by a mistaken belief that employer stock is a less risky investment than a well diversified stock mutual fund
- Individuals neglect to enroll in their 401(k) savings plans even when their employer is offering a generous match and even when they could withdraw their contributions almost immediately and with no penalty and still collect the employer match
- A sizeable fraction of households do not have a rainy day fund to help meet emergency expenses and report that they would have difficulty coming up with \$2000 from any source in less than 30 days

One also does not need to search hard to find evidence that many U.S. households are not particularly financially literate:

- Individuals do not understand how inflation impacts their purchasing power
- Individuals do not understand how the interest rate environment impacts their investment choices
- Individuals do not understand the power of compound interest
- Individuals do not understand how to diversify against labor market and financial market risks
- Individuals do not understand the salient characteristics of many different financial investments

Unfortunately, there is no evidence that the financial capabilities of U.S. households have been improving over time.

Not surprisingly, there is a correlation between financial literacy and the quality of financial decisions made by individuals. Those who are more financially literate are less likely to make financial mistakes and are more likely to report confidence in their financial decisions. The consequences of limited financial literacy and poor financial decision-making are particularly acute for low income households who have little leeway for coping with financial mistakes.

The positive correlation between financial literacy and the quality of financial decision-making has led many to the conclusion that increasing financial literacy through financial education will improve financial outcomes. But what do we really know about how well financial education works?

The evidence on whether financial education improves financial outcomes is suggestive at best. The most substantial problem in the research on financial education and financial outcomes is that if financial education programs are available but take-up is voluntary, those who receive financial education are likely to be different from those who do not receive financial education. In particular, those who are capable of making better financial decisions in the first place may be those who recognize the value of and invest the time in obtaining financial education. If so, we would likely observe a positive relationship between financial education and better financial outcomes, but it would be unclear what part of that relationship is due to differences in the types of people who do and do not get financial education, and what part is due to the actual provision of financial education. It could be that all of the effect is due to selection—that people who get financial education are fundamentally different and would have had better outcomes with or without the financial education.

From a research standpoint, the ideal approach for ascertaining the effectiveness of financial education would be through randomized controlled trials, the same approach that is used to ascertain the effectiveness of different medical treatments. A population would be randomly assigned to either receive or not receive financial education, and then outcomes for both groups would be followed over time. There have been very few studies that have used this approach to study the impact of financial education. The conclusions of the very small number of studies that have used this approach paint a mixed picture, with some finding no significant differences in financial outcomes for those who do and do not receive financial education, and others finding some evidence that financial education may have (small) beneficial effects on outcomes such as savings and credit utilization.

From a policy standpoint, the biggest current need on the financial education front is a better understanding of whether financial education is effective and, if so, what types of financial education interventions work best. It makes no sense to fund programs that do not work, and yet we know very little about what does and does not work because most financial education interventions have not been implemented in a way that allows for convincing analysis of their efficacy.

Here are the broad questions on which further research would be most valuable:

- What are the basic financial competencies that individuals need? What financial decisions should we expect individuals to successfully make independently, and what decisions are best relegated to an expert?
- What type of financial education content works best and for whom? The content of financial education can be abstract and principles-based (e.g., how to calculate interest compounding) or oriented more around rules of thumb (e.g., divide 72 by the interest rate, and that will give you roughly the number of years it takes for an investment to double in value). The content can also be broad, covering many topics, or specific, focusing on a single issue. Which type of content has the greatest impact on financial outcomes and for whom? Some of the emerging literature suggests that actionable, rule-of-thumb based financial education may be more effective than principles-based content, at least for certain groups.
- What type of financial education delivery works best and for whom? There are many ways to deliver the educational content that could improve financial decision-making: personal lectures or courses, internet-based instruction, podcasts, web sites, games, apps, printed material. How effective are these different delivery mechanisms, and are some better-suited to some groups of individuals or types of problems than others?
- How do we induce the people who most need financial education to get it? School-based financial education programs have the advantage that, while in school, students are a captive audience. But schools can only teach so much. Many of the financial decisions that individuals will face in their adult lives have little relevance to a 17-year-old high school student: purchasing life insurance, picking a fixed vs. an adjustable rate mortgage, choosing an asset allocation in a retirement savings account, whether to file for bankruptcy. How do we deliver financial education to adults before they make financial mistakes when we don't have a captive audience and financial education is one of many things competing for their time and attention?
- When should individuals be targeted for financial education? Should financial education be ongoing? Episodic? Or just-in-time?
- How much financial education do individuals need? Is a course of a few hours length enough, or do we need to think more expansively about integrated approaches to financial education over the lifecycle? Or, on the other extreme, should financial education be more focused and narrowly targeted to coincide with the making of specific financial decisions?
- Taking a driver's education course or passing a driver's education test is a prerequisite for getting a drivers license. Should certain financial transactions be predicated on the

demonstration of an adequate level of financial literacy? If so, for what types of financial decisions would such a licensing approach make most sense? And how should financial education be provided in this context?

- How does financial education interact with the characteristics of financial products, the institutional environment, and the financial decisions at hand?
- Should financial education be coupled with practical assistance and/or advice, and if so, how?

These are all important questions. Unfortunately, we have very little concrete evidence to provide answers. We have a pressing need for more and better research to inform the design of financial education interventions and to prioritize where financial education resources can be best spent. To achieve this, funding for financial education needs to be coupled with funding for evaluation, and the design and implementation of financial education interventions needs to be done in a way that facilitates rigorous evaluation.

Let me conclude with some thoughts on what we are trying to achieve.

What is the goal? If the goal is to improve financial literacy, then the only way to achieve that goal is through financial education. The policy questions then become:

- What level of financial literacy is necessary or desirable?
- What is the most cost effective way to deliver financial education in order to increase financial literacy?
- What is the appropriate role of government in either directly providing or funding the private provision of financial education?

If the goal is to improve financial outcomes, then the policy questions are slightly different:

- What are the tools available to improve financial outcomes? This might include financial education, but it might also include better financial market regulation, different approaches to changing institutional framework for individual and household financial decision-making, or incentives for innovation to create products that improve financial outcomes.
- Which tools are most cost effective at improving financial outcomes? For some outcomes, the most cost effective tool might be financial education, but for other outcomes, different tools might be more effective. For example, financial education programs have had only modest success in increasing participation in and contributions to employer-sponsored savings plans; in contrast, automatic enrollment and automatic contribution escalation lead to dramatic increases in savings plan

participation and contributions. Moreover, automatic enrollment and contribution escalation are less expensive to implement than financial education programs. What approaches to changing financial behavior will have the biggest bang for the buck, and how does financial education compare to other levers that can be used to change outcomes?

- What is the appropriate role of government in identifying and promoting the various tools that can improve financial outcomes?

Despite the dearth of evidence on the effectiveness of financial education, financial literacy is in short supply and increasing the financial capabilities of the population is a desirable and socially beneficial goal. I believe that well designed and well executed financial education initiatives can have an effect. But to design cost effective financial education programs, we need better research on what does and does not work. We also should not lose sight of the larger goal—financial education is a tool, one of many, for improving financial outcomes. Financial education programs that don't improve financial outcomes can hardly be considered a success.

Testimony of Mark A. Calabria, Ph.D.

**Director, Financial Regulation Studies, Cato Institute
Before the
U.S. Senate Committee on Homeland Security and Governmental
Affairs
Subcommittee on Oversight of Government Management, the Federal
Workforce, and the District of Columbia**

**On “Financial Literacy: Empowering Americans to Prevent the Next
Financial Crisis”**

April 26, 2012

Chairman Akaka, Ranking Member Johnson, and distinguished members of the Subcommittee, I thank you for the invitation to appear at today’s important hearing. I am Mark Calabria, Director of Financial Regulation Studies at the Cato Institute, a nonprofit, non-partisan public policy research institute located here in Washington, DC. Before I begin my testimony, I would like to make clear that my comments are solely my own and do not represent any official policy positions of the Cato Institute. In addition, outside of my interest as a citizen and a taxpayer, I have no direct financial interest in the subject matter before the Subcommittee today, nor do I represent any entities that do.

The Theory of Financial Literacy

I commend the Chairman for his long efforts towards increasing financial literacy. I believe we all share a desire to see consumers make better and more informed choices. We must, however, when evaluating public policy remember that intentions and outcomes are not the same thing.

Too often in Washington policy discussions confuse ends and means. Financial education is, at heart, a means to improving financial literacy, the purpose of which is not simply to increase knowledge but to improve

household decision-making and behavior. We can, and do, spend considerable amounts on a variety of financial education efforts, as does the financial services industry. State and local governments also commit a considerable amount of resources to financial education, particularly in the form of classroom hours and the compensation and time of educators. Dollars, or hours, should not be our measure of success. They are a measure of cost (and only one measure as teaching hours spent on financial education are not spent on other teaching). The true measure of success is whether households are making good financial decisions and behaving in a responsible manner. The notion that a more informed consumer makes a better one is appealing, but it also a notion lacking in concrete guidance. Whether financial education and literacy programs actually make a “better” consumer is ultimately an empirical question.

Empirical Evaluation of Financial Literacy Programs

The good news is that a variety of financial education programs have received evaluation, even if most have not. There are also a small number of literature surveys providing an overview.¹ A recent literature review by economists at the Federal Reserve Bank of Cleveland provides what I believe is a fair and representative conclusion: “the literature does not succeed in establishing the extent of the benefit provided by financial education programs, nor does it provide conclusive support that any benefit at all exists.”²

Another review, focusing on financial education at the high school level, concludes, “The findings indicated that those who took the course were no more financially literate than those who had not. In addition, those who took the course did not evaluate themselves to be more savings-oriented and did not appear to have better financial behavior than those who had not taken the course.”³

¹ See generally, Angela Lyons et al., “Are We Making the Grade? A National Overview of Financial Education and Program Evaluation,” *Journal of Consumer Affairs* 40(2006):208. and Tzu-Chin Martina Peng et al., “The Impact of Personal Finance Education Delivered in High School and College Courses,” *Journal of Family and Economic Issues* 28(2007) and Lauren Willis, “Evidence and Ideology in Assessing the Effectiveness of Financial Literacy Education,” *San Diego Law Review* 46(2009).

² Ian Hathaway and Semeer Khatriwada, *Do Financial Education Programs Work?* Working Paper 08-03. Federal Reserve Bank of Cleveland. April 2008.

³ Lewis Mandell and Linda Klein, “The Impact of Financial Literacy Education on Subsequent Financial Behavior,” *Journal of Financial Counseling and Planning* Volume 20, Issue 1 (2009). http://www.afcpe.org/assets/pdf/lewis_mandell_linda_schmid_klein.pdf

While I am, admittedly, a skeptic of the effectiveness of government programs in general, even I have been surprised at the extent to which evaluations of financial education programs have generally failed to find significant effects.

Given the opportunity costs of financial education, both in time and money, the failure to find consistent positive effects would be bad enough, however a small number of studies have actually found negative effects. One researcher, for instance, found that among high school seniors who paid for their own car insurance, those who took a financial literacy course actually did worse when tested about car insurance than students who did not take such a course.⁴

Studies have also found on adults that financial literacy courses can, for some, increase the consumer's confidence without actually increasing their knowledge. This is perhaps my area of greatest concern regarding financial education. Ultimately we do not want consumers to be either too overconfident or too under-confident. Overconfident can reduce a consumer's willingness to further investigate the characteristics and performance of various financial products. Overconfidence can also bias consumers toward under-estimations of risk. For instance researchers have found that overconfidence correlates with excessive stock trading, leading to lower investment returns.⁵ Overconfidence likely also plays a role in the generally superior investment performance of women relative to men.

On the other hand, under-confidence can dissuade consumers from entering into financial transactions that would improve their welfare. What we ultimately want is for consumers to have an unbiased and accurate representation of the individual risks (and rewards) that they face when engaging in various financial transactions.

Given that consumers already appear to grossly exaggerate their own credit quality and financial literacy⁶, as a public policy matter, we need to be concerned about the impact of financial education on making consumers believe they are more knowledgeable than they actually are.

⁴ Lewis Mundell, "Does Just-in-Time Instruction Improve Financial Literacy?," *Credit Union Magazine*, January 2006.

⁵ Brad Barber and Terrance Odean, "Trading Is Hazardous to Your Wealth: The Common Stock Investment Performance of Individual Investors," *Journal of Finance* 55(2000).

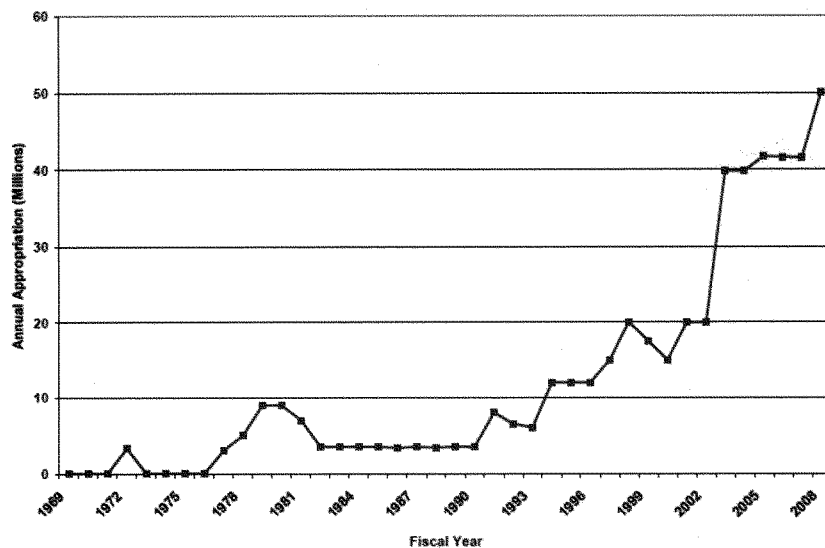
⁶ Venessa Gail Perry, "Is Ignorance Bliss? Consumer Accuracy in Judgments About Credit Ratings," *Journal of Consumer Affairs* 42(2008).

To summarize, despite some 56 programs running across 20 agencies, some of which have received funding for decades, there is little concrete evidence that said programs have improved consumer welfare.

Case Study: Housing Counseling

As the title of today's hearing makes clear, one of the objectives of financial literacy could be to avoid financial crises. Despite the conventional wisdom, the last decade witnessed booms in a variety of asset classes, including various segments of the real estate market. The boom was not simply in housing. The commercial, retail and multifamily real estate markets also went boom and burst. These busts generally occurred before the decline in the housing market, removing any question as to causality. All that said, housing did play a special role in the financial crisis and the subsequent bailouts. Accordingly if there is one area where financial literacy could have helped mitigate the crisis, it is in the area of housing counseling.

Exhibit 2-3. HUD Appropriation for Housing Counseling 1969-2008

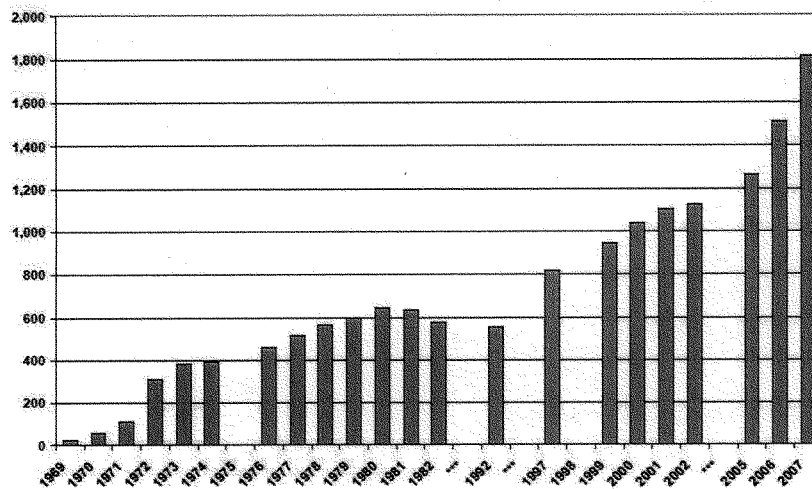


Source: HUD administrative data on history of housing counseling appropriations.

Housing counseling has also been one of the most highly funded and researched areas of financial literacy. Congress first authorized funds for housing counseling in 1969. Funding grew significantly in the mid-1970s, then decline and stayed relatively flat until about 1991. HUD appropriations increased rather dramatically in 1990s, jumping almost 400% between 1991 and 2001. Funding continued to increase. In fact some of the largest increases were in the years just preceding the peak of the housing market. In just the fiscal year of 2003, HUD funding for housing counseling doubled from about \$20 million to \$40 million, later increasing to \$50 million in FY 2008.

The 1990s and 2000s also witnessed a significant increase in HUD-approved counseling agencies. One should bear in mind that not all organizations providing counseling are HUD-approved. For instance HUD does not approve for-profit or for-profit sponsored organizations. So the figures below would include housing counseling provided by financial institutions.

Exhibit 2-4. Trends in the Number of HUD-Approved Counseling Agencies



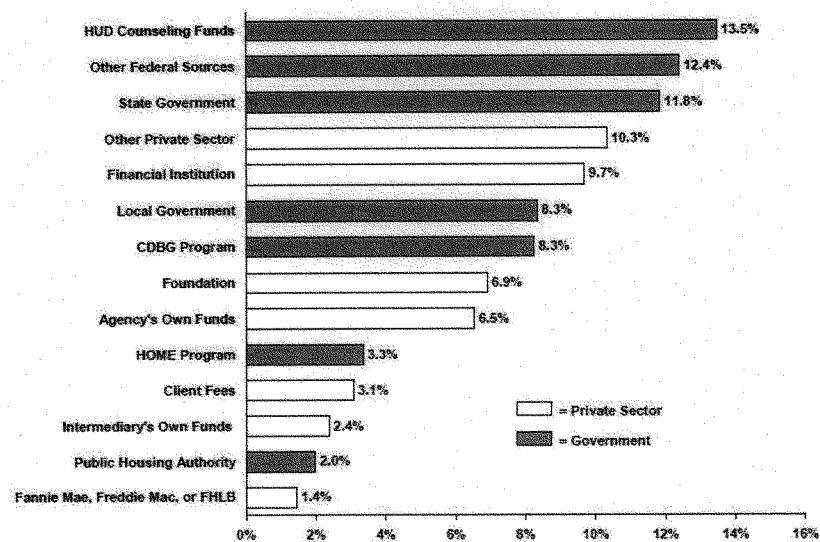
Sources: 1969-1982 from HUD, 1983; 1992-2005 from HUD administrative data cited in RFP for Housing Counseling Program Evaluation; 2007 from Abt Associates Inc. tabulations of HUD administrative data.

What should be clear from the preceding is that the years prior to the bursting of the housing bubble and the subsequent financial crisis, were

years in which an ever increasing amount of resources were devoted to housing counseling. As Social Science lacks the luxury of conducting natural experiments, we cannot say with any certainty that the housing crisis would have been worse, or how much worse, if we had not spent \$100s of millions in housing counseling. What we can say, with certainty, is that spending a few \$100 million on housing counseling did **not** stop a financial crisis from occurring.

We also know that the several \$100 million spent on housing counseling by HUD was only a small part of the funding for agencies receiving said funding. For HUD approved agencies, HUD counseling funds averaged 13.5% of their budgets in FY07. This would that in FY07, at least \$400 million was spent in total on housing counseling from all sources. In the immediate years preceding the crisis, it is likely that total funding sources for housing counseling exceeded a \$1 billion totaled over those years.

Exhibit 5-1. Share of Total Funding for Counseling by Source



Source: Abt Associates survey of HUD-approved counseling agencies.

According to HUD the average cost of housing counseling was over \$400 per person counseled in FY07. Ten percent of agencies actually had average per client costs in excess of \$1,000. This figure is particularly astounding when one considers that only about half of the agencies used their own materials, relying instead on material and courses developed by others.

The intent of housing counseling should be helping potential homebuyers receive unbiased and accurate information. Housing counseling should also help potential homebuyers develop a plan to become ready for home-buying. In this sense, it is not clear that housing counseling is reaching the right consumers at the right time. Only about a fourth of clients were deemed to be “near ready” in terms of making a home purchase. Over forty percent of clients were deemed not ready for purchase for at least six months, raising the issue of how much material clients would retain six months hence.

A common rationale for the use of non-profit housing counseling is that such avoids the potential conflict-of-interest that can arise when financial education is being provided by a for-profit business entity. Unfortunately HUD surveys indicate that HUD-approved non-profit counselors were heavily dependent upon members of the real estate and mortgage industry.

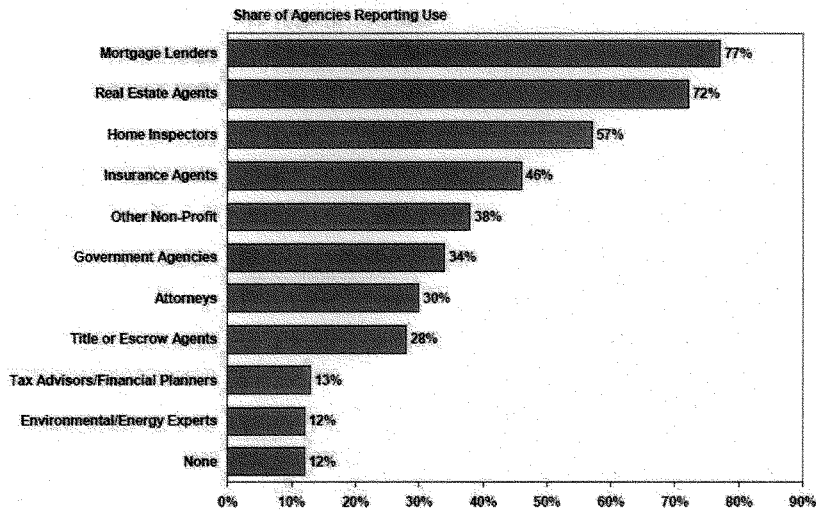
Almost 80 percent of non-profit housing counselors used mortgage lenders in their workshops, while over 70 percent used real estate agents. While there is some obvious advantage to using knowledgeable industry representatives to educate, it does raise the critical question of whether housing counselors were doing little more than prepping and steering consumers toward select lenders and real estate agents.

In terms of effectiveness, evaluations of housing counseling have also been mixed, but have generally shown more success than other forms of financial education. While some researchers have found no effect of counseling on default rates, these researchers did some improvement in choice of mortgage characteristics, although their measure was somewhat subjective.⁷ Other researchers have found that the form of counseling greatly matters, where intensive one-on-one counseling reduces default but soft-touch counseling

⁷ Jonathan Spader and Roberto Quercia, “Does Homeownership Counseling Affect the Prepayment and Default Behavior of Affordable Mortgage Borrowers?” *Journal of Policy Analysis and Management* 27(2008).

was largely ineffective.⁸ Of course part of the effect of intensive counseling could be driven by screening, that is marginal borrowers are dissuaded from the loan due to the time and cost of counseling.

Exhibit 6-8. Use of Outside Presenters in Homebuyer Workshops



Source: Abt Associates survey of HUD-approved counseling agencies.

To summarize, we spent a considerable amount on housing counseling for years prior to the crisis with no evidence that such minimized the severity of the crisis. There is actually some evidence to suggest it might have made the crisis slightly worse. There is also some evidence to suggest that housing counseling served more as a vehicle for connecting borrowers with the mortgage and real estate industry than as a method for arming borrowers with relevant knowledge. There is no evidence that counseling instilled potential borrowers with skepticism about homeownership.

Knowledge versus Incentives

My primary concern with linking financial literacy to the recent financial crisis is that it distracts from much needed changes in our financial

⁸ Abdighani Hiram and Peter Zorn, *Prepurchase Homeownership Counseling: A Little Knowledge Is A Good Thing*, in *LOW-INCOME HOMEOWNERSHIP: EXAMINING THE UNEXAMINED GOAL*. 2002.

regulatory system, not to mention our monetary system. At the risk of over-generalizing, I do not believe we had a financial crisis due to a lack of financial literacy. I believe we had a financial crisis due to very perverse incentives in our financial system that encouraged excess risk-taking on the part of lenders and borrowers, while also reducing incentives for appropriate due diligence on the part of investors and creditors.

Going back to the mortgage market, when borrowers were required to put little, if any equity, into a home purchase, and the loans were generally non-recourse, is it any surprise that such borrowers defaulted when prices declined. In fact there is evidence that borrowers who had received counseling were *more* likely to engage in strategic default, ultimately increasing the level of foreclosures, rather than reducing it.⁹

In a well-functioning market, lenders have strong incentives to provide borrowers with the appropriate information that would reduce default. Unfortunately we do not have well-functioning financial markets. We have markets characterized by extensive government guarantees and moral hazard. If lenders do not face the true and full risk of their actions, then their incentives to appropriately manage risk and effectively educate consumers is reduced, if not eliminated. Whether it is the presence of deposit insurance or the ability to transfer mortgage credit risk to the taxpayer via the government sponsored enterprises and the Federal Housing Administration, lenders do not face appropriate incentives for risk-taking. These issues are only compounded when lenders face extensive penalties for not extending credit to risky borrowers if such borrowers are members of a protected class.

Is it irrational or uninformed for lenders and borrowers to become highly leveraged when our tax code subsidized debt relative to equity? Or when the Federal Reserve maintains negative real rates for several years, as was the case in 2002 to 2005? An extremely steep yield curve, as engineered by the Federal Reserve, also encourages maturity mismatch, both on the part of borrowers and lenders, which increase financial fragility.

We should also be clear that the Dodd-Frank Act does not fix our financial system. Too-big-to-fail and moral hazard are bigger problems today than before the financial crisis. So while I again commend the Chairman's

⁹ Valentina Hartarska and Claudio Gonzales-Vega, "Credit Counseling and Mortgage Termination by Low-Income Households," *Journal of Real Estate Economics and Finance* 30(2005).

efforts, we must not lose sight of the urgent need for reforming our financial regulatory system.

Substance over Form

Financial education is only going to be as good as the information that is imparted. A very basic question should be: what is it that consumers do not know? If financial education focuses on minor or irrelevant issues, such as the impact of “pulling” a credit report on one’s credit score, to the exclusive on central issues, like the impact of timely debt payment on one’s credit score, then consumers could easily be worse off from counseling.

Counseling also runs the risk of having its substance driven by the bias of both providers and government. Take the largely positive image of homeownership presented by many housing counselors or the negative image presented of mortgage prepayment penalties. Both images are far more driven by bias than fact. From my own experience at HUD, I watched lawyers drive mortgage disclosure in such a way that harm consumers because the government lawyers were convinced that mortgage brokers were inherent “bad”. Efforts at financial education have to devote more attention to the substance of such, rather than the form.

Conclusions

The federal government, along with state/local governments and the private sector, fund a variety of financial education efforts. The research and evaluation literature has failed to find strong, consistent effects for these efforts. In some circumstances even negative effects have been found. Housing counseling has been a particularly well funded and researched area. Even here the results, while better than most counseling, are mixed. It should also be clear that significant funding for housing counseling did not help us avoid a financial crisis in which housing finance played a unique role. It is my contention that financial literacy, at least on the part of consumers, was at most a minor factor in the recent financial crisis and that failings in our monetary and regulatory systems played much greater roles. These failings have not been addressed and continue to pose significant risk to our financial markets, broader economy and ultimately the taxpayer.

I thank the Subcommittee for your attention and the opportunity to offer my perspective.

Senate Subcommittee on Oversight of Government Management

*Hearing on Financial Literacy: Empowering Americans to Prevent the Next Financial Crisis**April 26, 2012*

Written Testimony

Submitted by Sharra R Jones, Teacher, Oak Park Elementary School, Laurel, MS

Introduction:

My name is Sharra R. Jones and I am from Laurel, MS. I have one son whose name is Xavier Washington. I have a Bachelor of Science from Millsaps College and a Master of Education from Mississippi College. I am currently in my fourth year of teaching. I have taught 6th, 5th, and 3rd grade. I am certified to teach all subjects in grades K-6, mathematics K-8, and reading K-12. I have obtained certification as a Master Teacher of Economics and Entrepreneurship through the Mississippi Council for Economic Education, an affiliate of the Council for Economic Education. I have worked at Nicholas Middle School in Canton MS and Galloway Elementary in Jackson, MS. I am currently working at Oak Park Elementary in Laurel, MS. I taught mathematics as the primary subject as well as other subjects at all three schools.

The demographic make-up of the schools I have taught at was 99 percent African American and 99 percent of the students were on free lunch. Each of the schools was either under Title One or in a critical needs area. Those schools were consider low performing school and needed a push to increase MCT 2 scores.

Training:

I became exposed to and aware of financial literacy and the Mississippi Council on Economic Education at a Stock Market Game workshop. Through the workshop I learned valuable information on becoming a Master Teacher of Economics. I was chosen to attend the first summer institute on Achieving Demonstrated Economic and Financial Literacy at Millsaps College that was offered by the Mississippi Council on Economic Education and funded by the No Child Left Behind Title II, Part A, Improving Teacher Quality State Grant. At this Institute I was trained in all areas of economics and entrepreneurship, placing much emphasis on financial literacy. This institute provided many professional development opportunities during the Institute and long after. The professional development after the institute was beneficial as it allowed me to refresh my knowledge on financial literacy as well as learn new materials that I could use in my math class. The ongoing professional development allowed me to see what other teachers were doing in their classroom and to converse about different ideas with peers. As a master teacher I was able to get co-workers involved and provide them with a new insight into teaching math. The information I received at the professional development workshops helped me to make a real world connection for my students. They were able to understand the importance of why financial literacy and mathematics were useful in real life.

The Mississippi Council on Economic Education provides teacher training to approximately 1,200 K-12 teachers annually for a total of 8,000 teachers trained to date. Of these teachers, 418 are Master Teachers of Economics. In addition, the Mississippi Council has trained 118 teachers

as Master Teachers of Entrepreneurship over the past two years. EEE funding has been used to provide Master Teacher of Economics training to U.S. History teachers, to educate teachers on the International Economic Summit, and to replicate Best Practices by Mississippi teachers. In addition, the MS Council on Economic Education has provided training on the Virtual Economics curriculum to more than 6,000 teachers thanks to funding provided by the Council for Economic Education. Mississippi teachers' knowledge of economics was preliminarily assessed on the nationally *Test of Economic Literacy* at 62 percent. Teachers who complete the Mississippi Master Teacher in Economics program increase their assessed knowledge on the *Test of Economic Literacy* by 40 percent. Students score 48 percent on a test of knowledge of personal finance issues before our training and score 86 percent after completing the program.

Materials:

Most of the materials I used came from the Council for Economic Education's Virtual Economics CD and Financial Fitness for Life curriculum, both of which I received at the MS Council on Economic Education Summer Institute. I have taught three different grade levels and was able to use the materials for all of them. The materials were helpful by providing me examples that I could use to increase the rigor or decrease the rigor depending on the level the students were on when I used that particular lesson. I also used materials from the Stock Market Game curriculum and lessons that other teachers have created that are posted on the Mississippi Council on Economic Education website.

These materials in my opinion were the best, because it provided step by step direction and used many real life examples. When students are able to connect concepts that they are learning to real life they are more likely to remember and apply that concept. These materials allow for more hands on activities as well as more chance for cooperative learning. This has proven to be a successful way of educating students. With these materials I was able to take the challenging concept of supply and demand and teach it to third graders. These materials made it easier to understand and teach challenging concepts.

Students:

The 6th grade students made significant gains from the incorporation of financial literacy in mathematics. My student district test scores increased by nearly 30 percent each semester. I also had a group of students to place third in the Mississippi Stock Market Game competition that year.

With my 5th grade students I incorporated financial literacy in my intervention strategies to help struggling learners. I was given 17 out of 20 students who were on the Response to Intervention (RTI) system. I had to provide intervention three times a week to help these struggling students learn. I used the material I obtained from the MS Council on Economic Education and the Council for Economic Education to help improve my students' test scores. These students participated in the Mississippi Stock Market Game, the Mississippi Economics Challenge, and the Mississippi Personal Finance Challenge. It became part of our daily routine to watch video from the Financial Fitness for Life CD to help work on math skills. As a result I had 12 out of the

17 students who were on RTI to test out and their district and state scores improved from the year before.

The 3rd grade students that I am currently teaching use financial literacy concepts on a daily basis. We have implemented Positive Behavioral Interventions and Support (PBIS), which means we give our students' dragon dollars when they are displaying appropriate behavior or when they help others without being asked. We have a dragon den where the students can use their dragon dollars to buy different items. My third graders are currently learning about saving and investing money. They have figured out "if I save instead of spend my dragon dollars every time we visit the dragon den then I can buy one of the bigger prizes." I added my own twist to make the point it was better to save money for wants than to borrow money. I would loan my students' dragon dollars so that they would be able to buy the bigger prize. But when they realized that they would have to pay me twice as much money back to repay their loan and they wouldn't have any dragon dollars left to spend, they stopped asking to borrow dragon dollars on credit and started saving to buy what they wanted.

Conclusion:

In conclusion, teaching financial literacy at an early age helps educate our students to make better choices and prevent students from adding to the nation's debt. It is detrimental that we close the widening gap in financial literacy. Students who learn financial literacy at an early age are more likely to become productive students in high school and college. They will be more capable of going into a career that will be beneficial for them. When they get out in to society they are more likely to make better financial decisions that will help decrease the nation's debt situation

Michael Martin, Teacher, Lansdowne High School Academy of Finance

Committee Chairman, Senator Akaka, and Ranking Member, Senator Johnson, I first want to thank you for asking me here to testify before your committee about a topic as critically important as personal financial literacy. Educating young people about the real world of personal responsibility when it comes to managing one's finances could never be more crucial than it is in today's economy. It matters not, whether one sees the economic glass as half full or half empty. There are always market pundits who are quick to see Bulls and Bears. What is truly vital is making sure that glass is full of knowledge when it comes to making sound financial decisions. Especially when it comes to educating our youth. And the best way, indeed the only way, is to get kids learning the real X's and O's of personal finance. All aspects. It has to be real. It has to be engaging. And it has to be meaningful. That is something I have tried to do for the past 8 years at the Lansdowne High School Academy of Finance. At 58 I am a late comer to the education field, having spent nearly 30 years in the private sector. But when my three daughters were in college (all 3 at one time I might add), it dawned on me that I wanted to do something different and give back to the community. It was tough and a bit overwhelming to think about going back to college while working full time at 50 but I took the plunge and was able to obtain 3 teaching certifications and a master's equivalency while landing a position at a needy school in a tough community in Baltimore County.

But at Lansdowne, which is one of just 264 high schools in the nation that is part of the National Academy Foundation, I have seen first-hand what real-world teaching does for students who hail from the poorest neighborhood in all of Baltimore County. Our AOF students, nearly half of whom are minority, graduate – with 97% going on to higher education or the military. And each one takes with them knowledge of personal finance that will – *and has* – enabled them to confidently make smart financial choices. It is so satisfying to hear from students who have gone on to college and tell myself and the four other staff members in my department (all of whom have backgrounds in the private sector) that what they are being taught in their finance courses in college is actually much of what they already learned in high school.

I must admit that textbooks, while they certainly have their place, are not the main source of material to teach my students. Instead, my students get real world, real hands-on lessons designed by myself and those created by the Maryland Council on Economic Education, an affiliate of the Council for Economic Education. I have found that if I can reach a student I can teach a student. The best way is to make it real. For example, all my students first learn about investing and the stock market. It's a great way to get them excited right out of the gate. My passion for investing began about 30 years ago when my late father-in-law gave my wife and I shares of a stock he acquired years before. I was instantly hooked on investing and have been re-investing the dividends from that stock and others ever since. I still own that stock which invests in real estate in the DC area. Today, students are so adept with technology that teaching them is easy, fun and engaging. We are fortunate to have a computer in front of every kid in my room so why not use them. Every one of them creates their own personal stock portfolio using a custom Excel chart I created and then each tracks their holdings the entire course. It only takes me a short time to get them comfortable with web sites to research stocks and before long they're calculating yields on dividends, PE ratios and the like. They also complete a two-week long budget lesson I designed, all using the computer. This budget project is one I taught to teachers from across the country at the annual NAF Conference in Philadelphia two years ago and have been asked to do so again this summer in DC. Assuming they have landed an entry level job out of college, students must first breakdown their paycheck then pay themselves first by investing in mutual funds they select. Then they buy and finance a car, rent an apartment, using real online sites, calculate gas usage, create a

monthly food menu, obtain insurance for a car and a premium for health, even figuring in a student loan using the Department of Ed's site. Finally, they need to compute how much they'll have when they retire, if that is, they continue to save and invest a small portion each month. When they see the final figure they're stunned. The best part of all, though, is the homework where they must sit down and share it all with their parents and the comments I have received are priceless. Here's an example: *"My mother looked over the project and said this would be a great way to keep a budget and since she has no way of balancing her money this is an option she could use instead of stressing about when, how much, and how she's going to pay her bills"*

Lessons designed by the Council on Economic Education also find their way into my class room, like one of my favorites – "Was Babe Ruth overpaid?" It compares the salary of the Sultan of Swat with stars of today in order to determine how prices of yesteryear relate to today's dollars. It's a fascinating and fun way to get kids excited to learn about a not so exciting topic like the CPI Index. But it works. I have also designed a real-world project where my students simulate the Federal Reserve's Beige Book for use at its FOMC meetings. Students must first understand how the Fed researches and writes its version before creating our own local version – in style and content, right down to the beige colored cover. After gathering real data from 29 businesses in the community each student writes a summary on their sector and then submits it to a 'managing editor' student, who fines tunes the final copy before I have it published and delivered to the local business community. This is a great way to incorporate writing and research into the classroom in a way far more interesting and real than simply answering questions in the back of a chapter. As a former newspaper reporter I insist that my students write well. Because I am competitive I feel students need to learn how to work as a team and win or lose together. That's the way the real world operates so why not in school. To that end, I was extremely fortunate to open an email several years ago from the Maryland Council on Economic Education that was looking for teams to compete in a state championship on personal finance knowledge. I figured why not. So I took two teams from our not so upscale school to Towson University to go head-to-head with public and private schools from across Maryland. We took second place that year and then the past two years our neighborhood kids won the Maryland State Championship and an opportunity to compete for a national title in the Midwest both years, finishing 6th in the nation last spring in St. Louis. It was an incredible opportunity for four young men who now find themselves off at college, all doing quite well in various business related majors. One of those young men is right here today – Evans Richards. I'm sure Evan can explain what this type of education means to our nation's high school students far better than I can since he's had a chance to experience it first-hand. But before turning it over to Evan I want to stress again just how vitally important this specific education is to our country. Way too many people, young and old alike, including a vast number of teachers, simply have little or no clue about personal finance. It's been kept quiet for way too long and must change. Educators need to get educated on how best to instruct students on personal finance to avoid the next looming bubble that's waiting to burst – that collective ignorance of Americans about how best to handle their own money. With innovative instruction, and groups like the Council on Economic Education, the Federal Reserve's vast education resources and so many other options available, all at limited costs, our students can obtain an education that will truly make a difference and stay with them the rest of their lives. There is nothing more important for our students to learn. Thank you for allowing me the opportunity to appear before the committee today.

Financial Literacy: "Knowledge to Succeed in the Future"
Presented by Evan K. Richards on 4/26/12

Good afternoon. My name is Evan Richards, and I am currently an undergraduate student at Towson University.

It starts with simple instruction, and leads to a lifetime of security and opportunity. I know that from the education I received while being a member of the Academy of Finance at Lansdowne High School, I will be able to succeed financially in life, and it is important to recognize that this type of education should be available to everyone.

Coming from a family with two stable incomes, a lot of financial stress was never seen in my household. My parents had enough income to provide for me and my younger brother, while maintaining an adequate household to raise us. That is, until the recession hit. Things for us took a dramatic twist in the summer of 2009, when my father had emergency back surgery, and in return, went on disability. It wasn't too much later when he was terminated from employment. Our main source of income was slashed to a level that we would've never dreamed of. We saw this as the end of the tunnel. We were going to try our best to get by, but with no plan set for our future, everything was in jeopardy.

That fall, I began my junior year, which is when members of the Academy of Finance were opened to new aspects of the financial world; things we never really considered until then. Stocks, bonds and contracts were terms that I became familiar with, and by extensively studying the nuts and bolts of these financial products, I understood that these were items that I would have to face in the near future.

When my senior year came around, this was the time when the major points of the financial world became apparent. We were taught about things such as budgets, where we not only analyzed how personal budgets should be handled, but we took our education a step further and examined how governments handle their budget issues. We also looked at mortgages, credit cards, and interest rates, which are things that usually begin to hit you right after you finish schooling, and in these troubling financial times, sometimes right after high school.

My high school education even went a step further, thanks to the Maryland Council on Economic Education, which is an affiliate of the Council for Economic Education. Every year, the MCEE holds a Personal Finance Challenge, where schools from across the state were brought together to test their financial knowledge. I am glad to say that our team from Lansdowne High, which I was glad to be a part of, took first place and went on to place sixth nationally in St. Louis in 2011. Lansdowne also won the state title in 2010 and competed for the national title in Kansas City.

Obtaining these skills from the Academy of Finance has truly helped me as of last fall, when I began my college career at Towson University. Budgets and contracts were two main substances that I truly began to explore in detail as a college student. For many students across America, this is the first time where we are required to sign a contract, whether it would be for a college loan or just admission to their school. Until this time, many students would not consider these items seriously, and therefore not understand exactly what they are getting themselves into. Luckily for me, with my Academy of Finance education, I already knew what was occurring and was quite comfortable with all of these new endeavors.

My instructors also pressed the importance of paying for college via scholarships and minimizing loans. I was fortunate enough to receive enough scholarship money to attend Towson University full time without paying out of pocket. I consider myself to be extremely lucky to have that opportunity. However, paying for transportation and books is something that needed my budgeting skills. I knew that instead of paying a ridiculous amount for a textbook, I can shop around, much like you can do with mortgage and credit card rates, and find the book for a cheaper price. It is the small things like that, that truly make a difference to college students when they leave high school and enter the real world, where a huge amount of responsibility is placed on them, possibly for the first time.

As I have stated before, the knowledge I have obtained is not difficult. It is something that is needed in everyday life. I am very fortunate to have it, and I know that by learning these things at such a young age, I have a "leg up" in the world, and I will be able to make better financial decisions as a result. These life financial skills will impact all of us, no matter what we do. From farmers to mechanics to top company executives, we all have to learn how to manage finances. For me, a career in business, with a possible tenure in state politics, is what I have in mind for my future. I know that with my financial skills, I can reach these goals by continuing my education, and just keeping my head straight financially. Thank you for your time and consideration.

Dr. Coburn
Statement for the Record
April 26, 2012 OGM Subcommittee Hearing
“Financial Literacy: Empowering Americans to Prevent the Next Fiscal Crisis”

The United States national debt is currently \$15.7 trillion. The Congressional Budget Office projects a \$1.2 trillion budget deficit for fiscal year 2012. The Senate has not passed a budget in three years. Just this week, the Senate voted to violate the Budget Control Act by passing a postal bill that will add at least \$11 billion to the deficit, and possibly tens of billions more.

So this is an ironic time for this subcommittee to be holding a hearing on financial literacy and looking at ways the federal government can teach American citizens about how they can prevent the next fiscal crisis. In many ways, the American people have a lot they could teach Congress about financial literacy. Most Americans know that it is reckless to continuously live beyond your means and have no plan to live within a budget. They surely know it is wrong to create debts that you have no way to pay besides handing it to your children and grandchildren.

It is also important for us to ask us whether it's appropriate for Congress to be in the business of providing financial literacy advice. The U.S. Constitution clearly outlines what the federal government's responsibilities are. Of course, nowhere does it authorize the federal government to teach American citizens how they should handle their financial affairs.

Yet today we have more than 50 federal financial literacy programs and initiatives spread across 20 different agencies. According to GAO, there is little evidence available on whether these financial literacy programs are working or making a difference. It is time that we start asking hard questions about whether these programs are even necessary.



EDUCATION FINANCE COUNCIL

Hearing on Financial Literacy: Empowering Americans to Prevent the Next Financial
Crisis

Statement for the Record by the Education Finance Council

Senate Committee on Homeland Security and Governmental Affairs
Subcommittee on Oversight of Government Management, the Federal Workforce, and
the District of Columbia

April 26, 2012

A key component to empowering Americans with comprehensive financial literacy is education on how to pay for college. There has been much discussion around excessive student loan debt and various proposals have been made, such as discharging loans in bankruptcy, forgiving student loans entirely, and maintaining a 3.4 percent interest rate on some federal loans for a relatively small proportion of students for one year. These proposals do not solve the problem of excessive student debt—they will only serve as a quick, temporary fix. To prevent the problem from becoming a crisis, students and families must be educated early and often about the process, options, responsibilities, implications, and complexities of financing higher education.

Rather than using taxpayer dollars and federal resources to create financial literacy initiatives from scratch, the federal government should promote the numerous, proven-effective initiatives already offered by private sector organizations.

The Education Finance Council (EFC) is the trade association representing nonprofit and state agency student lenders. For decades, these entities have provided financial literacy education and resources to students and families at no cost. Due to their local insight, expertise in financial aid, and longstanding relationships with students, families, educators, and stakeholders in their states, EFC members are uniquely positioned to most effectively implement financial literacy initiatives on financing higher education.

EFC members' financial literacy initiatives are offered with the goal of educating students and families on how to responsibly pay for college. Programs target all issues related to higher education financing, including preventing over-borrowing, default aversion, budgeting for college life, understanding financial aid options and terms, calculating the long-term impacts of student debt, and building lifelong financial literacy. Most importantly, the programs work.

The Student Loan Game Plan, offered by Iowa Student Loan, is an interactive tool aiming to reduce student indebtedness by educating student borrowers and cosigners about responsible borrowing decisions. The tool uses several methods to help borrowers understand the consequences of over-borrowing, including potential everyday challenges caused by over-borrowing, customized estimated salary information based on borrowers' majors, estimated total student loan payment amounts, student loan debt-to-income ratio, an estimated monthly budget based on the borrower's anticipated starting salary and national-average expenses including student loan payments, strategies to reduce the need for student loans, and a customizable action plan. During the program's first year of implementation, students that reduced borrowing using the Student Loan Game plan reduced their loan amount by an average of \$3,500—totaling a \$3,469,000 decrease in student loan borrowing over a single year. Moreover, according to the organization's survey, 90.8 percent of students that completed the program said it helped them understand how borrowing affects their future and 87.6 percent said the program provided actionable ideas on how to borrow less.

RepayReady, an interactive financial literacy portal offered by NorthStar Education Services of Minnesota, is built to help borrowers who are entering repayment organize student loan debt, learn about repayment options, and implement a strategy to successfully repay their loans. According to the organization's case study on the performance difference between private loan borrowers who implemented a repayment strategy through RepayReady and those that did not, NorthStar was able to lower early stage delinquency by 4.85 percent—a total 32 percent improvement. The study shows: “Even at the late stages of delinquency and into default, NorthStar was able to lower the default rate by 1.49 percent—a 79.8 improvement over those who did not use RepayReady.” Additionally, 76 percent of students using the portal reported to feel better prepared to pay back their student loans because of RepayReady.

To efficiently, fiscally responsibly, and effectively facilitate its goals of promoting financial literacy for Americans, Congress and the Administration should direct students and families to the multitude of resources provided by the private sector.

STATEMENT FOR THE RECORD
THE FINANCIAL SERVICES ROUNDTABLE

On

The Senate Homeland Security and Governmental Affairs Committee, Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia

Hearing:

"Financial Literacy: Empowering Americans to Prevent the Next Financial Crisis."

Thursday, April 26th at 2:30 PM (ET)

The Roundtable represents 100 of the largest integrated financial services companies providing banking, insurance, and investment products and services to the American consumer. Member companies participate through the Chief Executive Officer and other senior executives nominated by the CEO. Roundtable member companies provide fuel for America's economic engine, accounting directly for \$92.7 trillion in managed assets, \$1.2 trillion in revenue, and 2.3 million jobs.

THE ROUNDTABLE SUPPORTS FINANCIAL EDUCATION:

The Roundtable and its member companies have a year-round commitment to American communities and have a particular focus on financial education programs. The Roundtable shares Congress' and the Obama Administration's goal of providing financial literacy to every American. We have a shared goal of ensuring that financial documents are cleaner, clearer and serve both consumer and institution.

In short, the Roundtable believes that financial education programs should be included in everyone's formal education. For instance, in 2011 73% of teens use a savings account, checking account, debit card or credit card, compared to 66% in 2009. However, nearly 50 percent of teens are unsure of how to use a credit card effectively. Further, 52% of young adults 23-28 consider "making better choices about managing money" the single most important issue for individual Americans to act on today. Although the public and private sector have made great strides in raising awareness for the need for financial literacy, there is still more work to be done to reach more people. As such, in 2012 the Roundtable's goals include supporting or promoting financial literacy efforts that include:

- Urging the Government Accountability Office (GAO) to conduct an annual study of every state's efforts to educate their students (K-12) in financial literacy;
- Offering financial education to every student before they accept a student loan;
- Offering financial education to prospective homebuyers; and
- Permit parents to start saving for their child's retirement at birth.

The Roundtable believes that the goals listed above are achievable by the end of this year and would have immediate an impact. For example, an annual GAO study of state financial literacy practices will allow stakeholders to start measuring and comparing the outcomes of students in states with financial education incorporated in their core curriculum and those that do not. In addition, it will also gauge the effectiveness of the financial education programs currently being used by states. This will allow policymakers to targeted improvements in specific areas as needed.

The Roundtable encourages Congress to continue to work with the financial services industry to create opportunities for expanded financial literacy education by seizing on ideas and programs with a track record of success. Our country simply cannot afford to miss this tremendous opportunity to partner with the private sector to help citizens of all ages prepare for their financial future.

CONCLUSION:

The increased life span of the average American and the growing number of baby boomers nearing retirement age makes financial education a critical issue. Whether it is saving for their children's education, purchase of a family home, or saving for retirement, it is our firm belief that by creating and providing opportunities for Americans to learn more about their finances will allow them to take more control of their financial lives and will ultimately result in financial freedom and a better standard of living. The Roundtable stands ready to work with policymakers and other stakeholders to preserve, promote and expand financial education for all Americans.

Senate Subcommittee on Oversight of Government Management

*Hearing on Financial Literacy: Empowering Americans to Prevent the Next Financial Crisis**April 26, 2012*

Written Testimony

Submitted by Nan J. Morrison, President and CEO, Council for Economic Education

Thank you for the opportunity to provide testimony on a subject that I believe is as important to you as it is to me: raising the level of economic and financial literacy among today's youth to prevent the next financial crisis.

If there's one lesson we've learned from the recent recession and its painful fallout, it's that an alarming number of Americans lack the most basic dollars-and-cents understanding they need to navigate our complex global economy. The gap between what people know about economics and personal finance, and what they *need* to know, is widening every day.

- Only 49.7 percent of U.S. adults can define a "budget deficit."
- The public's ignorance is also reflected in its personal finances: 9 million households have neither checking nor savings accounts, and 29 percent of Americans have no savings.
- And just as many parents are ill-equipped to instruct their children in economics and personal finance, so, too, are teachers unprepared to impart this essential knowledge. In a survey, 20 percent of teachers stated that they do not feel competent to teach basic personal finance, and even those who teach economics to high school students have often received minimal college instruction in the subject.

In the midst of an economic slowdown and in an absence of a general understanding of economics, political rhetoric can overwhelm facts in the public debate. The result, at best, is disinterest; at worst, disillusionment. In many sectors the financial services industry has been demonized and capitalism has become a dirty word. When our economic system is held in such poor regard, the underpinnings of our democratic system are challenged.

We know that financial and economic literacy changes the way people see the world and their roles in it. Ignorance is not an option we can afford. The Council for Economic Education (CEE) is uniquely positioned to close this widening gap—in knowledge, in competence, and in faith in capitalism and the democratic process.

CEE is the leading organization in the United States that focuses on the economic and financial education of students from kindergarten through high school. For the past 60 years, our mission has been to instill in young people the fourth "R"—a real-world understanding of economics and personal finance. It is only by acquiring economic and financial literacy that children can learn that there are better options for a life well lived, will be able to see opportunity on their horizon line and, ultimately, can grow into successful and productive adults capable of making informed and responsible decisions.

The CEE heartily agrees with the President's Advisory Council on Financial Capabilities statement, *"Financial education should take its rightful place in American schools."* CEE is a strong supporter of financial and economic education for the K-12 classroom. We work closely with our nationwide network of affiliates to deliver high quality professional development and curricula to promote financial literacy in the classrooms of our nation. As indicated by the teachers testifying at today's hearing, these opportunities and materials are of utmost importance in ensuring that our youth have a strong basis in financial literacy as they move on in their lives to college and careers.

At a time when we see increased awareness on the part of leaders in government, business, and education for the need for financial literacy for all students, we are also seeing a decrease in the number of states requiring such courses. Data collected for the 2011 Council for Economic Education Survey of the States shows that while there has clearly been progress since the first survey in 1998, that over the last two years the trend is slowing and in some cases moving backward. In economic education, the survey shows that 22 states now require students to take an economics course as a high school graduation requirement (up from 21 in 2009). However, only 16 states require the testing of student knowledge in economics, three fewer than in 2009 (19).

Personal finance education is not required nearly as often as economics. Only 13 states require students to take a personal finance course (or include personal finance in a required economics course) as a high school graduation requirement. These 13 states make up approximately 25% of the entire U.S. population, which means that almost 75% of Americans are leaving school with little or no financial literacy education.

It is imperative that government, non-profits, and the private sector find more ways to work together and address this gap in financial literacy education. While there are many efforts underway in all sectors, more work still needs to be done in terms of placing a greater emphasis on economics and financial literacy in the K-12 curriculum; requiring separate, stand-alone courses in these subjects as part of high school graduation requirements; and testing student knowledge levels.

CEE has developed several partnerships with other leaders in the field that leverage our mutual strengths. We focus on filling the gaps in financial literacy education by bringing people together through developing materials with state economic educators, distributing the Stock Market Game through our nationwide network, and collaborating with members of the *Securities Industry and Financial Markets Association (SIFMA)*. These types of partnerships are essential to promote better awareness and broader distribution of existing efforts and ensure high quality education programs reach all segments of society.

In 2011 CEE trained more than 55,000 teachers, including 5,000 in some of the nation's lowest-performing high schools; those teachers, in turn, reached 5 million students. Our assessments prove that this training is working. Testing after CEE instruction in Tennessee, for example, showed a 39 percent gain in financial literacy in the program's elementary school students, and a 47 percent improvement for middle schoolers. Much of our evidence is anecdotal, but compelling. In one 5th-grade class in Arkansas, students learned how to earn money (they made lunch for their teachers), to save and to give back: At the end of the year, they donated \$2,400 to charity. In another classroom, a 3rd grader who had just learned the concept of opportunity cost said, "I can't believe that every time I make a choice, it costs me

something.” Grounded in the fourth “R,” young people will be able to make the intelligent choices that will significantly improve their adult world.

Congress and other government entities have an important role to play in making sure that all young people across the nation have access to high quality instruction in financial literacy. CEE is pleased that both economics and personal finance have been included as part of Effective Teaching and Learning for a Well-Rounded Education in the proposed reauthorization of the Elementary and Secondary Education Act (ESEA). We hope that in the coming months, Congress can work together to pass this legislation and provide continued support to schools around the nation providing this instruction to students.

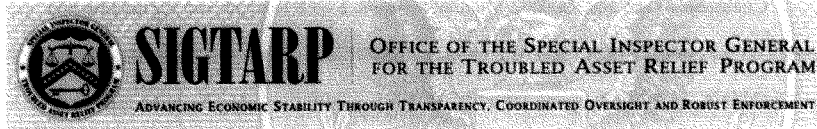
The Excellence in Economic Education (EEE) program is an outstanding example of a highly effective use of government funds to support financial literacy education across the country. Since its introduction by Senator Akaka in 2004, EEE has been the only federally-funded program dedicated solely to economic and financial literacy education projects. At \$1.5 million, EEE is a modest federal program with impressive results. Each year 80 – 100 education organizations, including national and local non-profits, LEAs, and SEAs, across the country receive support for economic and financial literacy projects through EEE.

- More than 90% of teacher training programs funded have resulted in a statistically significant increase in student pre-/post-test scores.
- 40% of middle school students in a financial literacy program in California reported more interactions/discussions about money with parents.
- All recipients strongly agreed (95%) or agreed (5%) that the activity funded by this grant was valuable for advancing economic and financial literacy of the participating teachers and students.

Research conducted by the National Endowment for Financial Education (NEFE) shows that students enrolled in financial literacy courses have the highest reported financial knowledge and are more likely to display positive financial behaviors and dispositions (Gutter, M., Copur, Z., & Garrison, S. 2010). Results of EEE funded programs are aligned with these findings.

CEE would like to thank Senator Akaka for his leadership in developing the EEE and for his efforts to reinstate funding for this program in FY2013. The EEE program has allowed the federal government to strengthen and expand economic and financial literacy education at the local level in our nation’s primary and secondary schools, for relatively few dollars while maximizing the impact of federal resources by leveraging ongoing private sector efforts.

Financial literacy is critical in preparing all students for their roles in the ever changing global economy. Effectively teaching personal finance decision making skills is essential to ensuring the well-being of individuals, households and our Nation’s economy as a whole. CEE applauds the efforts of governmental entities in this area and welcomes the opportunity to partner with government and other organizations to empower all Americans with the financial literacy necessary to prevent the next financial crisis.



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U.S. SENATE COMMITTEE ON HOMELAND SECURITY
AND GOVERNMENTAL AFFAIRS
SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT MANAGEMENT, THE FEDERAL
WORKFORCE, AND THE DISTRICT OF COLUMBIA

WRITTEN TESTIMONY OF THE HONORABLE CHRISTY ROMERO
SPECIAL INSPECTOR GENERAL
FOR THE TROUBLED ASSET RELIEF PROGRAM
(SIGTARP)

BEFORE THE
U.S. SENATE COMMITTEE ON HOMELAND SECURITY
AND GOVERNMENTAL AFFAIRS
SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT MANAGEMENT, THE FEDERAL
WORKFORCE, AND THE DISTRICT OF COLUMBIA

April 26, 2012

Chairman Akaka and Ranking Member Johnson, I want to thank you for holding this hearing on the critical issue of financial literacy. The Office of the Special Inspector General for the Troubled Asset Relief Program ("SIGTARP") is committed to using financial literacy to empower Americans. SIGTARP serves as the watchdog over the Federal bailout known as the Troubled Asset Relief Program ("TARP"). SIGTARP protects the interests of those who funded TARP programs – American taxpayers. Our mission is to promote economic stability through transparency, robust enforcement, and coordinated oversight. SIGTARP is working to increase financial literacy by bringing much-needed transparency to the causes of the financial crisis and the Government's response to the financial crisis in easy-to-read reports that do not require a financial background to understand. Every quarter, SIGTARP publishes a report to Congress that describes TARP and issues related to the financial crisis in plain English. Through 14 of these public reports and through 17 deep-dive audit reports on particular parts of the crisis, SIGTARP seeks to raise public awareness of the events surrounding the financial crisis and promote financial literacy for every American who funded TARP. Promoting financial literacy is critical to ensuring our nation's economic stability and to helping prevent the next financial crisis.

Additionally, in the last year, SIGTARP has made a concerted effort to increase its education of homeowners to prevent them from becoming victims of a fraud scheme that has arisen out of the financial crisis. Mortgage modification fraud scams involve con artists that prey on vulnerable homeowners with false promises of a mortgage modification under TARP's Home Affordable Modification Program ("HAMP"). One of SIGTARP's important roles is to serve as a criminal law enforcement agency. SIGTARP has detected an increase in mortgage modification scams. Today's testimony focuses on the efforts SIGTARP is making to detect and

stop these scams, and SIGTARP's efforts to promote financial literacy of homeowners so that they know a scam when they see it. SIGTARP's efforts to raise awareness of these scams contributed to the Better Business Bureau naming these scams as the "Top Financial Scam" for 2011. These scams have devastating consequences as homeowners lose precious dollars, and in some cases their home, only to find that the perpetrators have closed up shop and left town. During a time of record foreclosures, by bringing attention to the hallmarks of these scams, this Committee can help to arm its constituents across our nation with knowledge that can save them from becoming victims of mortgage modification scams. The last page of this testimony is a fraud alert that lists the hallmarks of these scams that the members of this Committee can share with constituents or other groups in each state.

Hallmarks of mortgage modification scams: In these scams, fraudsters steal from struggling homeowners by falsely promising that they can navigate the often murky-waters of the mortgage modification process for a fee of \$1,500 or more paid in advance. Hallmarks of this scheme include the perpetrators holding themselves out as experts in HAMP and providing "advice" that their victims will have a better chance of getting a HAMP modification if they stop making mortgage payments and cease all communication with their mortgage servicer. In some instances, they claim to be affiliated with the U.S. Government through the use of a Government seal, a name similar to a Government agency, or words like "Obama Plan."

To further lure their victims, they make money-back guarantees that they have no intention of keeping. Scammers have stolen millions of dollars from homeowners based upon these schemes, which have devastating consequences for struggling homeowners who are desperately looking for relief through HAMP to lower their monthly mortgage payments and who often use their last dollars to pay con artists.

SIGTARP is stopping and investigating mortgage modification fraud: SIGTARP's investigations of all crimes related to TARP (including mortgage modification crimes) have resulted in criminal charges against 81 individuals. Fifty two of those individuals have been convicted so far. The convictions carry severe consequences and 23 individuals convicted have been sentenced to jail, while others await sentencing. Along with jail time, SIGTARP and its law enforcement partners ensure that criminals and those charged in civil lawsuits pay for their crimes. SIGTARP investigations have resulted in court orders for the return of nearly \$4 billion to victims or the Government. SIGTARP has had notable success in stopping and investigating these mortgage modification fraud schemes and in working with its enforcement partners to prosecute the perpetrators. Importantly, 26 of those 81 individuals were criminally charged related to a mortgage modification fraud. A description of some of the charged conduct appears below.

Because homeowners have often already lost precious dollars and precious time by the time mortgage modification scammers are caught, SIGTARP recently took a more proactive 360-degree approach to catch these swindlers more quickly and prevent these frauds from victimizing vulnerable homeowners in the first place. In addition to investigations and criminal charges, SIGTARP actively worked to shut down hundreds of these scams advertised on the Internet and formed a joint task force to raise homeowner awareness of the scams. SIGTARP will continue to investigate and hold accountable criminals who defraud homeowners in connection with HAMP, while doing everything it can to stop homeowners from becoming victims in the first place.

SIGTARP Shutdown 125 Online Mortgage Modification Scams***Advertised on Google, Yahoo! And Bing***

The first place many homeowners turn for help in lowering their mortgage payment is the Internet through online search engines, and that is precisely where they are being targeted. From talking to the victims of these scams, SIGTARP learned that many were enticed by web banner ads and online search advertisements that promised, for a fee, to help lower mortgage payments. These ads offer a false sense of hope that can end up costing homeowners their homes.

In November 2011, SIGTARP shut down 125 websites that were advertised on Yahoo!, Bing, and Google and evidenced hallmarks of these fraudulent scams. SIGTARP coordinated with Google and Microsoft (which founded Bing and whose technology powers Yahoo!) to shut down advertisements for the websites. In addition, Google suspended advertising relationships with more than 500 Internet advertisers and agents and Microsoft suspended advertising relationships with more than 400 Internet advertisers and agents connected with the 125 websites. SIGTARP's work in cutting off this primary access to homeowners immediately and dramatically decreases the scope and scale of these scams by limiting their ability to seek out and victimize struggling homeowners. SIGTARP continues to work with Microsoft and Google to thwart these schemes.

Raising Public Awareness and Promoting Homeowner Education

SIGTARP has actively engaged in raising public awareness and promoting homeowner education of mortgage modification scams. In December 2011, SIGTARP formed a joint task force with the Consumer Financial Protection Bureau and Treasury to leverage resources in investigating, combating, and shutting down HAMP-related mortgage modification scams and to provide awareness to vulnerable homeowners desperately holding onto hope of saving their

homes. In December 2011, the joint task force issued a consumer fraud alert to protect homeowners and empower them with the knowledge of how to recognize and avoid these scams. This fraud alert is attached as the last page of this testimony and can be found at:

www.sig tarp.gov/pdf/Consumer_Fraud_Alert.pdf.

In order to have the maximum effectiveness, we must ensure that as many homeowners as possible have access to the fraud alert so that they can avoid becoming victims. The Joint Task Force is currently working with our nation's armed services to educate our military families about mortgage modification scams. Last month, SIGTARP made recommendations to Treasury in order to raise awareness of these scams even further. The perpetrators of these scams prey on their victims with claims that the HAMP process is confusing to homeowners. SIGTARP is concerned that Treasury's recently announced one-year extension of HAMP and a major expansion of HAMP (called HAMP Tier 2) to previously ineligible homeowners will add to confusion surrounding the process. In order to protect against the possibility that the extension and expansion of HAMP will lead to an increase in mortgage modification fraud, in March 2012, SIGTARP recommended: (1) that Treasury undertake a sustained public service campaign as soon as possible to arm the public with complete, accurate information about the program; and (2) that Treasury require servicers participating in HAMP to provide the fraud alert to all HAMP-eligible borrowers as part of its monthly mortgage statement. Treasury has not adopted either recommendation.

Results of SIGTARP investigations of mortgage modification fraud**American Home Recovery**

On August 11, 2010, the U.S. District Court for the Southern District of New York unsealed a grand jury indictment charging Jaime Cassuto, David Cassuto, and Isaak Khafizov, the principals of American Home Recovery ("AHR"), a mortgage modification company located in New York City, with one count of conspiracy to commit mail and wire fraud, one count of wire fraud, and two counts of mail fraud, all relating to a mortgage modification scam. The indictment also included a forfeiture allegation that would require forfeiture of proceeds obtained as a result of the offenses. The defendants were arrested by Special Agents from SIGTARP and the FBI as part of the Department of Justice's nationwide "Operation Stolen Dreams" mortgage fraud sweep.

According to the indictment, the defendants perpetrated a scheme to defraud homeowners using mailings and telemarketing efforts. Through these channels, it is alleged that the defendants, through AHR, falsely promised to assist desperate homeowners by negotiating with banks to modify the terms of their mortgages in exchange for upfront fees of several thousand dollars. In fact, the indictment alleges, AHR did little or no work to modify the mortgages. Through their scheme, the defendants obtained more than \$500,000 from homeowners throughout the country, according to the indictment.

The indictment further alleges that one of the defendants, Khafizov, directed AHR salespeople to falsely inform prospective clients that AHR had an 80%-90% success rate in securing modification of clients' mortgages and that AHR would issue a full refund of the upfront fee to any client whose mortgage was not successfully modified by AHR. In addition, it is charged that the AHR salespeople falsely represented to homeowners that AHR would ensure

their participation in the TARP-funded Making Home Affordable (“MHA”) program. Finally, AHR salespeople falsely advised homeowners that they were more likely to obtain a mortgage modification from their bank if they fell further behind on their mortgage payments and/or stopped making payments to their bank entirely, and sent their money to AHR instead, the indictment alleges. Jaime Cassuto and David Cassuto entered guilty pleas in the case on March 19, 2012. In March 2011, Raymond Pampillonio, a former AHR employee, also pled guilty in connection with this scheme. This case is being investigated by SIGTARP, the U.S. Attorney’s Office for the Southern District of New York, and the FBI.

Compliance Audit Solutions

On February 14, 2012, Ziad al Saffar, Sara Beth Rosengrant, and Daniel al Saffar pled guilty to charges of conspiracy to commit wire fraud and mail fraud. On April 28, 2011, a Federal grand jury sitting in the Southern District of California returned an indictment against the three defendants for allegedly perpetrating a fraudulent mortgage modification business under the names Compliance Audit Solutions, Inc. (“CAS”) and CAS Group, Inc. (“CAS Group”). The defendants admitted to targeting homeowners who were unable to afford their mortgage payments and using fraudulent tactics to induce the homeowners to purchase an “audit” of their home mortgage loan. The defendants claimed the “audit,” for which they charged homeowners between \$995 and \$3,500, could identify “violations” in the homeowners’ loan documents that could be used to force banks to negotiate new terms for the loans. The defendants admitted to publishing numerous misrepresentations in advertisements, including claiming that the defendants were affiliated with or employed by the United States Department of Housing and Urban Development, and that CAS and CAS Group were participating in a Federal Government

program called "Hope for Homeowners." The defendants also used websites named www.obama4homeowners.com and www.hampnow.org, which implied affiliation with HAMP.

As part of their guilty pleas, the defendants agreed to pay restitution to the victims of their criminal conduct in an amount to be determined by the Court. Sentencing for all three defendants is scheduled for April 2012. This case was investigated by SIGTARP, the U.S. Attorney's Office for the Southern District of California and the FBI.

The Shmuckler Group, LLC

Howard Shmuckler, who was indicted and arrested on November 10, 2010, for an alleged mortgage modification scam investigated by SIGTARP in partnership with the Prince George's County State's Attorney's Office in Maryland, pled guilty to running a fraudulent mortgage modification scheme in a Federal case. On July 21, 2011, a Federal grand jury sitting in the Eastern District of Virginia returned an indictment against Howard Shmuckler for allegedly running a fraudulent mortgage-rescue business that received substantial fees from homeowners but failed to modify their mortgages. Shmuckler was charged with seven counts of wire fraud. On July 27, 2011, Shmuckler was arrested at his home in Virginia Beach, where he has been under electronic monitoring pending a November 2011 trial on this Maryland state charge. On April 10, 2002, Shmuckler pled guilty to six counts of wire fraud.

According to the Federal indictment, Shmuckler owned and operated a mortgage-rescue business known as The Shmuckler Group ("TSG"), which claimed to be the "largest, most successful group of professionals from the Legal, Banking, Mortgage, Financing, Real Estate, Government, and International Sector coming together to help homeowners keep their homes in a manageable and affordable means." The indictment alleges that Shmuckler falsely portrayed himself to be an attorney licensed in Virginia and that he misrepresented that TSG had a 97

percent success rate in obtaining loan modifications. According to the indictment, Shmuckler also instructed clients to terminate contact with their mortgage companies and to stop making payments to their lenders.

The indictment further alleges that false representations by Shmuckler and TSG employees induced homeowners to pay fees ranging from \$2,500 to \$25,000, for \$3 million in total proceeds. TSG is alleged to never have facilitated a single mortgage modification. It is also alleged that the company's loan modification success rate was substantially less than 97 percent. The case brought in Federal court in Virginia resulted from a joint investigation conducted by SIGTARP, FBI, the FDIC OIG, and the United States Attorney's Office for the Eastern District of Virginia. The case brought in state court in Maryland resulted from a joint investigation by SIGTARP, the Office of the State's Attorney for Prince George's County, and the Maryland Department of Labor Licensing and Regulation's Financial Regulation Division.

Home Owners Protection Economics, Inc. ("HOPE")

On August 9, 2011, SIGTARP agents, with its law enforcement partners, arrested Christopher S. Godfrey, Dennis Fischer, Vernell Burris, Jr., and Brian M. Kelly. On August 3, 2011, a federal grand jury sitting in the District of Massachusetts returned an indictment against the four defendants for allegedly perpetrating a fraudulent home loan modification scam through a company named Home Owners Protection Economics, Inc. ("HOPE"). The 20-count indictment charges the four with conspiracy, wire fraud, mail fraud, and misuse of a government seal. Godfrey was the president and Fischer was the vice president of HOPE. Burris was the manager and primary trainer of HOPE telemarketers, and Kelly was one of the principal telemarketers and a trainer for other HOPE telemarketers. Godfrey and Fischer were charged

with one count of conspiracy, nine counts of wire fraud, nine counts of mail fraud, and one count of misuse of a Government seal. Burris and Kelly were charged with one count of conspiracy, nine counts of wire fraud, and nine counts of mail fraud.

The indictment alleges that, through a series of misrepresentations, the defendants and their employees induced thousands of financially distressed homeowners to pay HOPE a \$400-\$900 up-front fee in exchange for HOPE's home loan modifications, modification services, and "software licenses." According to the indictment, the defendants misrepresented that, with their assistance, homeowners were virtually guaranteed to receive a loan modification under HAMP. The indictment alleges further misrepresentations by defendants, including that HOPE was affiliated with the homeowner's mortgage lender, that homeowners had been approved for a home loan modification, that homeowners could stop making mortgage payments while they waited for HOPE to arrange their loan modification, that HOPE would refund the up-front fee if the modification was unsuccessful, and that HOPE was a non-profit organization.

The indictment further alleges that, in exchange for homeowners paying the up-front fees, HOPE sent homeowners a "do-it-yourself" application package that was nearly identical to the application provided free of charge by the U.S. Government through HAMP. Through these misrepresentations, it is alleged, HOPE was able to persuade thousands of homeowners collectively to pay more than \$3 million in fees to HOPE. This case is being investigated by SIGTARP, the FBI, the United States Attorney's Office for the District of Massachusetts, and the Computer Crime and Intellectual Property Section of the Department of Justice's Criminal Division.

Nations Housing Modification Center

Glenn Rosofsky, Roger Jones, and Michael Trap pled guilty to their involvement in a fraudulent loan-modification scheme. The conspiracy sold loan-modification services to homeowners who were delinquent on their monthly mortgage payments. Using the names "Nations Housing Modification Center" ("NHMC") and "Federal Housing Modification Department," the conspiracy used false and fraudulent statements and representations to induce customers to pay advance fees of \$2,500 to \$3,000 each to purchase loan-modification services from NHMC. Included among the misrepresentations made by the defendants was that NHMC was affiliated with the Federal Government or HAMP and was located on Capitol Hill in Washington, DC. In fact, as Trapp admitted, NHMC had no connection to the Federal Government or HAMP and its only presence in Washington, DC, was a rented post office box. The fraud grossed at least \$900,000 from more than 300 homeowners.

On June 10, 2011, Trap was sentenced by the U.S. District Court for the Southern District of California to 30 months incarceration and three years of supervised release and ordered to pay restitution of \$460,249 following his earlier guilty plea. On January 24, 2011, Rosofsky was sentenced by the U.S. District Court for the Southern District of California to 63 months incarceration and 36 months of supervised release and ordered to pay restitution of \$456,749. The same court also sentenced Jones, on January 18, 2011, to 33 months incarceration and 36 months of supervised release, and ordered him to pay restitution of \$456,749. The case was investigated by SIGTARP, IRS-CI, the Federal Trade Commission ("FTC"), the San Diego District Attorney's Office, and the U.S. Attorney's Office for the Southern District of California, with the support of FinCEN and the New York High Intensity Financial Crime Area.

Legacy Home Loans and Real Estate

On December 1, 2011, Magdalena Salas, Angelina Mireles, and Julissa Garcia, the owner, manager, and CEO, respectively, of Legacy Home Loans and Real Estate ("Legacy Home Loans") in Stockton, California, were arrested on charges of conspiracy, grand theft, and false advertising for a mortgage modification scam.

According to the charges and other information presented in court, the co-conspirators collected thousands of dollars in up-front fees from distressed homeowners in Central California after making false promises to obtain loan modifications for the homeowners. The defendants falsely promised homeowners that they would receive loan modifications regardless of their financial situation through Federal Government programs allegedly referred to as the "Obama Plan." The defendants also allegedly falsely overstated their success rate, made false money-back guarantees, and falsely represented that attorneys would work on the modifications. The co-conspirators advertised similar false promises in flyers, billboards, television and radio, in English and Spanish. The modification services promised by the co-conspirators allegedly were never carried out and many clients ended up losing their homes. The case is being investigated by SIGTARP, the California Attorney General's office, the San Joaquin District Attorney's office, the California Department of Real Estate, and the Stockton Police Department.

Flahive Law Corporation

On March 8, 2012, Gregory Flahive, Cynthia Flahive, and Mike Johnson were arrested by SIGTARP agents and its law enforcement partners. On March 7, 2012, a California grand jury indicted the defendants for allegedly perpetrating a fraudulent mortgage modification scam through their law firm, Flahive Law Corporation ("FLC"). The Flahives and Johnson were

charged with 19 felony counts of grand theft by false pretense, conspiracy, and false advertising. Gregory and Cynthia Flahive are the owners of FLC, based in Folsom, California. Mike Johnson is FLC's managing attorney. According to documents filed in court, from January 2009 to December 2010, FLC promoted its loan modification services to homeowners through advertisements, including a television infomercial. FLC falsely represented that experienced lawyers would negotiate with banks on behalf of homeowners seeking modifications, including under HAMP, misrepresented that FLC's law firm status would give them extra leverage when negotiating with such banks, and overstated FLC's rate of success in obtaining loan modifications on behalf of homeowners. FLC allegedly collected up-front fees of up to \$2,500 from homeowners for loan modification services that were never performed. The case is being investigated by SIGTARP, the California Attorney General, Folsom Police Department, Rancho Cordova Police Department, and the El Dorado Sheriff's Department.

CFS Home Solutions

On March 2, 2012, Jacob J. Cunningham, Justine D. Koelle, Andrew M. Phalen, Dominic A. Nolan, and John D. Silva were arrested in California and charged with allegedly operating a mortgage modification scheme that defrauded hundreds of victims. The defendants were charged with multiple felony counts of violating California state law, including conspiracy to charge illegal upfront fees for mortgage modifications, conspiracy to commit forgery, grand theft by false pretenses, theft from an elder, and money laundering. Between January 2009 and March 2012, the defendants allegedly enticed homeowners to participate in a fraudulent loan modification program by making numerous false misrepresentations to homeowners through advertisements, websites, promotional letters, and direct conversations. The misrepresentations

included: (1) that HAMP would apply to homeowners' circumstances, (2) the defendants had a 100% success rate in obtaining mortgage modifications for homeowners, and (3) that homeowners would be refunded their paid fees if the defendants could not modify a homeowner's loan. In December 2011, after hundreds of complaints had been submitted to the Better Business Bureau regarding their fraudulent activities, Cunningham, Nolan, and Silva allegedly then started a different mortgage scheme. These three defendants mailed fake "Conditional Approval" letters to victims that included unauthorized logos of "CitiFinancial" and "CitiMortgage." These letters falsely stated that the homeowners had been conditionally approved for a home loan at an interest rate between 2.3% and 2.8%. The letters also directed the homeowners to deposit between \$3,500 and \$4,600 directly into the defendants' bank accounts. It is alleged that the defendants never submitted any loan applications to banks on behalf of any of the homeowners who paid this fee.

To evade detection by law enforcement, the defendants are accused of changing the names, phone numbers, and addresses of the sham companies they operated, including CSFA Home Solutions, Mortgage Solution Specialists, Inc., CS & Associates, and National Mortgage Relief Center. If convicted on all counts, the defendants face a maximum sentence in state prison as follows: Cunningham and Nolan (13 years and eight months each); Koelle (7 years and eight months); Phalen (10 years); and Silva (21 years and eight months). The case is being investigated by SIGTARP, Orange County, California, District Attorney's Office, U.S. Secret Service, Huntington Beach Police Department, California Department of Real Estate, Orange County Probation Department, Orange County Sheriff's Department, Costa Mesa Police Department, Irvine Police Department, and Santa Ana Police Department.

SIGTARP commends this Committee for promoting financial literacy. SIGTARP is committed to promoting financial literacy including helping homeowners from becoming victims to the newest rescue fraud scheme known as a mortgage modification fraud scheme. Finally, SIGTARP urges anyone who believes that they have become a victim of a mortgage modification scam related to HAMP, or has knowledge of a scam can contact SIGTARP's hotline.

SIGTARP Hotline 877-SIG-2009 or www.sigtar.gov

One of SIGTARP's primary investigative priorities is to operate the SIGTARP Hotline and provide a simple, accessible way for the American public to report concerns, allegations, information, and evidence of violations of criminal and civil laws in connection with TARP. The SIGTARP Hotline can receive information anonymously. SIGTARP honors all applicable whistleblower protections and will provide confidentiality to the fullest extent possible.

CONSUMER FRAUD ALERT



SIGTARP

Consumer Financial
Protection Bureau

Tips for Avoiding Mortgage Modification Scams

Homeowners struggling to make their mortgage payments should beware of con artists and scams that promise to save their homes and lower their mortgage debt or payments.

If you are struggling to pay your mortgage and are seeking a mortgage modification, keep the following tips in mind:

- You can apply to the federal Home Affordable Modification Program (HAMP) on your own or with free help from a housing counselor approved by the U.S. Department of Housing and Urban Development (HUD). Applying to the program is always **FREE**. For more information on how to apply, call the **Homeowner's HOPE™ Hotline** at 1-888-995-HOPE (1-888-995-4673) or visit www.MakingHomeAffordable.gov.
- Only your mortgage servicer has discretion to grant a loan modification. Therefore, no third party can guarantee or pre-approve your HAMP mortgage modification application.
- Beware of anyone seeking to charge you in advance for mortgage modification services – in most cases, charging fees in advance for a mortgage modification is illegal.
- Paying a third party to assist with your HAMP application does not improve your likelihood of receiving a mortgage modification. Accordingly, beware of individuals or companies that ask you for payment and tout success rates or claim to be "experts" in HAMP.
- If an individual or company claims to be affiliated with HAMP or displays a seal or logo representing the U.S. government in correspondence or on the Web, you should check the connection by calling the Homeowner's HOPE™ Hotline.
- Beware of individuals or companies that offer money-back guarantees.
- Beware of individuals or companies that advise you as a homeowner to stop making your mortgage payments or to not contact your mortgage servicer.

Financially troubled homeowners can avoid scams by working with a HUD-approved housing counselor to understand their options and to apply for assistance. Assistance from HUD-approved housing counselors is free, and homeowners can reach them by calling the **Homeowner's HOPE™ Hotline** at 1-888-995-HOPE (1-888-995-4673) or by visiting www.MakingHomeAffordable.gov.

This message is courtesy of the Office of the Special Inspector General for the Troubled Asset Relief Program (SIGTARP), the Consumer Financial Protection Bureau, and the U.S. Department of the Treasury. To report illicit activity involving HAMP, dial the **SIGTARP Hotline** at 1-877-SIG-2009 (1-877-744-2009). For more information, visit www.SIGTARP.gov and www.ConsumerFinance.gov.

Post-Hearing Questions for the Record
Submitted to Deputy Assistant Secretary Melissa Koide
From Senator Daniel K. Akaka

**“Financial Literacy: Empowering Americans to Prevent the Next Financial Crisis”
April 26, 2012**

1. **MyMoney.gov is the Federal Government's website dedicated to teaching all Americans the basics about financial education. In evaluating the effectiveness of the website, has the Financial Literacy and Education Commission (“Commission”):**
 - a. **Tested the usability of MyMoney.gov with a representative sample of users; and**
 - b. **Collected data to determine whether MyMoney.gov is reaching vulnerable communities most in need of financial education.**

The MyMoney.gov website is a portal or gateway to federal information about personal financial issues and decision-making. As currently designed, it enables users to identify and locate existing federal information on an array of financial issues. The Commission member agencies provide information to be featured on the site, and the Treasury Department has taken the lead as site administrator, including providing financial and management support for the site.

Treasury provides financial support for ongoing usability testing and user satisfaction surveys concerning the MyMoney.gov site. The Department contracts with the Foresee organization for this work. A sample of site users is asked to provide feedback on the site via on-line surveys. Treasury and Foresee monitor results and benchmark the levels of reader satisfaction with other leading federal websites. Treasury has not been able to integrate special information collection activities to determine whether the site is effective for particular communities.

2. **If implemented, the National Strategy for Financial Literacy will address the U.S. Government Accountability Office’s recommendation that the Commission enhance its coordination of Federal financial literacy activities, and strengthen its role as the central clearinghouse for evidence-based research, best practices, and innovative approaches to financial literacy.**
 - a. **Is the National Strategy ready to guide the efforts of the Commission’s member agencies, or are additional modifications necessary? If the National Strategy is final, please describe how the strategy guides the Treasury Department’s financial literacy and education efforts.**
 - b. **Please describe the Commission’s progress specifically in strengthening its role as a central clearinghouse for research.**

The Commission’s 2011 National Strategy for Financial Literacy has played an important part in framing the federal government’s role on this topic. Also, the strategy has been helpful for guiding partner states and private sector entities in their work in this area.

Over the coming months, as Chair of the Commission, Treasury will encourage the Commission to define one or perhaps two special topic areas to hone the Commission's resources and "move the needle" on the topic(s). This approach will involve identifying and addressing policy issues and barriers, recruiting private sector partners to expand the work, and providing programmatic and other support. The Commission will emphasize the value of performance management and rigorous research in this work.

While the Commission has not formally selected a topic area, youth financial education is an important area to focus on. There is a critical case to be made for spotlighting this topic. For example, the 2009 National Financial Capability Study found that young adults are more likely to engage in many high-risk financial behaviors, such as only making the minimum payments on credit cards, and less likely to report behaviors that help them prepare for their financial futures, such as planning for retirement. Given the complex financial environment facing young people and the value of helping them understand how to make better decisions while they are young, we believe the impact of a youth focus can be significant for our nation's future economic prospects.

As mentioned in the written testimony, the Commission has made strong progress over the past year in the area of research and evaluation. The Commission released a list of research priorities – a research agenda – for the field this spring. Crafted by a working group led by staff of the Federal Reserve Board, the agenda is a roadmap for federal and private sector research and evaluation over the coming three to five years. Furthermore, the Commission will soon announce the development of an on-line clearinghouse, which will be presented as a section of the Mymoney.gov website, of federally-funded research, evaluation studies, and other analyses of financial education and financial capability strategies and topics. We envision that it will become the "go to" place for researchers, funders, and practitioners who are interested in keeping up-to-date on research in this area.

3. Your testimony noted that the results from the Hawaii Family Finance Project, which is led by the Council for Native Hawaiian Advancement, were promising. Please elaborate on the results.

Treasury's Community Development Financial Institutions (CDFI) Fund and its Office of Financial Access, Financial Education, and Consumer Protection are collaborating in the implementation of the Congressionally-mandated Financial Education and Counseling Pilot. The purposes of the pilot are to:

- Increase the financial knowledge and decision-making capabilities of prospective homebuyers.
- Assist prospective homebuyers to develop monthly budgets, build personal savings, finance or plan for major purchases, reduce their debt, improve their financial stability, and set and reach their financial goals.
- Help prospective homebuyers to improve their credit scores by understanding the relationship between their credit histories and their credit scores.

- Educate prospective homebuyers about the options available to build savings for short- and long-term goals.

While the long-term impact and return on investment are not yet known, there are some promising early findings. In its first year, the Hawaii Family Finance Project -- led by the Council for Native Hawaiian Advancement -- served 718 families with an average of 4 hours of financial counseling or training per family. Output goals were met in the first calendar year of operations. The pilot sites also met some impact goals, including having 50% of participants establish long-term savings goals. Additional time will be needed to measure longer-term impact goals such as increased credit scores and increased numbers of families qualifying for home mortgages.

4. **In enacting the Pension Protection Act of 2006, Congress endorsed pairing automatic enrollment with automatic escalation, by incentivizing companies to establish default 401(k) plan options that automatically enroll employees at no less than a three percent savings rate, automatically escalate that rate by at least one percent for at least three years, and feature matching contributions. Have employers who adopted this prescribed default option pairing automatic enrollment with automatic escalation experienced positive increases in employee 401(k) plan participation and contribution rates?**

There is little empirical evidence available to date regarding changes in participation and contribution rates experienced by employers that have adopted automatic enrollment in conjunction with automatic escalation pursuant to the safe harbor automatic enrollment provisions that you mention (set out in Internal Revenue Code section 401(k)(13)). Moreover, we do not have data indicating how many 401(k) plan sponsors have adopted this safe harbor. However, much of the existing literature on default features within retirement plans has looked at the impact of automatic enrollment generally (without regard to the safe harbor) and typically finds that plan participation increases meaningfully. For example, a recent analysis by Fidelity Investments (Fidelity) found that participation rates at companies with automatic enrollment plans stand at 82%, compared to a 55% participation rate at companies sponsoring plans without automatic enrollment.¹

Many employees under auto-enrollment regimes contribute at the default rate, and most 401(k) plans set default contribution rates at a level lower than needed to achieve retirement security. Results from an AARP study show that the firms in a sample that adopted automatic enrollment on average had a default contribution rate of 3.2%, with the majority of firms defaulting to 3%. According to the Fidelity analysis, opt-out rates are not higher for 401(k) plans with initial default contribution rates as high as 5%.

5. **The Thrift Savings Plan (TSP) Enhancement Act of 2009 authorized new Federal employees to be automatically enrolled in the TSP unless they opt out, with a default employee contribution rate of three percent of basic pay. Authorizing automatic**

¹ Data based on more than 20,600 plans and nearly 11.7 million participants as of Sept. 30, 2011.

enrollment in the TSP promoted a goal of the Federal Employees' Retirement System Act of 1986 (FERSA), which was designed to encourage Federal employees to save at least five percent of their pay in the TSP. However, a small percentage of TSP participants do not proactively increase their contribution rates to at least five percent.

Would authorizing the Federal Retirement Thrift Investment Board to pair the TSP's current auto enrollment at three percent with automatic escalation of one percent per year, for at least two consecutive years following the first year of enrollment, be an effective policy to fulfill FERSA's goal of participants reaching at least a five percent TSP contribution rate?

In addition, are there broader economic benefits associated with increasing retirement savings rates that Congress should consider when weighing whether to invest in efforts to encourage Federal employees to responsibly save for retirement?

Future income security is likely to be the strongest economic benefit if federal employees are further encouraged by Congress to save responsibly for retirement. Based in part on Fidelity's participant opt-out experience, we think the modest automatic escalation policy you mention is likely to be helpful in reaching a 5% contribution rate for federal employees in the TSP. Other effective steps may also be available. For example, some 401(k) plan sponsors have implemented automatic enrollment with an initial default contribution rate set at a level higher than 3%, such as 5% or 6%. Also, although federal employees participating in the government's defined benefit system have a source of defined benefit plan retirement income not available to most private sector employees, it is important to note that, in order to achieve desired levels of retirement security, participants in defined contribution plans may need contribution rates well above 5%, such as 10%, 12% or higher. Accordingly, some 401(k) plan sponsors have been considering or implementing both higher initial default contribution rates and more extensive automatic escalation features that would reach contribution rates well above 5%. Such approaches might well be worth considering for TSP participants as well, although insofar as they participate in the government's defined benefit system, they have a source of defined benefit plan retirement income not available to most private sector employees. The design of such policies should also take into account that higher contribution levels may be more difficult for lower-income participants to achieve.

Questions for the Record

Submitted to Ms. Melissa Koide
From Senator Ron Johnson

“Financial Literacy: Empowering Americans to Prevent the Next Financial Crisis”
April 26, 2012

- 1) Your written testimony mentioned the Department of Treasury’s Financial Education and Counseling Pilot Program, and, specifically, the Family Finance Project led by the Council for Native Hawaiian Advancement, which counseled 718 families in home-buying with a \$3.15 million grant. That’s about \$4,400 a family. Does that seem a reasonable price to you?

Treasury’s Community Development Financial Institutions (CDFI) Fund and its Office of Financial Access, Financial Education and Consumer Protection are collaborating in the implementation of the Financial Education and Counseling Pilot, which was created pursuant to the Housing and Economic Recovery Act of 2008. The purposes of the pilot are to:

- Increase the financial knowledge and decision-making capabilities of prospective homebuyers.
- Assist prospective homebuyers to develop monthly budgets, build personal savings, finance or plan for major purchases, reduce their debt, improve their financial stability, and set and reach their financial goals;
- Help prospective homebuyers to improve their credit scores by understanding the relationship between their credit histories and their credit scores.
- Educate prospective homebuyers about the options available to build savings for short- and long-term goals.

The CDFI Fund, working with the Office of Financial Access, Financial Education and Consumer Protection selected a grantee for the Hawaii pilot through a competitive selection process. The selected grantee, the Council for Native Hawaiian Advancement, entered into an agreement to achieve certain levels of performance to assist prospective homebuyers across the state of Hawaii.

While the long-term impact and return on investment are not yet known, there are some promising early findings. In its first year, the Hawaii Family Finance Project -- led by the Council for Native Hawaiian Advancement -- served 718 families with an average of 4 hours of financial counseling or training per family. This is the first year of performance on a three-year goal of serving 1500 families with an average of 4 hours of financial counseling or training per year. Output goals were met in the first calendar year of operations. The pilot sites also met some impact goals, including having 50% of participants establish long-term savings goals. Additional time will be needed to measure longer-term impact goals for the project, which include higher credit scores and increased numbers of families qualifying for home mortgages.

- 2) Since the Department of Treasury has a lead role in coordinating the Financial Literacy and Education Commission, how much do federal agencies spend on financial literacy efforts?
- a. Which agencies have assessed whether their spending on financial literacy is exceeded by the benefits gained? Does Treasury have performance metrics for these programs?

In July 2011, the Government Accountability Office (GAO) issued findings from its study of the cost and legal authority for federal financial literacy programs and activities. At that time, the GAO reported that a total of 10 federal agencies implemented 13 separate financial literacy programs and activities. The total FY 2011 budget amount for these programs was approximately \$39 million.

Each agency uses its own performance measures for managing its programs. While the programs have a common or shared focus area on financial literacy, the programs are very different – providing different types of services and addressing the needs of different communities and populations.

The Commission has not yet developed comprehensive performance metrics for federal financial literacy and education programs. One of the important areas included in the research agenda that was recently developed by the Commission is the need to have common performance measures and metrics for use at the community level. The Treasury Department recognizes that federal agencies should do more to evaluate the effectiveness of their efforts, and if appropriate, identify options for consolidating or eliminating efforts that do not appear to be effective.

- 3) The Commission's implementation plan for the National Strategy for Financial Literacy mentions an effort to develop "a plan for federal action ... (to) determine and integrate core financial competencies."
- a. What does the Commission believe are core financial competencies? What should every American know in order to be called "financially literate"?
- b. In August 2010, the Treasury published a proposed list of financial competencies in the Federal Register. Has that list been made final yet? I did not see it in the national strategy or implementation plan documents; why is it not in there?
- c. That proposed list in 2010 mentioned behaviors that signal financial competence, among them an ability to "develop a spending plan" and to "live within your means." The federal government has not had a budget for more than three years, and its spending routinely exceeds its income. How do federal agencies bring any credibility to urging citizens to follow these good practices when it cannot do so itself?

The Commission has identified five principles that form a clear framework for learning about financial decisions and making sound personal financial decisions. The five principles are designed to become a platform for sharing information on financial

decisions. The principles are: earn, save and invest, protect, spend, and borrow. These principles feature the core concepts involved in making day-to-day financial decisions. Over the coming year, the Commission will encourage its member agencies to integrate these concepts into their programs and messaging around financial capability.

Additionally, these principles will be used on the revised MyMoney.gov website to help users find the information they are interested in and boost their own financial knowledge. A self-assessment quiz will also be available for consumers to check their knowledge in these areas and direct them to materials that may help them fill any knowledge gaps.

The Commission developed the principles with input from the public and from a range of public and private entities involved in financial literacy and education. Overall, the comments received indicated that the public and the financial literacy field are supportive of the principles.

- 4) You testified that the federal government has a particularly important role in research and evaluation of financial education. Several schoolteachers later testified about their exemplary efforts at financial education, using ideas and curriculum from private-sector groups, such as the Council for Economic Education.
- a. In undertaking the federal role in research and evaluation, how many federal agencies on the Commission have contacted the Council on Economic Education and other private- or education-sector groups to learn what teachers are already finding successful or useful?
 - b. What makes federal agencies better suited to research financial literacy than private- or education-sector groups already doing such research?
 - c. Should the federal government instruct schools what they should teach about personal finances?
 - d. Should there be national standards on what schools should teach people to make them financially literate? Does the government know enough to set those standards?

Treasury, the Department of Education, and members of the Commission communicate and work regularly with private sector organizations with substantial track records in delivering financial education, like the Council for Economic Education. In fact, the Department of Education has funded various activities of the Council for Economic Education in recent years through its Cooperative Civic Education and Cooperative Education and Excellence in Economic Education programs.

It is important for the public and private sectors to collaborate on many aspects of financial capability, including on research and evaluation. In keeping with this philosophy, the Commission has made strong progress over the past year to support the public and private sectors in furthering research and evaluation of financial literacy and education issues. For example, the Commission has worked closely with leading private sector entities in the financial literacy field in developing a list of research priorities – a research agenda – for the field this spring. The document will serve as a roadmap for

federal and private sector research and evaluation over the coming three to five years. Furthermore, the Commission will soon launch a free, publicly-available online clearinghouse of federally-funded research, evaluation studies, and other analyses of financial education and financial capability strategies and topics. The clearinghouse will be a helpful tool for the research community overall – including those based in private sector entities and those working in federal agencies. The Commission is eager to facilitate and support additional research that will improve the quality and availability of information and tools for personal financial decision-making.

The Commission's role is to encourage coordination and collaboration and to reduce any duplication of effort among federal agencies concerning financial literacy and education. The Commission has not disseminated standards for school-based financial education. The Commission has, however, provided resources that parents, teachers, school districts, and others can use in the classroom and elsewhere through the mymoney.gov website. The revised MyMoney.gov website, which will be available soon, will make it easier for teachers and educators to find materials for their use and for parents and students to find youth-focused materials that may assist them.

**Post-Hearing Questions for the Record
Submitted to Director Alicia Puente Cackley
From Senator Daniel K. Akaka**

**“Financial Literacy: Empowering Americans to Prevent the Next Financial Crisis”
April 26, 2012**

1. Comptroller General Dodaro has made promoting greater financial literacy in the United States a top priority. Please describe the Comptroller General’s long-term strategic goals for enhancing Americans’ financial capability.

The Comptroller General has five long-term strategic goals for enhancing Americans’ financial capability. They are:

- 1) That all federal financial literacy efforts authorized by Congress or the Administration are efficiently run and effective in achieving their objectives.
- 2) That there has been thorough, professional research conducted on what financial literacy approaches are effective, and that the results are widely disseminated.
- 3) That the federal government is taking full advantage, through its regular interactions with the public, to further financial literacy goals.
- 4) To ensure that GAO is a model employer for its employees and that there are similar programs throughout the federal government that incorporate best practices in financial literacy education.
- 5) That GAO builds effective partnerships with other federal government agencies, other government sectors, the private sector, non-profits, and academia to foster a continuous dialogue on how to improve efforts in financial literacy.

With regard to the fourth goal of becoming a model employer, GAO has established a workplace financial literacy program. This program includes several elements. First, GAO has started a Financial Literacy Speakers Series, where we invite speakers to discuss retirement benefits, saving for college education, and other topics several times a year. Second, GAO is developing structured training for its staff, which will deliver financial planning information when staff are most likely to need it, such as when they are hired, promoted, or approaching retirement. Third, in April GAO established an internal financial literacy website, which includes links to online resources to help inform employees’ financial decisionmaking and contacts for employees in need of more personalized services. Finally, a critical part of this effort will include the design and implementation of a monitoring and evaluation protocol, which will allow GAO to understand the effects of its workplace program and identify areas where it can make improvements.

In addition, GAO plans to leverage its unique position to promote financial literacy outside of the agency and is exploring ways to integrate financial literacy into the engagement and reporting process as appropriate. As we noted in our testimony, the federal government is distinctive for its size and reach, and for the diversity of its components, which address a wide array of issues and populations. As a result, this work would largely be geared toward encouraging federal agencies

to integrate financial education into existing government services and leverage the regular interactions they already have with the public. GAO is considering ways to identify ongoing work relevant to financial literacy and ensure that these issues are being addressed. We will also work to identify critical financial literacy issues that may warrant consideration for engagements done under the Comptroller General's authority. Relevant reports will be highlighted under a new "Financial Literacy" collection on our website for ease of identification for users of our reports. Additionally, GAO is considering ways to disseminate the financial literacy messages in our reports via various channels, including podcast, web chats and various forms of social media to reach a broader audience, where appropriate. Lastly, GAO is exploring strategic partnerships with other stakeholders to promote financial literacy more broadly. This effort will ultimately include monitoring and evaluation procedures to help ensure our work in this area is productive.

2. My provision in the Dodd-Frank Wall Street Reform and Consumer Protection Act required the U.S. Government Accountability Office (GAO) to conduct a study of mutual fund advertising and its effect on investor behavior. GAO's report recommended that the U.S. Securities and Exchange Commission (SEC) and the Financial Industry Regulatory Authority (FINRA) take steps to make sure all fund companies are notified about new interpretations of existing rules for fund advertising. Both regulators agreed with this recommendation. Please describe what actions the SEC and FINRA have taken to implement this recommendation.

In response to our recommendation in our report, "Mutual Fund Advertising: Improving How Regulators Communicate New Rule Interpretations to Industry Would Further Protect Investors" (GAO11-697), SEC's Chairman wrote a letter to the Chairman and CEO of FINRA in July 2011 requesting that it review its methods for disseminating new rule interpretations on fund advertising, with a view toward enhancing transparency of the interpretations, and to provide a report to SEC on the results. In October 2011, FINRA responded with an explanation of the efforts it had taken to improve the transparency of its rule interpretations. FINRA agreed to ensure timely publication of any significant new interpretation of the advertising rules that affects a broad section of the industry. Further, it said that it plans to use other media to notify the industry of new interpretations including emails, webinars, or other electronic methods.

3. GAO has found that Americans with limited English proficiency face significant barriers to financial literacy. This places them at greater risk for predatory practices and poor financial decisions. In your view, how would promoting greater financial literacy among those with limited English proficiency benefit individual consumers and the economy as a whole?

A significant and growing number of Americans have limited English proficiency. As we reported in our report, "Consumer Finance: Factors Affecting the Financial Literacy of Individuals with Limited English Proficiency" (GAO-10-518), according to 2008 Census statistics, more than 12 million adults reported they did not speak English well or at all. Improving financial literacy for this population would have the same benefits that it would for the population as a whole. The ability to understand financial choices, plan for the future, and spend wisely are key factors in improving any consumer's economic well-being and security.

Poor money management and financial decision making can lower a family's standards of living and interfere with crucial long-term goals, such as buying a home and financing retirement. Moreover, the economy as a whole can benefit from improved financial literacy among individuals with limited English proficiency, as with other populations. For example, financial markets work best when consumers understand how financial services providers and products work and know how to choose among them. In addition, our income tax system requires citizens to have an adequate understanding of the tax system and financial matters in general. Financial literacy is also important in ensuring that Americans who receive public assistance successfully transition to greater self-sufficiency.

Financial literacy may be particularly important for populations with limited English proficiency because a lack of proficiency in English can create significant barriers to financial literacy and to conducting everyday financial affairs. For example, as we reported in GAO-10-518, service providers and consumers with limited English proficiency told us that because most financial documents are available only in English, individuals who do not speak English well can face challenges completing account applications, understanding contracts, and resolving problems, such as erroneous bills. In addition, financial education materials—such as print material, websites, broadcast media, and classroom curricula—are not always available in languages other than English and, in some cases, Spanish. Further, information and documents related to financial products tend to be very complex and can use language confusing even to native English speakers. Further, evidence suggests that such populations are less likely than the U.S. population as a whole to have accounts at banks and other mainstream financial institutions and more likely to use alternative financial services—such as payday lenders and check-cashing services—that often have unfavorable fees, terms, and conditions. The Federal Trade Commission and immigrant advocacy organizations have noted that some populations with limited English proficiency may be more susceptible to fraudulent and predatory practices, which financial education may help prevent.

4. The Thrift Savings Plan (TSP) Enhancement Act of 2009 authorized new Federal employees to be automatically enrolled in the TSP unless they opt out, with a default employee contribution rate of three percent of basic pay. Authorizing automatic enrollment in the TSP promoted a goal of the Federal Employees' Retirement System Act of 1986 (FERSA), which was designed to encourage Federal employees to save at least five percent of their pay in the TSP. However, a small percentage of TSP participants do not proactively increase their contribution rates to at least five percent of basic pay.

Based on existing literature examining the impact of automatic enrollment paired with automatic escalation, would authorizing the Federal Retirement Thrift Investment Board to pair the TSP's current auto enrollment at three percent with automatic escalation of one percent per year, for at least two consecutive years following the first year of enrollment, be effective in achieving FERSA's goal of TSP participants reaching at least a five percent contribution rate?

In addition, are there broader economic benefits associated with increasing retirement savings rates that Congress should consider when weighing whether to invest in efforts to encourage Federal employees to responsibly save for retirement?

Little is known about the extent to which federal employees might opt out of automatic deferral increases within the TSP. While it is likely that some federal employees would opt out of automatic escalation, it is also likely that the number of employees deferring 5 percent or more would increase. Several studies of private sector defined contribution plans with automatic escalation features have found that employees generally accept the default arrangement and allow their deferrals to increase over time. Some of the literature also suggests that auto-escalation has a larger effect on lower income employees, a group which otherwise may be likely to save less.

By pairing a higher contribution rate with automatic enrollment, Congress could encourage a larger number of federal employees to start saving for retirement—earlier in their careers—giving participants a better opportunity to take advantage of compounding for the long-term growth of their retirement savings. This should lead to larger account balances and presumably larger incomes during retirement. To the extent that the proposed automatic increase in employee contributions leads to additional net savings for the economy, it should also foster additional investment and ultimately additional economic growth and employment.

**Questions for the Record
Submitted to Ms. Alicia Puente Cackley
From Senator Ron Johnson**

**“Financial Literacy: Empowering Americans to Prevent the Next Financial Crisis”
April 26, 2012**

- 1) Do we know how much the federal government is spending on financial literacy?**
a. Whose responsibility is it to track that?

GAO will be issuing a report in mid-July (GAO-12-588) that will provide cost estimates for the federal government's most significant financial literacy and housing counseling programs and activities. Apart from this work, to our knowledge no federal entity tracks spending on financial literacy across the federal government.

- 2) You pointed out that Consumer Financial Protection Bureau (CFPB) has some financial education duties, laid out in the Dodd-Frank law, that are similar to what the Treasury, the Federal Trade Commission, the Department of Labor, the Social Security Administration and the Securities and Exchange Commission are already supposed to do.**
a. Could this mean that the authors of Dodd-Frank believed the efforts of those other agencies were failing or were inadequate?
b. Do we have some evidence that CFPB will succeed where those other agencies failed?

We have not done the work necessary to answer these questions. However, we plan to issue a report in July (GAO-12-588) that will provide information about the role of CFPB in addressing financial literacy.

**Questions for Assistant Director Camille Busette
Consumer Financial Protection Bureau**

**U.S. Senate Committee on Homeland Security and Governmental Affairs
Subcommittee on Oversight of Government Management, the Federal Workforce,
and the District of Columbia**

**“Financial Literacy: Empowering Americans to Prevent the Next Financial Crisis”
April 26, 2012**

Questions from Chairman Daniel K. Akaka

1. **The U.S. Government Accountability Office (GAO) has reported that a challenge facing the Financial Literacy and Education Commission (“Commission”) is limited resources, which may increase the difficulty of effectively implementing the national strategy. As you know, the Commission has no independent budget, no dedicated staff, and is forced to rely upon financial and in-kind donations from its member agencies. What resources and staff does the Consumer Financial Protection Bureau (CFPB), as Vice-Chair of the Commission, plan to share with the Commission?**

The CFPB’s Director serves as the Vice Chair of the Commission. In addition, staff from the CFPB’s Office of Financial Education also participate in the Commission subcommittees that are responsible for advancing the work of the Commission.

2. **At the hearing, it was noted that a consumer who knows the right questions to ask, understands economic fundamentals, and most importantly, has the confidence to challenge products that seem too good to be true, is a regulator’s best weapon in consumer protection. How are the CFPB consumer protection and financial education components working together to make each more effective?**

A well-functioning marketplace for consumer financial products and services is one where consumers can see prices and risks up front and where they can easily make product comparisons; where the opportunities to build a business model around unfair, deceptive, or abusive practices are minimized; and one that works for American consumers, responsible providers and the economy as a whole.

In the Office of Financial Education, we are focused on ensuring that consumers have the information they need to make informed financial decisions. We understand that the Bureau’s consumer protection components are essential to ensuring that the market functions well. For that reason, we coordinate with other CFPB offices on policy development, outreach, and other activities that are critical to ensuring that the market operates transparently and efficiently.

3. **Ms. Bair's testimony discussed research finding that unexplained or unexpected fees were the most common reason that households leave the banking system. To mitigate this problem, she recommended that the CFPB require all financial institutions to provide a clear, concise, and uniform disclosure that highlights important fees and terms of checking accounts. Will the CFPB implement this recommendation?**

While we strongly advocate for transparent pricing and disclosures, better transparency alone may not help consumers select better accounts because, for example, people often do not anticipate incurring overdrafts at the time they enroll in new accounts. As a result, in February, we launched a research effort to review what practices and processes are at work with respect to overdrafts and how they affect consumers. In connection with this effort, we published a notice and request for information in the Federal Register (See 77 Fed. Reg. 12031 (February 28, 2012) and 77 Fed. Reg. 24687 (April 25, 2012) (extending the comment period to June 29, 2012)).

Part of this analysis includes an inquiry into:

- How consumers are informed of alternatives to overdraft protection programs and how such alternatives are marketed to new customers, existing customers, and to particular customer segments;
- How posting order rules are communicated to consumers and the extent to which consumers understand them; and
- Changes in consumer behavior or understanding of overdrafts that have resulted from the changes that took effect in Regulation DD in 2010.

**Questions for Assistant Director Camille Busette
Consumer Financial Protection Bureau**

**U.S. Senate Committee on Homeland Security and Governmental Affairs
Subcommittee on Oversight of Government Management, the Federal Workforce,
and the District of Columbia**

**“Financial Literacy: Empowering Americans to Prevent the Next Financial Crisis”
April 26, 2012**

Questions from Ranking Member Ron Johnson

- 1) You testified that the Consumer Financial Protection Bureau (CFPB) is studying two existing financial education programs to find out whether they increase consumers' ability to manage their finances.**

- a. How does CFPB's research differ from work already done in the private and education sectors to study and spread effective financial education practices?**

The CFPB's financial education research is focused on identifying the conditions under which particular methods and approaches to financial education are effective. In order to generate the types of data that will allow the Bureau to inform the work of the financial education ecosystem that serves millions of American consumers, the Bureau is focused on applying rigorous quantitative methods, such as random control testing, to evaluate the effectiveness of financial education. This type of methodology generally yields more robust results. Our goal is to share the results of our work broadly so that all stakeholders engaged in financial education have the latest and most evidence-based results about how best to improve the financial literacy of consumers.

- b. Describe the CFPB's collaboration, if any, with the Council on Economic Education and other non-governmental groups working to spread best practices in financial education.**

The CFPB's Office of Financial Education has a very active outreach effort, which enables us to engage in frequent and rich dialogue with a variety of stakeholders from the non-profit, private, and government sectors. Staff from the Office of Financial Education are frequent keynote speakers and we conduct webinars and listening sessions on a variety of topics. Each of these activities allow us to exchange information so that the American consumer is better served by the Bureau and others engaged in improving consumers' abilities to make better informed financial decisions.

- 2) Does the federal government know what the core financial competencies are that citizens should possess?
- a. If the government has made financial literacy a priority since 2002, how is it we're only developing that list of competencies now? What's taking so long?

The Financial Literacy and Education Commission has been active in methodically and comprehensively defining core financial literacy competencies. The CFPB's Office of Financial Education is active in the Commission, both as a result of the CFPB Director's position as Vice Chair, and as a result of our engagement in the various constituent subcommittees. The CFPB's Office of Financial Education is therefore both aware of and supportive of the Commission's work. It is important to note that each agency has a different mandate, mission, and target audience for its financial literacy work. The Commission's work appropriately reflects that distribution of responsibility and differences in mandates and target audiences among its constituent agencies.

- 3) You testified about CFPB's "Know Before You Owe" effort to streamline mortgage closing disclosures. How did disclosures become so complicated in the first place?

The "Know Before You Owe" project is related to the CFPB's implementation of section 1032(f) of the *Dodd-Frank Wall Street Reform and Consumer Protection Act* ("*Dodd-Frank Act*"), which directs the Bureau to propose rules and forms combining certain mortgage disclosures under the *Truth in Lending Act* ("TILA") and the *Real Estate Settlement Procedures Act* ("RESPA") by July 21, 2012. The *Dodd-Frank Act* established two goals for the combined forms: to improve consumer understanding of mortgage loan transactions; and to facilitate industry compliance with TILA and RESPA. To meet these goals, the Bureau has conducted extensive outreach and testing of prototype forms with consumers and industry, provided the public with the opportunity to comment on the forms through the CFPB's website, and convened a panel to consider the impact of the forms and rules on small financial services providers.¹

There are a number of reasons for the complexity of the current disclosures. One reason is that TILA and RESPA require lenders and settlement agents to provide consumers who take out a mortgage loan separate but overlapping disclosure forms regarding the loan's terms and costs. In addition, while the Board of Governors of the Federal Reserve System was responsible for the TILA disclosures, the U.S. Department of Housing and Urban Development was responsible for the RESPA disclosures. This separation of disclosures and responsibility has long been recognized as confusing for consumers and inefficient and burdensome for industry. To address these concerns, the *Dodd-Frank Act* transferred responsibility for TILA and RESPA to the Bureau and directed the Bureau to combine the disclosures.

Another reason for the complexity of the disclosures is that they reflect the complexity of the underlying mortgage loan and real estate transactions. To some extent, this complexity is unavoidable. Through extensive testing, however, the Bureau has developed prototype

¹ For more information on the CFPB's Small Business Review Panel, see <http://www.consumerfinance.gov/blog/sbrefa-small-providers-and-mortgage-disclosure/>.

disclosure forms that present key information about interest rates, monthly payments, and closing costs to consumers on the first page of the form, which is designed to be clear and understandable. More complicated information about the transaction is provided on subsequent pages.²

An additional reason for the complexity of the disclosures is that, over the years, Congress has added a number of additional items to the disclosures. For example, in 2005, Congress added a new TILA disclosure regarding the tax implications of taking out a loan for an amount that exceeds the fair market value of the property.³ Similarly, in 2008, Congress added new TILA disclosures requiring payment examples for adjustable-rate loans, statements regarding changes in payments, and a statement informing the consumer that refinancing is not guaranteed.⁴ As discussed below, the *Dodd-Frank Act* added several more disclosures. Through its testing, however, the Bureau has developed forms that organize and present this information in a manner that helps consumers understand the transaction and helps industry comply with the law.

For all of these reasons, the Bureau believes that its rulemaking under section 1032(f) of the *Dodd-Frank Act* will substantially reduce the complexity of the TILA and RESPA mortgage loan disclosures.

- a. **The Bureau's Know Before You Owe website says its streamlined prototypes aren't shorter or simpler. It says, "When you see these prototypes, you may think, 'This doesn't look shorter or simpler than the current disclosures.' You're right." It says, "These additions are new disclosures required by the Dodd-Frank Act." So is the Dodd-Frank law making disclosures longer?**
- b. **If Dodd-Frank is not making disclosures longer, why did your agency's website say it was doing so?**

The *Dodd-Frank Act* added a number of new items to the TILA mortgage disclosures that are subject to section 1032(f) of the *Dodd-Frank Act*. For example, the *Dodd-Frank Act* added information regarding escrow payments, the aggregate amount of settlement charges, the approximate wholesale rate of funds in connection with the loan, and the total amount of interest paid over the life of the loan as a percentage of the loan amount.⁵ In addition, the *Dodd-Frank Act* created several new separate or "stand alone" TILA mortgage disclosures. These disclosures include information about negative amortization, anti-deficiency protections, and the lender's partial payment policy.⁶

² Samples of these forms are available on the CFPB's website at <http://www.consumerfinance.gov/blog/know-before-you-owe-the-last-dance-or-is-it/>.

³ *Bankruptcy Abuse Prevention and Consumer Protection Act of 2005* (P.L. 109-8 (April 20, 2005)).

⁴ Sections 2501 through 2503 of the *Housing and Economic Recovery Act of 2008* (P.L. 110-289, enacted on July 30, 2008, amended by the *Emergency Economic Stabilization Act of 2008* (P.L. 110-343 (October 3, 2008))).

⁵ These additional disclosure requirements are codified at 15 U.S.C. 1638(b)(2).

⁶ *Dodd-Frank Wall Street Reform and Consumer Protection Act* § 1419 (P.L. 111-203 (July 21, 2010)).

⁶ *Id.* §§ 1414, 1461, and 1462.

The quoted language was originally posted in November 2011, when we released the first prototypes of the Settlement Disclosure form that combines these new *Dodd-Frank Act* disclosures with the TILA disclosure that is generally provided three business days before closing and the HUD-1 settlement statement that is generally provided at closing.⁷ Although fitting all of this required information into one form reduces the burden on consumers and industry, it also made the form longer than expected and we thought it was important to explain why so that the public could provide informed feedback.

However, throughout our development of the forms, we have used testing and outreach to refine and simplify the disclosures. Our current prototype Loan Estimate form that would be provided three business days after application is just three pages, but incorporates seven pages of required disclosures.⁸ Our current prototype Settlement Disclosure is five pages, but incorporates at least nine pages of disclosures.⁹ Also, based on feedback from consumers and industry and the testing results, the CFPB is considering whether to use its authority under TILA, RESPA, and the *Dodd-Frank Act* to exempt creditors from providing certain disclosures that may not be useful to consumers.

- 4) **You testified about a financial aid online tool that the CFPB is testing. Are you familiar with existing private-sector tools, like the “Student Loan Game Plan” site offered by the nonprofit Iowa Student Loan organization, or the RepayReady site offered by NorthStar Education Services?**
- a. **What will your online tool offer that existing private-sector tools do not?**

Educating consumers is a critical part of the CFPB’s mission. We have thought carefully about how to supplement the existing work of other federal, state, and local government, as well as the private sector, including offerings like those offered by the organizations you reference.

As part of our work to assist students to make more informed decisions about student loans, we have worked closely with the Department of Education on a number of projects, including our Know Before You Owe project to improve financial aid information.

In April, we began testing an online tool to help families plan for the costs of post-secondary education. We collected feedback on this early prototype to determine what information students and families found helpful that they might not otherwise be able to find through other means. One example of a feature not currently offered in the marketplace is the “Military Benefit Calculator” that can estimate education benefits for servicemembers, veterans, and their families. The beta version of the tool included this calculator, and we will continue to work with the Department of Veterans Affairs and the Department of Defense as this project progresses.

⁷ See <http://www.consumerfinance.gov/knowbeforeyouowe/>.

⁸ See http://files.consumerfinance.gov/f/2012/02/20120220_cfpb_tupelo-loan-estimate.pdf.

⁹ See http://files.consumerfinance.gov/f/2012/02/20120220_cfpb_basswood-settlement-disclosure.pdf.

More broadly, we will continue to leverage the work of existing tools made available by public and private sector organizations as we develop tools and information to educate consumers.

- 5) **When you were asked to describe collaboration between the CFPB and other federal agencies in the FLEC, you mentioned the commission's monthly meetings. Can you describe what actual benefits citizens have seen as the result of your collaboration?**
- a. **Describe specifically how the bureau's collaboration has improved financial literacy.**

The Commission has a variety of subcommittees that meet more frequently than the Commission itself. The CFPB's Office of Financial Education is actively involved in these subcommittees. Our roles vary from active participant to chair, depending upon the committee. We have been instrumental in collaboratively guiding and contributing to the subcommittee efforts and the deliverables that have been articulated by these committees reflect the unique statutory responsibilities of the CFPB.

At a recent FLEC meeting, CFPB Director Richard Cordray highlighted the CFPB's new online tool for consumers, "Ask CFPB." He stressed that this site is meant to be interactive and welcomed suggestions, as this resource is meant to be an interactive and evolving system. He also discussed the Bureau's "Know Before You Owe" initiatives as an example of diminishing the abundance of dense, fine-print documents that often accompany many consumer choices.

The Office of Financial Education has also collaborated on a bilateral basis with the IRS to inform Earned Income Tax Credit -eligible recipients of opportunities to invest some of their tax refunds in qualified savings vehicles. This tax year, the CFPB worked through Volunteer Income Tax Assistance sites with volunteer tax preparers to publicize these options to the relevant taxpayers. Such collaboration allows consumers to understand their financial options, and therefore, allows them to be more informed about their choices at tax time.

**Post-Hearing Questions for the Record
Submitted to Professor Brigitte Madrian
From Senator Daniel K. Akaka**

**“Financial Literacy: Empowering Americans to Prevent the Next Financial Crisis”
April 26, 2012**

1. At the hearing, you noted that evidence from the private sector indicates automatic escalation is “extremely effective at increasing employee savings rates,” and recommended Congress consider including automatic escalation into the Thrift Savings Plan (TSP).

To accomplish this, I have introduced the Save More Tomorrow Act of 2012, which authorizes the Federal Retirement Thrift Investment Board, the agency that administers the TSP, to pair the current auto enrollment at three percent with automatic escalation of one percent per year, for at least two consecutive years following the first year of enrollment. This promotes a goal of the Federal Employees’ Retirement System Act of 1986 (FERSA), which was designed to encourage Federal employees to save at least five percent of their pay in the TSP.

This bill would be limited in scope, since currently only about nine percent of employees in the Federal Employee Retirement System enrolled in the TSP contribute less than five percent. However, modifying the TSP to increase the retirement savings of this small percentage of participants will slightly increase agency matching contributions for employees in the TSP.

From a macroeconomic perspective, are there broader economic benefits associated with increasing retirement savings rates that Congress should consider when weighing whether to invest in efforts to encourage this small group of Federal employees to responsibly save for retirement?

ANSWER: In the long-term, increasing retirement savings rates, especially for those who are least inclined to save, reduces the possibility of future reliance on state and federal social welfare programs for the poor elderly, including Medicaid, SSI, and other targeted programs. This, in turn, reduces the need to raise tax revenue to finance these benefits.

In the long-term, increased saving also fosters greater investment which leads to greater long-term economic growth.

In the short-term, increased saving may in fact reduce the pace of economic recovery until the benefits of greater investment noted above kick in.

**Post-Hearing Questions for the Record
Submitted to Director Mark Calabria
From Senator Daniel K. Akaka**

**“Financial Literacy: Empowering Americans to Prevent the Next Financial Crisis”
April 26, 2012**

1. In your testimony, you noted that “we all share a desire to see consumers make better and more informed choices. We must, however, when evaluating public policy remember that intentions and outcomes are not the same thing,” and “the true measure of success is whether households are making good financial decisions and behaving in a responsible manner.” I agree that we must focus on improving financial outcomes, and support adopting a flexible approach, informed by rigorous empirical evidence.

For example, when it comes to increasing retirement savings rates, studies have found that choosing the most appropriate default options while maintaining freedom of choice results in considerably better outcomes compared to financial education alone. As Professor Madrian noted at the hearing, there is over a decade’s worth of research demonstrating automatic enrollment improves financial outcomes, and evidence from the private sector indicates that automatic escalation is “extremely effective at increasing employee savings rates.”

From the perspective of seeking to improve financial decision-making, would you recommend, as Professor Madrian did, that Congress authorize automatic escalation in the Thrift Savings Plan (TSP) to encourage Federal employees to save more of their pay for retirement?

Calabria

A. Yes, as long as such escalations were limited to federal employees enrolled in TSP and that said employees maintained an opt-out.

