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

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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.