

**Testimony of Assistant Secretary Michael Barr
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**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
“The Federal Government’s Role in Empowering Americans to Make Informed Financial
Decisions”**

July 15, 2010

Thank you for the opportunity to appear before you today on a topic of critical importance to this Administration, the Department of the Treasury, and our nation – empowering Americans to make informed financial decisions. We appreciate the Committee’s bipartisan focus on this topic. I want to thank you, in particular, Senator Akaka, for the leadership you have shown on this issue for decades. Your commitment to improve financial education and increase financial access for all Americans – and particularly our most vulnerable communities – has had a real impact. From the creation of the Financial Literacy and Education Commission to Title XII of the Dodd-Frank Wall Street Reform and Consumer Protection Act, you have been a champion for financial empowerment.

I also want to thank the other members of this panel, the U.S. Office of Personnel Management (OPM), the U.S. Department of Education (ED), the Social Security Administration (SSA), and the Federal Deposit Insurance Corporation (FDIC). Financial capability is an area in which we have all been working collaboratively and building upon each other’s efforts. The agencies represented here are among the strongest partners in this effort, and I applaud their work.

In the wake of the recent financial crisis, there has never been a more important time for us to get this right. We have an opportunity in which the nation, our communities, and individual families can focus on the steps to build financial security. We must improve our system – to make it safer and more stable – and improve the financial capability of individual Americans - to build a country in which more families have the knowledge, skills, and financial access to make good financial choices and build stronger financial futures.

We are on the cusp of passing the most important financial reforms since the Great Depression. Two weeks ago a conference committee of the House and Senate produced a bill with strong protections for Main Street against financial folly or misconduct on Wall Street. The bill strengthens protections for taxpayers, investors, and consumers, and helps community banks, credit unions, and small businesses. It ends “Too Big to Fail,” winds down TARP, and strengthens our financial system. The House acted swiftly to pass that bill. Now the Senate is poised to act.

The American people need reform now so that new rules for Wall Street can be put in place. Clear rules of the road will help our country harness the financial system’s tremendous capacity

to fuel growth and recovery through lending and investment. Putting in place new rules for the financial system will create the market certainty and confidence that we need to continue to grow and create jobs in our communities. And passing strong reforms now will reaffirm our nation's role as a leader in the world financial community.

Reform will give families the confidence in their financial transactions that they have been seeking. We made major progress in that direction with the Credit CARD Act of 2009, which makes credit cards – the single most important source of unsecured consumer credit – fairer and more transparent. The pending Dodd-Frank legislation creates clear accountability for enforcing and updating these rules in a consolidated place – The Bureau of Consumer Financial Protection. And it establishes clear accountability for ensuring fairness and transparency for home mortgages and all other financial services families may use.

When consumers understand what they are being offered and what it really costs, then they can obtain the services that best meet their needs at competitive prices. Clear rules of the road and consistent enforcement will help make sure that providers act responsibly and transparently. These changes are absolutely critical – but they are not enough. Consumers must also take responsibility for their decisions. Personal responsibility and increased knowledge, skills and access are essential to empowering Americans to make better financial decisions. The Federal government has an important role to play in ensuring Americans have these tools, and this Administration has been working with Congress and across agencies to advance this common agenda.

FLEC Update

In 2003, Congress created the Financial Literacy and Education Commission (FLEC) to better focus and coordinate federal efforts in this area. Treasury is honored to lead the FLEC and to report on the significant activities the FLEC agencies collaboratively have undertaken over the past year. In January, we were pleased to have the White House, represented by the Office of Public Engagement, formally join the FLEC. Their membership underscores the Administration's commitment to these issues and to the FLEC.

Last July, we brought all 20 member agencies together to identify key priorities for the FLEC. Based in large part on our Congressional mandate, the FLEC members agreed on four areas of strategic focus and created working groups for each: National Strategy, Outreach and Communications, Core Competencies, and Research and Evaluation. Each group has made considerable progress over the past year, with important leadership and involvement from all of the FLEC member agencies.

One of the most critical issues for FLEC members was that a new national strategy was needed. Over the past year, the National Strategy Working Group has conducted research and sought input from over 150 key stakeholders representing financial industry associations, private and non-profit organizations, consumer and advocacy groups, educational institutions, state and local government agencies, and the previous President's Advisory Council on Financial Literacy. We are currently drafting a national strategy document and implementation plan. We will be putting the national strategy out for public comment in the near future, with the goal of presenting the

final strategy at our September FLEC meeting. In the implementation phase, the Working Group plans to engage all of the member agencies, as well as the non-profit, private, and academic sectors in helping to achieve the Strategy's goals.

On the outreach front, FLEC members agreed that the financial education field has an abundance of materials readily available. The Federal government should be an unbiased, reliable source for financial information, and a user-friendly website is critical to playing this role. Thus, we undertook a major redesign of the FLEC website. In April, the FLEC launched its redesigned www.MyMoney.gov. The new site, available in both Spanish and English, has enhanced interactive features and utility to provide more resources to Americans seeking information that can inform their personal financial decisions. Treasury and the FLEC plan to initiate a second phase of changes to build on this new foundation, including adding a research clearinghouse and interactive tools such as financial knowledge and behavior self-assessments. Treasury is also in the process of implementing measurement tools to track website usage and efficacy.

The Core Competencies Working Group was created because we believe the Federal government is uniquely positioned to address a frustration in the financial education field – the lack of a common understanding of what we collectively are trying to achieve. Treasury, in conjunction with the FLEC's Core Competencies Working Group, worked closely with a group of experts in financial education, including researchers and practitioners, to identify five core concept areas: (1) earning, (2) spending, (3) saving and investing, (4) borrowing, and (5) protecting against risk. We developed knowledge and action items for each concept, and plan to put these out for public comment in the coming weeks. The ultimate goal is to put a widely agreed upon set of core competencies into a format and language that are easily accessible and easily remembered – analogous to the “food pyramid”. Additionally, Treasury, in conjunction with another team of experts, developed two self-assessment financial fitness tests based on the core competencies to enable individuals to gauge their overall levels of financial capability. These self-assessment tools will be posted on the My Money website.

Finally, more rigorous evaluation and research is needed to advance the goals of financial education. To encourage such research, as well as collaboration among agencies and other experts, Treasury is working closely with the FLEC's Research and Evaluation Working Group to establish a research clearinghouse next year. The clearinghouse will provide an initial set of tools and metrics for evaluating financial competency at the individual, program, and national level, which could be augmented and extended as additional research becomes available.

President's Advisory Council on Financial Capability

In addition to our work with the FLEC and other agencies, Treasury also collaborates with many non-profit, academic and private sector leaders in this field. We worked closely with the President's Advisory Council on Financial Literacy (PACFL) prior to its expiration last January. In January, President Obama issued an Executive Order to renew the PACFL, now called the President's Advisory Council on Financial Capability (PACFC). The name was changed to emphasize the need not only for knowledge (financial literacy), but also for the necessary financial access and skills to translate that knowledge into better financial behaviors and choices. Together, this set of knowledge, access, and skills comprises financial capability. Secondly, the

new executive order places more emphasis on the need to improve financial access for all Americans and to focus on reaching historically underserved populations. We hope to announce the members of the PACFC and convene their first meeting soon.

The PACFL made a number of recommendations and important contributions to the field. One of these was the development of a voluntary high school test aimed at increasing financial education in our schools. This year, we built upon and enhanced that program in partnership with the Department of Education, launching the National Financial Capability Challenge. The Department of Education has been a committed partner, and we applaud the work and vision of Secretary Duncan and his talented team in integrating financial education into their broader efforts to improve our schools. The Challenge was created to assist teachers in their financial education efforts and increase the focus on financial education in our high schools. We developed an educator toolkit to assist teachers, and the voluntary online exam was administered to over 76,000 students in all 50 states and the District of Columbia. This is a good start, but there is much work to be done in ensuring that the next generation is well-prepared for the complex financial world in which they will live.

New Initiatives

Treasury has implemented and hopes to implement other initiatives to improve financial access.

Financial Education and Counseling (FEC) Pilot Program:

Through the FEC Pilot Program, Treasury provides grants to enable experienced organizations to provide a range of financial education and counseling services to prospective homebuyers, with the goals of:

- increasing the financial knowledge and decision-making capabilities of prospective homebuyers;
- assisting 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;
- helping prospective homebuyers to improve their credit scores by understanding the relationship between their credit histories and their credit scores; and
- educating prospective homebuyers about the options available to build savings for short- and long-term goals.

In May of 2010, the Community Development and Financial Institutions (CDFI) Fund announced the winners under the inaugural round of this program. Five organizations, each received awards of \$400,000. In September of 2010, the CDFI Fund anticipates announcing the recipients of an additional \$4.15 million of award dollars, including \$3.15 million that has been specifically designated for an organization located in the state of Hawaii.

Bank On:

Our most significant new proposed initiative is our Bank on USA program, designed to help bolster local and private sector initiatives, including initiatives led by CDFI, to ensure that low and moderate income people have access to safe and appropriate financial services and products. The 2009 FDIC Survey of Unbanked and Underbanked Households found that one of every four

American households is unbanked (meaning they do not have any type of account) or underbanked (meaning that although they may have an account, the mainstream financial system is not meeting their needs, and they are turning to alternative financial services providers). In practice, this indicates that, too often, those who can least afford it are paying the most for basic financial services – like cashing a paycheck or paying bills. The unnecessarily high fees that many families often are paying for alternative financial services could be going, instead, to saving for a child's education, purchasing a home, or planning for retirement.

Senator Akaka's leadership in authoring Title XII of the financial reform bill provides a roadmap for increasing financial access, and the President's budget for next year includes funding to develop Bank on USA – to follow that roadmap. Bank on USA would help increase the number of Americans who have access to safe and appropriate financial products and services, as well as the knowledge they need to use them effectively. Bank on USA would build on and enhance local efforts, under the Bank on name and others, already going on around the country, as well as harness new technologies and innovations to better meet the needs of the unbanked and underbanked.

Electronic Treasury:

Treasury is expanding its efforts to disburse all federal benefits payments electronically. This will be accomplished by ensuring that all federal benefit recipients have access to a basic transaction account and can access their benefits at little or no cost. This effort will build on Treasury's Direct Deposit marketing campaign – Go Direct – and our MasterCard Direct Express pre-paid debit card program (Direct Express), which is currently available to Social Security and Supplemental Security Income (SSI) benefit recipients. The Direct Express program will grow to include all SSA, SSI, Veterans Affairs (VA), Railroad Retirement Board (RRB), OPM and other federal benefits programs. The current notice of proposed rulemaking requires current federal benefit recipients to use Direct Deposit by March 1, 2013, and requires individuals whose claims for federal benefits are filed on or after March 1, 2011, to receive their benefits by Direct Deposit. This effort will help unbanked federal benefit recipients and save the Federal government \$300 million dollars in the first 5 years.

The benefits of Direct Deposit are well documented. It eliminates check cashing fees, and ensures that payments are not lost, stolen, delayed, altered, or fraudulently endorsed. Moreover, as was learned during Hurricane Katrina, natural disasters can disrupt mail and delay the delivery of paper checks, a problem that is solved by Direct Deposit.

The benefits of a basic account are also well documented, including better safekeeping of funds and the ability to pay bills and make retail purchases by card in lieu of paying for money orders.

Past efforts to require Direct Deposit of federal benefits in a way that would help all recipients have been hampered by two main issues: lack of a widely available low-cost account for the unbanked, and the problem of improper garnishment of accounts containing exempt federal benefit. Treasury has recently addressed both of these issues.

- On April 14th, Treasury, with SSA, VA, RRB, and OPM published a proposed rule that protects exempt federal benefits directly deposited into an account from improper

garnishment. The rule would require financial institutions that receive a garnishment order for an account to determine whether any federal benefit payments were deposited to the account within 60 calendar days prior to receipt of the order and, if so, would require the financial institution to ensure that the account holder has access to an amount equal to the sum of such payments in the account or to the current balance of the account, whichever is lower.

- In June 2008, we launched Direct Express, which addressed the need for a low-cost electronic payment option for people without bank accounts. With over one million voluntary enrollments since June 2008, the Direct Express card offers a low cost, consumer friendly alternative to paper checks. The Direct Express card features include one free ATM withdrawal per federal government deposit, unlimited point of sale usage and cash back feature, and Regulation E protection (Regulation E is a Federal Reserve Board regulation that protects individual consumers engaging in electronic funds transfers by means of, for example, ATM and debit card transactions. Regulation E limits a consumer's liability related to lost or stolen debit cards and other unauthorized transfers.) Direct Express is a model in the prepaid card industry in affording consumers a low cost transaction account with full consumer protections.

In the future we plan to examine providing additional features on the Direct Express card, such as a linked savings account or mobile banking functionality.

In the wake of the financial crisis, we have both an opportunity and an obligation to improve financial stability on a national and individual level. American families are focused on building more secure financial futures for themselves, and they deserve a fair, stable financial system, as well as the skills and access they need to navigate it successfully. Treasury looks forward to continuing to work closely with Congress, other agencies, and the private and non-profit sectors to empower all Americans to make smarter financial choices.