Statement of Sandra L. Thompson, Director,
Division of Supervision and Consumer Protection,
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on the
Federal Government's Role in Empowering Americans
to Make Informed Financial Decisions
before the
Subcommittee on Oversight of Government Management,
the Federal Workforce, and the District of Columbia
Committee on Homeland Security and Governmental Affairs
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Chairman Akaka, Senator Voinovich and members of the Committee, I appreciate the opportunity to testify on behalf of the Federal Deposit Insurance Corporation (FDIC) regarding the role of the federal government in empowering Americans to make informed financial decisions.

As requested by the Subcommittee, our testimony will discuss a number of initiatives by the FDIC to improve financial education and access. First, I will briefly address the importance of this topic and highlight FDIC's recently released research into the unbanked and underbanked. Next, I will overview the FDIC's financial education resources available to the public and highlight some of the ways the FDIC is promoting financial education in collaboration with the Financial Literacy and Education Commission (the Commission) and other external partners. Finally, I will review several of our initiatives to ensure that underserved consumers can access affordable credit and transactional products at insured financial institutions.

Background

It is essential that people of all ages, at all income levels, and from all walks of life learn to make informed and prudent financial decisions. As the recent financial crisis demonstrated so clearly, it harms the entire economy – not just the individual consumer – when people spend beyond their means by taking on debt they cannot afford to repay.

Access to an account at a federally insured institution provides households with an important first step toward achieving financial security. Having an account can provide the opportunity to conduct basic financial transactions, save for emergency and long-term security needs, and access credit on affordable terms. For working families, a savings cushion to fall back on might be the only thing that keeps them from bouncing a check or turning to high-cost sources of credit.

Unfortunately, many consumers remain outside the financial mainstream. In December 2009, the FDIC released the findings of our National Survey of Unbanked and

Underbanked Households, which was a supplement to the Census Bureau's Current Population Survey. The survey sought to estimate the size of the unbanked and underbanked markets and to identify the factors that inhibit their participation in the mainstream banking system.

The study, which we believe is the most comprehensive survey to date of the unbanked and underbanked, estimated that 7.7 percent of U.S. households are unbanked, while 17.9 percent of U.S. households are underbanked. Taken together, at least 25.6 percent of U.S. households, close to 30 million, are either unbanked or underbanked.

In addition, the survey findings indicated that some racial and ethnic groups were more heavily represented as underserved than the population as a whole. Almost 54 percent of black households, 44.5 percent of American Indian/Alaskan households, and 43.3 percent of Hispanic households appeared underserved.

Additional data for the household survey is available in an interactive format on www.economicinclusion.gov, a website established by the FDIC to highlight our efforts to expand access to the financial mainstream. Also available through this website are results of a nationwide survey of FDIC-insured depository institutions to assess their efforts to serve unbanked and underbanked individuals and families.

FDIC's Financial Education Initiatives and Resources for the Public

Money Smart Program

Since its launch in 2001, the FDIC has reached over 2.5 million consumers with Money Smart, our comprehensive financial education curriculum designed to help individuals develop financial skills and positive banking relationships. The curriculum is available free of charge in four primary formats:

- An instructor-led curriculum for adults on CD-ROM in seven languages (English, Spanish, Chinese, Hmong, Korean, Russian, and Vietnamese) and large print/Braille.
- An instructor-led version to teach young adults between the ages of 12-20 on a CD-ROM, Money Smart for Young Adults. The curriculum has been aligned with relevant state educational standards and endorsed by the National School Boards Association. Since its launch in April of 2008, over 75,000 instructor-led copies have been requested.
- An online self-paced Computer-Based Instruction (CBI) format for all ages in English and Spanish.
- A portable audio (MP3) version, Money Smart Podcast Network, for all ages.

In addition to providing the Money Smart curriculum, the FDIC publishes the quarterly Money Smart News to provide more than 40,000 financial educators and other subscribers timely and relevant tips, updates, and other information on the delivery of financial education. For example, each edition highlights a success story that provides ideas and best practices. These strategies are helpful for educators teaching any financial education curriculum.

Findings from a longitudinal survey of consumers who have taken the FDIC's Money Smart financial education program show that the course can positively influence how people manage their finances, and these changes are sustainable in the months following the training. The survey results indicate that those who took the Money Smart course were more likely to open deposit accounts, save money, use and adhere to a budget, and have increased confidence in their financial abilities when contacted 6 to 12 months after completing the course. A majority of those surveyed reported an increase in personal savings, a decrease in debt, a better understanding of financial principles, and an increased willingness to comparison shop for financial services.

As a result of FDIC's successes, a growing number of bank regulators/insurers in other countries have expressed interest in replicating the FDIC's Money Smart program. In response, for example, over the past two years the FDIC conducted multi-day training in Money Smart for bank regulatory leaders in El Salvador and Columbia.

Looking ahead in the Money Smart program, the FDIC plans to release a comprehensively updated version of Money Smart for adults and young adults that reflects recent changes in law and industry practice. We also plan to release a Spanish language version of our podcast version of Money Smart.

White Paper and Awards

As part of the observance of the FDIC's 75th Anniversary, FDIC Chairman Sheila Bair convened discussions with community leaders from across the country to discuss strategies for integrating the underserved into the financial mainstream and providing the financial education essential to help ensure that consumers use mainstream services in a responsible way. The panel discussions were summarized in The Financial Education and the Future White Paper released by the FDIC in December 2009.

Also, last December, as the final component of the observance of the FDIC's 75th Anniversary, Chairman Bair recognized six outside individuals/organizations with a Chairman's Award for Innovation in Financial Education. The Chairman's Award was intended to recognize individuals and organizations that have shown excellence and innovation leading to measurable results in reaching consumers with financial education, and to highlight best practices that others can model to increase financial literacy in their own communities.

FDIC Consumer News

The quarterly FDIC Consumer News (over 60,000 mail and electronic subscribers and an average of about 20,000 Internet visits monthly) provides practical guidance to help consumers protect and stretch their money. Information from the newsletter has been carried by major media organizations with subscriber lists in the millions.

Deposit Insurance Resources

The FDIC maintains deposit insurance resources to help all depositors understand how deposit insurance works and whether their deposits are fully covered by deposit insurance. These resources are available online and in print in English, Spanish, Traditional and Simplified Chinese, Korean, Vietnamese and Tagalog/Filipino. In particular, FDIC's Electronic Deposit Insurance Estimator (EDIE) is an interactive online tool created by the FDIC to help consumers determine if their deposit accounts at FDIC-insured institutions are fully insured. EDIE also assists bank employees who answer customer questions about deposit insurance coverage. FDIC-insured institutions can now customize and integrate EDIE into their Web sites so customers can access EDIE without leaving the institution's Web site.

Deposit Insurance Awareness Campaigns

In June 2008, the FDIC embarked on a campaign to raise public awareness about FDIC deposit insurance coverage. The campaign involved a series of nationwide public service announcements (PSAs) featuring personal finance expert Suze Orman, who donated her time to this initiative. The success of this campaign prompted the FDIC to launch a Spanish-language campaign that also included EDIE in Spanish and featured Julie Stav, a Hispanic personal finance expert who also donated her time. The Spanish-language campaign was launched in late 2008. The PSAs were redistributed in 2009 and continue to be shown today. In addition to the English and Spanish-language campaigns, the FDIC produced a radio advertisement specifically intended for the African-American community, and held several events targeting the Asian and Pacific American community.

Loan Scam Alert Public Awareness Campaign

Homeowners at risk of foreclosure need to know how to seek help and avoid foreclosure rescue scams. The FDIC is supporting a Loan Scam Alert public awareness campaign led by NeighborWorks of America and will be participating in public awareness events around the country. The campaign is aimed at educating homeowners about the warning signs of mortgage modification scams, encouraging consumers to seek out reliable sources of assistance, and to reporting suspicious activity.

Other Consumer Resources

The FDIC produces various brochures and electronic resources for consumers on areas such as Identity Theft, understanding their consumer protection rights, how to file a complaint with the regulators, and foreclosure prevention. For example, the FDIC's foreclosure prevention brochures provide information on how homeowners can avoid falling victim to common foreclosure rescue scams and how, instead, they can access legitimate resources for help. In March 2010, in conjunction with National Consumer Protection Week, the FDIC launched a new service, Consumer Tip of the Week, to make it easier and more convenient for people to stay informed about issues that may affect their financial decisions.

Financial Literacy and Education Commission

The FDIC is a member of the Commission and actively supports the Commission's efforts to improve financial literacy in America. The FDIC's support currently includes: assigning experienced FDIC staff to work with the Treasury Department's Office of Financial Education; aiding in the development of a national strategy; providing leadership in the development and maintenance of the My Money hotline and toolkits; and, addressing issues affecting the promotion of financial literacy and education.

Also, the FDIC has been significantly involved in the work of the National Strategy Working Group, which was charged with drafting a new national strategy to promote financial literacy and education. In addition, the FDIC chairs the Commission's Core Competencies Subcommittee, which worked closely with the Department of the Treasury and a group of experts in the financial education field, including researchers and practitioners, to help draft the various core principles that individuals should know and the basic concepts program providers should cover. These soon to be released "core competencies" are the basic set of knowledge and skills needed at various ages and life events in order for consumers to make financial decisions in their best interest.

The FDIC's financial education activities are conducted in collaboration with the Commission and other Commission members. For example, the FDIC has partnered with the U.S. Office of Personnel Management to help facilitate up to two million federal employees nationwide gain access to the FDIC Money Smart curriculum online or through the classroom. We are also working with staff in the U.S. Department of Education as we update our Money Smart for Young Adults curriculum to ensure our resources continue to present timely, up-to-date information.

External Partnerships and Collaborations

A central component to the FDIC's strategy to advance financial education is to partner and collaborate with both educational agencies and non-government organizations. For example, about 1,500 organizations including financial institutions, bank trade associations, national non-profit organizations, community- and consumer-based groups, and faith-based organizations have joined the FDIC's Money Smart Alliance since 2001 to deliver or otherwise support the Money Smart program.

We particularly recognize the importance of facilitating the instruction of youth on how to responsibly handle their finances and use mainstream banking products. The importance of doing so is supported by the results of the FDIC's unbanked surveys which suggest that the younger a person is, the more likely they are to be unbanked.

The FDIC's research also suggests that younger adults are more likely to incur sizable fees in automated overdraft programs.

As one of our strategies to promote youth financial education, the FDIC has partnerships with national and regional organizations such as Campfire USA, Operation Hope, the national Jump$tart Coalition, National Catholic Educational Association, North Carolina Department of Public Instruction, and Washington Council on Economic Education. The FDIC also partners with the White House Initiative on Historically Black Colleges and Universities to deliver or facilitate the delivery of financial education on college campuses around the country.

Additionally, as a result of outreach by FDIC staff, various key national organizations provided information on the curriculum to their stakeholders even without a formalized agreement with the FDIC. For example, the Consumer Federation of America's America Saves initiative sent organizational partners a memo that listed the Money Smart for Young Adults curriculum as a recommended curricula, and the National League of Cities highlighted ways the curriculum can be used in an article for cities participating in the Bank On program.1 State agencies in California, Indiana, Maine, New Hampshire, New Jersey, Tennessee, Texas, Washington, and the District of Columbia, have also promoted the curriculum in ways ranging from referring educators to the curriculum as a resource to hosting train-the-trainer workshops.

We are pleased to see the curriculum delivered in a variety of ways by our partners. Teachers have integrated material from the curriculum into existing classes or used it as the foundation for new classes, such as educators at one school that have used all eight modules of the curriculum to anchor a personal finance class for 200 students. Bankers also teach or co-teach the curriculum in the classroom. One example is a community bank that has already taught the curriculum to thousands of students in area high schools and junior high schools in conjunction with several other organizations.

Activities to Promote Financial Access

Financial education may be most effective when consumers have opportunities to practice concepts soon after instruction. For unbanked consumers, this means getting the opportunity to open an appropriate savings or transaction account after or during a financial education workshop. We must make sure that consumers have access to financial products and services that are well-structured, easy to understand, and competitively priced. The FDIC is pursuing several strategies to help ensure that underserved consumers are able to access affordable and appropriate transactional and credit products from insured financial institutions.

Alliance for Economic Inclusion

The Alliance for Economic Inclusion (AEI) is the FDIC's national initiative to establish broad-based coalitions of financial institutions, community-based organizations and other partners in several markets across the country to bring unbanked and underserved populations into the financial mainstream. To date, more than 967 banks and organizations have joined AEI nationwide, more than 160,000 new bank accounts have been opened, and more than 115,000 consumers have been provided financial education. Additionally, as a result of the FDIC's leadership and initial success with AEI, we have worked closely with the National League of Cities and others to facilitate the launch of Bank On campaigns in several cities. To advance this work, we are serving on a National Steering Committee with the National League of Cities, Department of Treasury, Federal Reserve Board and the New America Foundation.

Advisory Committee on Economic Inclusion

The FDIC's Advisory Committee on Economic Inclusion (ComE-IN) was established by Chairman Bair in 2006 to provide advice and recommendations to the FDIC regarding expanding access to banking services by underserved populations. The ComE-IN is comprised of representatives from banks, academia, consumer and community groups, and government agencies.

A strategic plan adopted by the ComE-IN in April of 2010 reflects two primary objectives: (1) lower the level of underserved households and (2) increase the supply of financial products and services targeted to underserved households. The ComE-IN has outlined project initiatives to help meet its objectives. Initiatives are concentrated in, but not limited to, the following program areas: Transactional Accounts, Savings, Affordable Credit, Financial Literacy, Incentives, and Safe Mortgages.

Safe, Low-Cost Account Templates

At the April 1, 2010 FDIC ComE-IN meeting, the Strategic Planning Subcommittee presented draft templates for safe, low-cost transactional and savings accounts for underserved low- and moderate-income consumers. These model account templates provide a roadmap for basic account elements to encourage insured financial institutions to make safe, low-cost transactional and basic savings account products more widely available to low- and moderate-income consumers. The guiding principles in developing these templates are that these financial products have low and transparent fees; are simple to use; include easily understandable terms and conditions; are FDIC-insured and subject to consumer protection laws, regulations and guidelines; and represent sustainable product offerings for financial institutions.

The FDIC published the templates for public comment and in response to the comments, the FDIC revised the templates and presented an updated version at the ComE-IN meeting on June 24, 2010. The ComE-IN recommended that the FDIC further revise the templates and then launch a short-term pilot project based on the templates. We expect this recommendation to be considered by the FDIC Board of Directors in the near future. The ultimate goal of the pilot is to encourage insured institutions to offer safe, low-cost accounts that have been proven to be both beneficial to consumers and sustainable for banks.

Small-Dollar Loan Pilot Program

The FDIC is also working to ensure that the underserved can access appropriate credit products from insured financial institutions. In February 2008, the FDIC launched a two-year Small-Dollar Loan Pilot to determine the feasibility of banks offering small-dollar loans as an alternative to high-cost emergency credit sources, such as payday loans or fee-based overdraft programs. Twenty-eight banks participated with total assets ranging from $27 million to $10 billion, with almost 450 branches in 27 states.

The pilot concluded in the fourth quarter 2009. During the pilot, banks made 34,400 loans with a principal balance of $40.2 million. Defaults on loans originated under the pilot are in line with the default rates for consumer loans generally. Perhaps most importantly, the pilot demonstrated that banks can offer affordable small-dollar loans in a manner that suits their business plans and is fair to consumers.

Best practices and elements of success emerged from the pilot and resulted in a model, or template, of product elements that can produce a safe, affordable, and feasible small-dollar loan. Product elements include loan amounts of $2,500 or less, loan terms of at least 90 days or more, annual percentage rates (APRs) of 36 percent or less, low or no fees, streamlined but solid underwriting and optional savings and financial education components. The template is replicable in that it is simple and requires no particular technology or other major infrastructure investment. Moreover, adoption of the template could help banks better adhere to existing regulatory guidance regarding offering alternatives to fee-based overdraft protection programs.2

Most banks in the pilot indicated that small-dollar loans were a useful business strategy for developing or retaining long-term relationships with consumers, including those who previously were unbanked or underbanked. In terms of overall programmatic success, bankers reported that long-term support from a bank's board of directors and senior management was most important. The most prominent product element bankers linked to the success of their program was a loan term longer than just a few pay cycles to give consumers time to repay.

Based on a preliminary review, there are indications of a correlation between financial education and improved loan performance. Most of the larger originators indicated they offered some form of financial education with the loans. As a result, 90 percent of small dollar loans in the pilot were made with an educational component. For these banks, the cumulative charge-off rate was 5.7 percent compared to 12 percent when financial education was not featured. Given the limited sample size and differences in program features, we cannot definitively say whether the extent to which formal financial education directly affected performance, but it appears to be a factor.

Going forward, the FDIC will continue to work with the banking industry, consumer, community and philanthropic groups, other government agencies, innovators in small-dollar lending, and others to research and pursue strategies to expand the supply of affordable small-dollar loans.

America Saves Week

The FDIC has been a long-term partner with the Consumer Federation of America on its America Saves initiative. This effort combines education, many times using the Money Smart curriculum, with opportunities for consumers to access free or low-cost savings accounts. The FDIC's support of the 2010 America Saves Week included a video featuring FDIC Chairman Sheila Bair released on YouTube that encouraged consumers to make a savings commitment.

Conclusion

In closing, I want to respond to the Subcommittee's request to briefly discuss what constitutes a "good financial education." It is important to define this concept in fairly concrete terms since it provides a baseline for determining what steps need to be taken going forward.

A good financial education should be thought of as a long-term proposition as opposed to a one-time only strategy. Financial education, at a minimum, should cover the financial education core competencies mentioned earlier in the testimony. Education based on these core competencies should start in grade school and continue through secondary school. Later, consumers should have access to additional education as they face major life events, such as starting a new job or shopping for a home, so that they have the tools to make informed and prudent financial decisions.

I believe that the development of core competencies for financial education and accompanying metrics creates an excellent opportunity to establish a baseline measurement for financial knowledge and skills. Additionally, data from FDIC's unbanked/underbanked population survey provides an excellent way to measure the use of mainstream financial services.

I should also note that to deliver a good financial education, you need an instructor who has a solid grasp of the fundamentals of personal financial management, particularly a strong in-depth understanding of the financial education core competencies. The instructor must also be knowledgeable of strategies for developing and delivering effective lesson plans, as well as knowledgeable on the content, and changes in law and industry practice.

The more we can encourage people to properly balance income and expenses and to increase their savings - and the more we can ensure people have access to appropriate products at insured financial institutions - the better off our entire economy will be.

Not only is a solid financial education essential for consumers to make informed decisions in the marketplace, but this knowledge serves to protect informed consumers from potentially costly scams. A consumer who knows the right questions to ask, understands economic fundamentals, and has the confidence to challenge products and practices that seem "too good to be true," is a regulator's best weapon in consumer protection efforts.

Thank you. I would be happy to answer any questions from the Subcommittee.

1 Bank On programs in many cities and communities around the country provide starter accounts, financial education, and other financial opportunities to consumers who have little or no connection to banks or credit unions.

2 "Overdraft Protection Programs, Joint Agency Guidance" Financial Institution Letter, February 18, 2005, http://www.fdic.gov/news/news/financial/2005/fil1105.html.

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