STATEMENT OF
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DIVISION OF SUPERVISION AND CONSUMER PROTECTION
FEDERAL DEPOSIT INSURANCE CORPORATION
on the
CONSUMER UNDERSTANDING AND AWARENESS OF
THE CREDIT GRANTING PROCESS
before the
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
U.S. SENATE
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Chairman Shelby and Senator Sarbanes, thank you for inviting me to testify on behalf of the Federal Deposit Insurance Corporation (FDIC). The FDIC has been closely following the hearings on the Fair Credit Reporting Act (FCRA) and related issues. At stake are matters that affect both individual consumers and the manner in which the nation's economy operates. FDIC Chairman Don Powell has stated his support for making the expiring FCRA preemption provisions permanent. Doing so will ensure the continuity of the credit reporting system of our nation -- a system that provides consumers with unparalleled access to credit that generally costs less than the credit available in other parts of the world. We thank you for your careful consideration of these important issues.

We also commend the Committee's attention to the difficult problems associated with combating identity theft. For its part, the FDIC is coordinating an effort among the federal financial institution regulators to publish guidance on measures that should be taken when security breaches occur that may lead to identity theft. We believe that institutions should take active steps to minimize potential harm to consumers whose information has been breached, and urge a proactive approach when an institution becomes aware of a breach.

The nation's credit system and its regulatory framework have played a vital role in increasing the availability of credit to a broader cross-section of American consumers, particularly in historically underserved market segments. The Federal Reserve Board's 2001 Survey of Consumer Finances indicates that between 1970 and 2001, the share of households with credit cards increased from 16 to 73 percent. More dramatically, during the same period, access to credit cards for the lowest income quintile increased from two percent to 28 percent. Greater access to credit also has meant greater access to mortgage financing. Between 1983 and 2001, overall homeownership increased from 60 percent to 68 percent of U.S. households. The largest increases in homeownership were observed among minorities and lower income households. During the same period, homeownership among families with incomes of less than $10,000 increased from 29 percent to 34 percent, and homeownership among families with incomes between $10,000 and $25,000 increased from 49 percent to 54 percent.

Policymakers and financial institutions alike have made commendable efforts to broaden the scope of banking products for low- and moderate-income people. However, many families still fall outside of the financial mainstream and do not maintain traditional bank credit, savings or investment accounts. Nearly 10 percent of U.S. families do not have transaction accounts. "Unbanked" individuals tend to: have low incomes, not own homes, be under 35 years of age, be non-white or Hispanic, be unemployed, and be educated at the high school level or below.

Some low- and moderate-income households have been able to take advantage of access to banking services, but are finding themselves unprepared to deal with the complexities that characterize today's financial environment. Unfortunately, one of the undesirable consequences of the expansion of credit markets has been the rise of predatory lending and other abusive practices. New customers who are less familiar with traditional banking products and practices are certainly more susceptible to accepting disadvantageous or even illegal terms. These consumers also may be able to access more credit than they can reasonably repay.

Clearly, increased knowledge on the part of consumers is a significant way to combat these problems. The FDIC Consumer News (circulation: 75,000) routinely discusses issues such as personal financial management and consumer protection as a way to raise awareness among bankers and consumers. Consumer protection issues discussed in detail include identity theft, predatory lending and financial fraud. The FDIC also recognizes the need for a more comprehensive approach to financial education that will better equip consumers to enter the financial mainstream. Consumers need to understand the existing protections that guard against discrimination or unfair treatment in the lending process and the recourse available to them under the law. They also need to understand the wide variety of financial services that are available to them.

Money Smart

Three years ago the FDIC was grappling with the problem of misleading and abusive marketplace practices brought to our attention by consumers, the banking industry, and government agencies. As part of our effort to explore solutions to this problem, the FDIC held forums on predatory lending in seven locations nationwide. Those attending the meetings included bankers, community leaders, city and state officials, and local residents. Participants identified problems in their particular geographic area and recommended solutions, which ranged from more legislation to better enforcement of existing regulations. But there was one recommended solution that remained constant across all participants: enhanced consumer education.

This recommendation provided the impetus for the FDIC to develop "Money Smart" as a way to address a number of problems affecting consumers such as: the lack of traditional banking relationships for millions of Americans; consumer reliance on socalled "fringe providers" at costs they can ill afford; abusive lenders targeting vulnerable segments of our population; identity theft; inaccurate credit reports; and unwise use of credit. Numerous studies have shown that financial education efforts can foster positive changes in behaviors and better equip consumers to operate within the financial arena. We share that point of view.

We introduced Money Smart in the summer of 2001 as a program uniquely designed to address the needs of low- and moderate-income adults new to the banking system or lacking the knowledge to reap potential rewards or avoid pitfalls. We designed Money Smart to be easy to teach and easy to learn. It can be taught in its entirety, or specific modules can be used to fill in the gaps in other financial education programs. We make Money Smart available free of cost and without copyright so that organizations desiring to use the program can reproduce and use the program materials as needed. Also, we have made clear that banks can receive Community Reinvestment Act credit for their involvement in offering Money Smart classes in their communities.

We have made a number of improvements to the program since introduction. Because immigrant populations represent a significantly underserved market, we have translated Money Smart into Spanish, Chinese, and Korean, and we will have a Vietnamese translation by the end of this year. Also, we have added a CD-ROM version of the program. This has improved accessibility to the program and has helped to keep our costs low during a period where we have dramatically increased distribution to meet increasing demand. We also plan to release a web-based interactive version of the curriculum in early 2004 so that individuals without access to an instructor can learn on their own on-line.

Money Smart has generated a great deal of interest since it began in July 2001. It has been widely cited in over a hundred national and local publications. We have also received requests for the Money Smart curriculum from Mexico, Thailand and Canada. To date, we have provided more than 22,000 institutions and organizations across the country with over 75,000 copies of Money Smart. About a quarter of the copies were requested by FDIC-insured financial institutions and credit unions. While we are pleased with these numbers, FDIC Chairman Donald Powell has set an even more aggressive goal for the next four years: to establish partnerships with 1,000 organizations and institutions, in all 50 states, to distribute 100,000 copies of Money Smart and to expose one million consumers to our financial education program. We are committed to meeting this goal.

Money Smart consists of ten instructor-led training modules covering the following topics: Bank On It - an introduction to bank services; Borrowing Basics - an introduction to understanding credit; Check It Out - how to open and maintain a checking account; Pay Yourself First - the importance and benefits of, and methods for, saving money; Money Matters - preparing a personal budget; Keep It Safe - consumer rights and responsibilities; To Your Credit - the importance of credit history; Charge it Right - the costs and benefits of using a credit card; Loan To Own - the costs and benefits of consumer loans; and Your Own Home - an introduction to home loans. Four of these modules – Borrowing Basics, Keep It Safe, To Your Credit, and Charge It Right – address credit-related issues discussed in the recent hearings before this Committee, including recognizing the value of credit, understanding credit reports, repairing credit, identifying potential problems with credit card use, becoming familiar with consumer protection laws, avoiding identity theft, and steering clear of scams.

We believe that a critical factor in the success of Money Smart has been our emphasis on working through our regional community affairs staff to establish relationships with local organizations that are best situated to bring Money Smart to those who could benefit from it. In announcing the Money Smart Alliance Program last year, Chairman Powell stated its purpose would be to increase financial literacy in communities where it is most needed. To date, over 340 organizations throughout the country -- in both urban and rural communities -- have joined our Money Smart Alliance. These organizations represent a wide spectrum of delivery systems for our financial education program - social services, financial institutions, housing services, educational services, community organizations, as well as government, faith-based, and employment services. Money Smart Alliance members facilitate implementation of our financial education program by making contributions in a variety of ways, including promotion, delivery, translation, funding and evaluation.

We also have entered into formal partnerships with 20 major public and private sector organizations that have a nationwide capability to deliver Money Smart. These partnerships are a critical component in our strategy to broaden our ability to deliver financial education to more consumers.

For example, under a partnership agreement with the Neighborhood Reinvestment Corporation, Money Smart has been used to train 315 adult educators in 39 major cities, who in turn taught money management skills to a total of over 5,500 students. These students primarily consist of low-income consumers, minorities or women who are potential homebuyers or existing homeowners having problems making ends meet. In our partnership with the Department of Defense (DOD), we plan to reach thousands of military personnel by using Money Smart curriculum in conjunction with financial counseling. DOD also will offer seminars on an on-going basis to service members and their families. In the private sector, we have corporate partners, such as Wachovia Corporation, that have agreed to reach 5,000 low- and moderate-income individuals this year in 11 states and the District of Columbia through employee volunteerism in their communities.

Other national partners include the: Association of Military Banks, American Bankers Association Education Foundation, Conference of State Bank Supervisors, National Bankers Association, Independent Community Bankers Association, America's Community Bankers, Department of Housing and Urban Development, USDA Rural Development, Operation Hope, Office of the White House Initiative on Asian Americans and Pacific Islanders, Internal Revenue Service, Department of Labor, National Coalition of Asian Pacific American Community Development, Goodwill Industries, Opportunities Industrialization Centers of America, Inc., Women in Housing and Finance, Inc., and National Image, Inc.

Based on our experience, and suggestions from our many partners, we determined that building additional program delivery capacity was essential. Specifically, the FDIC concluded that train-the-trainer workshops for banks and community organizations would boost the program and should be a major focus in 2003, and beyond. Early this year, we launched a major train-the-trainer campaign. The train-the-trainer initiative not only increases capacity, but has the added bonus of further standardizing instruction. As of June, we have held over 50 train-the-trainer workshops attended by more than 1,700 people. The workshops are free and the FDIC projects each trainer will go on to teach approximately 40 persons annually.

Because we need to be focused on not only quantity, but quality, we have developed model programs that blend a strong financial curriculum with service programs and proven asset building strategies. The FDIC has taken the lead in establishing partnerships with community and banker coalitions to link financial education with low cost bank accounts and services, free tax preparation services through the IRS Volunteer Income Tax Assistance (VITA), Earned Income Tax Credit (EITC) funds, Individual Development Accounts (IDAs), homeownership counseling, job counseling and other programs.

To demonstrate the flexibility of our financial education program and its ability to reach diverse groups of consumers, each of the FDIC's eight regional and area offices, as well as our headquarters in Washington, have established Money Smart Model Site Projects. A model site is a sustainable initiative in which Money Smart classes are taught on a regular basis, there is active participation by one or more financial institution(s) and links are established with other asset-building or service programs. To date we have established 17 model sites throughout the country. The following are a few highlights from these efforts.

- The DeKalb Workforce Center in Georgia serves as the FDIC Atlanta Region's model site. The two-year target is to move a minimum of 500 previously unbanked consumers into the financial mainstream. Partners include: Decatur First Bank, Wachovia Bank, Bond Community Credit Union, Washington Mutual, SouthTrust Mortgage, SunTrust, United Way, Federal Reserve Bank of Atlanta, Lutheran Services Department of Labor (Employment and Training and the Women's Bureau), Decatur/DeKalb Housing Authority, Internal Revenue Service, Decatur High School, New Leaf, Columbia Residential Properties and Network IDA of the Southeast. Consumer education workshops, with Money Smart as the core curriculum, are taught by DeKalb Cooperative Extension personnel and volunteers from financial institutions. Class participants have the opportunity to access low-cost electronic/checking products and services. In addition, the model site offers IRS Volunteer Income Tax Assistance, providing free tax preparations in an effort to help low-income families claim tax credits and receive refunds that can be used to establish new bank accounts or reach other long or short-term financial goals. In May 2002, the DeKalb Workforce Center received a First Accounts Award of $271,000 from the U.S. Department of Treasury to further its financial education efforts. To date over 1,400 persons have taken Money Smart classes in English and Spanish. In addition to the adult education component in this model site, Decatur High School offers Money Smart as part of its job readiness program for seniors who will enter the workforce after graduation rather than go on to college.

- Our Kansas City Regional Office has taken the unique approach of establishing a three-pronged model site project to reach consumers in rural, urban and Native American communities located in Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota and South Dakota. As a result of the 17 coalitions formed from the 204 Money Smart Model Site partners in these states, over 8,600 individuals have been able to participate in Money Smart classes and 1,100 of them have opened bank accounts.

- Several of our Model Sites across the county have teamed up with organizations administering programs for Temporary Assistance for Needy Families (TANF) clients. As you know, TANF is a U.S. Department of Health and Human Services program that awards block grants to states to provide assistance and work opportunities to needy families. The model site, formed by our Boston Regional Office with the Williamanic-Danielson Partnership and Department of Labor Employment One-Stop Centers in Connecticut, is an excellent example of our effort to reach these consumers. It combines both mandatory and voluntary financial education classes to reach over 1,500 low- and moderate-income adults, including both TANF clients and IDA program participants. The IRS VITA and Earned Income Tax Credit (EITC) programs also are available to class participants. One client named Maria shared with us her dream of owning her own home. Maria has three children and is participating in the IDA program offered in conjunction with model site partner ACCESS Agency, a non-profit community-based organization. After attending six weeks of Money Smart classes, Maria learned how to budget her money and is taking steps to repair her credit history. She is saving with the help of another model site partner, the Savings Institute of Williamanic, which administers the IDA savings account. With the help of the dollar-for-dollar matching funds Maria receives through her IDA savings account, she is on her way to realizing her dream of homeownership.

We recognize that the long-term success of Money Smart is largely dependent on our ability to set measurable goals for the program and monitor our results on an ongoing basis. Two critical metrics for measuring the program's success are: (1) the number of people who complete the program; and (2) the number of people who entered into a banking relationship (e.g. opened up a checking or savings account) after attending at least one Money Smart financial education class. To measure these statistics, we recently completed a large-scale effort to survey over 9,000 organizations that ordered Money Smart from the FDIC between July 2001 and October 2002. Data from 2,641 respondents to the survey indicated that over 85,000 participants attended at least one Money Smart class during the survey period. Accounting for the organizations that did not participate in the survey, and the additional Money Smart financial education that has taken place since the end of 2002, we expect that the number of participants that have attended at least one Money Smart class to date exceeds 100,000. The survey also indicates that over 13,000 Money Smart participants went on to initiate a banking relationship as a result of the program.

To plan for the future of Money Smart, Chairman Powell is seeking advice from people involved in consumer finance. In June, we assembled a forum in Chicago to explore issues related to financial literacy. We also are in the preliminary stages of planning a financial literacy symposium here in Washington. Our goal is to assemble a broad spectrum of those with experience to identify innovative solutions for banks to become more progressive in meeting their community lending responsibilities and better meet the needs of the unbanked. Last week we sent out our first Money Smart electronic newsletter to each of the institutions or organizations that have ordered the curriculum thus far. Our hope is that the newsletter will be an effective way for us to keep abreast of and share information on how Money Smart is being implemented by banks, community organizations, government agencies, colleges and universities and others. A link to the newsletter and other information about Money Smart can be found at the FDIC website at www.fdic.gov.

We have a great banking system in this country. We have a credit market that is the envy of the world, and we believe everyone should have an opportunity to participate. With Money Smart and the additional dialogue we are proposing, we will have the means to offer better access and financial alternatives to the most needy in our society. Our plans for the future include additional program surveys and assessments, continued expansion of collaborative efforts to deliver Money Smart to consumers, and exploration of additional steps to bring the unbanked and underserved into the financial mainstream.

Again, thank you for giving me the opportunity to testify before you this morning on this critically important topic. I look forward to answering any questions you might have. I also make the offer on behalf of Chairman Powell to assist any Senator interested in looking into establishing Money Smart programs for their constituents. Please contact us so that we might have our regional staff meet with your staff to help bring Money Smart to your communities.

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