Sargent Shriver National Center on Poverty Law
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Taking action to end poverty

October 29, 2004

Via e-mail: flecstrategy@do.treas.gov
Department of the Treasury
Financial Literacy and Education Commission
Room 5001B
1500 Pennsylvania Avenue NW.
Washington, DC 20220

Re: Comments on Financial Literacy and Education Commission National Strategy/"FACT Act"

To the Department of the Treasury, Financial Literacy and Education Commission:

I am responding to the request for comment on the development of a national strategy to promote the basic financial literacy and financial education of everyone in the United States.

The Sargent Shriver National Center on Poverty Law (the Center), a Chicago-based not-for-profit organization, champions law and policy promoting equal opportunity and support for low-income individuals, families, and communities so that they can escape poverty permanently and achieve economic prosperity. The Center's Community Investment Unit takes action to:

- expand access to financial education, asset-building opportunities, and mainstream financial services;
- increase individuals' financial knowledge, skills, savings, and assets;
- promote greater investments in, and mainstream financial services for, underserved low-income communities; and
- protect consumers from unfair, deceptive, predatory, and discriminatory practices.

The Community Investment Unit coordinates Financial Links for Low-Income People (FLLIP), a statewide coalition of bankers, banking regulators, nonprofits, community-based organizations, government agencies, and others dedicated to expanding financial education and asset building opportunities for low-income people in Illinois. With the University of Illinois Extension, FLLIP members developed a comprehensive financial education curriculum targeted to a limited resource audience and conducted a two-year pilot project and evaluation of the program. The University of Illinois's final report showed that FLLIP Financial Education program (FEP) graduates achieved significant knowledge gains. In addition, many graduates made hoped-for behavior changes that resulted in changing spending and budgeting habits, opening accounts, saving money, avoiding money traps, building assets, and making long-term investment plans. See www.povertylaw.org/advocacy/community_investment/fllip_evaluation_exec_summary.cfm. The FLLIP program was possible due to effective public policies and public and private funding. Funders include the Illinois Department of Human Services, foundations, and banks ranging in size from small community banks to the largest banks in the country.

1. What are the three most important issues that the national strategy should address, and why?

   a. **Public policies must support inclusion of financial education opportunities at all stages of the life cycle.** Individuals have different financial needs and capabilities at different stages of their lives. Changes in the financial services industry and technology necessitate that financial education be a lifelong process. Children need a basic understanding of money, budgeting, saving, spending, donating and investing. Youth and young adults need additional information as they open accounts, use credit, borrow loans, buy insurance, get jobs, and participate in employee benefits. Most high school graduates lack basic skills necessary to manage their finances. Adults need to save for higher education for themselves or their children, protect their assets, plan for retirement, and make major investments such as a buying a home or starting a small business. Financial education should be incorporated into K-12 education, in welfare and workforce development programs, at job sites, through institutions of higher education and financial institutions, and through community-based organizations so that people of all ages and stages of life have access.

      Policies such as the Community Reinvestment Act (CRA), particularly the service and investment tests, encourage banks to support financial education programs, either through the bank or through community partners. Policies such as those adopted and proposed by the office of Thrift Supervision (OTS) and FDIC to make compliance with the service and investment tests optional for mid-size banks are at odds with the Commission's goal of promoting financial education for everyone in the United States and with the goal of increasing assets and homeownership among low-income and minority households.

   b. Public policies must encourage public and private funding of financial education initiatives. Because the earlier financial education starts, the better, and because few individuals can afford to hire a personal financial counselor as an adult, public policies should encourage public and private funding of financial education throughout the life cycle. Federal and state funding should be allocated specifically for training teachers to incorporate financial education into K-12 school curricula. State learning standards and testing should include mastery of the basics of personal finance. Requiring or allowing schools to include financial education, without providing the funding needed to purchase materials and implement the training, however, will not succeed in meeting the financial needs of today's students and tomorrow's workers. Federal and state policies should also encourage incorporation of financial education into welfare-to-work and workforce development programs. For example, states could follow Illinois's lead by counting hours in financial education classes toward Temporary Assistance for Needy Families (TANF) work activity requirements. The Department of Health and Human Services could require states to include financial education in their TANF state plans and offer High Performance Bonuses to states that have the highest number of recipients completing financial education or using direct deposit into bank accounts. Employers could be encouraged to give employees time during work hours to attend financial education classes. The Commission could develop model state policies to implement these ideas.

      Financial institutions can help provide private funding for financial education in the schools and at the community level. Because many financial institutions believe that lower-income customers are not profitable, or take a while to become profitable, it is important to have public policies that provide incentives and enforcement tools to insure that banks serve the needs of low- and moderate-income (LMI) people in their service areas. Financial institutions can also offer tangible incentives or rewards to financial education program graduates, such as small starter deposits in savings accounts, waiver of fees or minimum balances, waiver of first three nonsufficient funds fees, gifts or gift certificates, to bolster recruitment and retention.

The CRA has been successful in encouraging banks to support financial education programs, but many banks will have less incentive to fund financial education programs and other services and investments in LMI areas if the OTS and proposed FDIC CRA policies are retained or adopted. The Commission should oppose the weakening of CRA service and investments tests and recommend stronger regulatory enforcement of the service test, as suggested by professor Michael Stegman in www.brook.edu/comm/policybriefs/pb96.htm.

c. **Evaluation.** Public and private research must determine the best curricula, methods, and practices for positively influencing financial attitudes, knowledge and behavior of various target audiences.

2. What existing resources may be used to address those issues, and how could they be employed?

Curricula. A plethora of financial education curricula exist to meet the needs of many different target audiences. See, e.g., the Financial Education Clearinghouse at www.nefe.org/amexeconfund/index.html. Curricula that have been evaluated and shown to be effective should be selected over unproven materials whenever possible. The National Council on Economic Education (NCEE)'s *Financial Fitness for Life*, *Money Savvy Generation,* the National Endowment for Financial Education's *High School Financial Planning Program*, and Jumpstart's *Financial Smarts for Students* are examples of K-12 curricula. University of Illinois Extension and FLLIP's *All My Money* and *Your Money & Your Life*, other Extension curricula, the FDIC's *MoneySmart* curriculum, as well as private bank materials are available for adults.

Instructor and Teacher Training. The Cooperative State Research, Education, and Extension Service (CSREES) is an agency within the U.S. Department of Agriculture. Working through land-grant universities and other partners, CSREES targets programs for youth, financially vulnerable populations, and consumers making financial decisions through their lifetime. Extension educators provide high quality train-the-trainer sessions for financial education instructors using Extension and other curricula. In Illinois, the FLLIP coalition has partnered with Extension since 2001 to train over 500 diverse nonprofit instructors and bankers throughout the state. In addition, Congress authorized the Excellence in Economic Education (EEE) Act as a part of the No Child Left Behind Act, and appropriated $1.5 million for EEE in the Fiscal Year 2004, most of which was awarded to NCEE in June of 2004. Centers for Economic Education can provide training for teachers on financial education.

Information. Many organizations offer financial education classes but there is no central place to find out about them. The Commission's proposal to make such information more easily available through the Internet and telephone is a good one. In addition, government offices can distribute flyers or brochures, post information on the Internet, and link to the Commission's website. Financial institutions, libraries, schools, and religious institutions can also participate in making information about financial education programs, including the Commission's periodic newsletters, widely available.

Funding. Under current CRA rules, banks provide significant private funding of financial education efforts and leverage additional public and private funding. In Illinois, private bank funding helped the FLLIP coalition leverage over $2 million in state and foundation grants for financial education and asset-building programs. The Commission should support strengthening and enforcing CRA service and investments tests to maintain and increase the availability of bank contributions and the leveraging effects of this funding. The Commission should also recommend that additional federal and state funding be allocated to financial education for children and adults and to evaluation. Passage of a federal IDA tax credit would also leverage bank contributions for IDA matching funds and draw more low-income participants into related financial education programs.

Federal and state IDA policies. The federal government, through the Assets for Independence Act, and many state governments provide funding for Individual Development Account (IDA) programs that include a financial education component, but the financial education component is often inadequately funded. The Commission should recommend increases in funding for financial education in IDA and other asset-building programs.

3. What are the best ways to improve financial literacy and financial education in the United States?

   We can improve financial literacy and education by conducting thorough, scientific evaluations among diverse populations to determine what curricula and teaching/learning methods work best for different audiences to improve attitudes, knowledge, and behavior.

   The University of Illinois conducted a two-year evaluation of training offered through the FLLIP program. The final report on program outcomes includes analyses of the training output delivered at the evaluation sites; pre-training and post-training financial knowledge levels of program participants; participant satisfaction with the training; and behavior changes reported by a sample of FLLIP participants after training was completed. The study findings demonstrate that FLLIP served an economically disadvantaged and ethnically diverse training audience that had very limited financial knowledge before training. Participants increased knowledge significantly after training, and also reported substantial changes in financial behaviors. Satisfaction with the training was consistently high. For our target audience, experiential, hands-on, interactive, in-person teaching methods worked very well. See www.povertylaw.org/advocacy/community_investment/fllip_evaluation_exec_summary.cfm.

   The EEE grant to NCEE includes some funding for research and evaluation of financial education. The Commission should recommend additional federal funding for a wide variety of research and evaluations and publicize results.

Respectfully submitted,

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