Remarks by
FDIC Chairman Sheila Bair
at the
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The FDIC has collaborated with you since Operation Hope was getting started in Los Angeles 15 years ago. That relationship is stronger than ever, and even more vital today as we work our way through these tough economic times.

I hope that when all of you leave here today that you'll be as energized as I am about looking to the future ... and educating consumers so they can make smart decisions about their money, and make their money work for them. This is indeed a critical time for the American economy, as Chairman Bernanke just spoke about. People are rightly worried about the future, their jobs, paying their bills, and keeping their homes.

Our task as regulators and leaders is to make the best policies we can. And so far, our policies have gotten us past the crisis phase of last fall. We've stabilized the financial sector. And there are glimmers of hope that the economy is improving. And so, we have a breather, and can begin to analyze what happened, and take the steps that will hopefully prevent another economic crisis as deep and difficult as this one.

Setting the stage

A root cause of the crisis is that many consumers didn't have the information or knowledge they needed to understand the complex mortgages which pervaded the market. (Others were duped by fraudsters.) Many consumers also took on too much other debt, home equity lines, credit cards, car loans, and the like, without fully appreciating the consequences. It's a very sad story that most of us here today know all too well.

Part of the problem, of course, is that there are so many new financial products and services in the marketplace and it's complicated and confusing to make the right decisions. Consumers benefit from having lots of choices. But when it comes to complex financial products, especially those that sound "too good to be true," a wrong decision can be very costly, with serious consequences (which can take years to recover from).

Banking in today's marketplace is not for the faint-hearted. Being financially astute is nothing less than an essential survival tool. Financial education is very important during these challenging economic times. Fear, uncertainty, and desperation can also result in consumers falling prey to scammers and fraudsters. To be sure, we need to do a better job of policing the market.

Having a cop on the consumer financial beat could do wonders. And national standards and rules for mortgages and other products will make a very big difference going forward. But an educated consumer should be the first line of defense; because at the end of the day, it's the consumer who signs on the dotted line.

Consumers who complete a financial education class know that if something sounds too good to be true, it probably is. It's absolutely essential that people of all ages (and I mean all ages starting in Kindergarten!) learn financial basics so they can make prudent financial decisions.

Financial education: an effective piece of the puzzle

Many of you are familiar with our widely used Money Smart curriculum. We hired the Gallup polling organization to measure the impact of this program on the behavior of consumers. We found that a majority of people who took Money Smart saved more, had a better understanding of financial principles, and were more willing to comparison shop for financial services. Still, financial education certainly is not a cure-all.

On the contrary, common sense government oversight and education are two sides of the same coin. You need both to build and maintain consumer confidence in our mainstream banking system. At the FDIC, we pair financial education with strong regulation of our financial institutions. We impose substantial penalties and require consumer reimbursement when consumers are deceived or treated unfairly.

For example, in late December, the FDIC and the Federal Trade Commission won a landmark settlement against a marketing firm for misleading subprime credit card users. The company agreed to give customers $114 million in credits to help cover fees that it failed to properly disclose.

FDIC's leadership

A consumer who knows the right questions to ask, who understands economic fundamentals and has the confidence to challenge "iffy" products and practices, is a regulator's best weapon in consumer protection. The FDIC has been a leader in this area. As we see it, this is an all out war. And you have to use every means available to remove the veil of ignorance about money and educate the public.

As many of you know, the FDIC launched the Money Smart initiative in 2001. Since then, well over two million people have taken Money Smart. It's now available in seven languages. And versions are available to teach adults and young adults, and for people to work on a computer at their own pace. We now have over 1,600 partnerships with national organizations, including Operation Hope, to use Money Smart. Our newest partner, as of Monday, is the White House Initiative on Historically Black Colleges and Universities. Students and faculty at over 100 institutions will benefit. Money Smart has worked so well in America that other nations now come to us to learn how to develop their own financial education programs. We're also using all the modern methods to deliver the product ... including on MP3 players for people on the go ... and Podcasts.

Challenge

Let me now focus on the future. Where do we go from here? What's next? Since many of you are in the education business, think about this moment in time as a "teachable moment." Think of people generations from now, looking back at this historic moment we're living. Will they say that we made good policy decisions? That we acted to protect our economy and our way of life? That we gave our citizens the knowledge and skills they needed to protect their families from financial ruin?

Look back to the 1930s and the "New Deal." That crisis led to many new programs that stabilized banks, created jobs, provided electricity and other productive infrastructure, and brought hope for generations to come. Years from now, people will study 2008 and 2009. And they will see that we had to deal with another crisis. They'll see consumers signing on the dotted line for toxic loans they did not understand. They'll see we weren't saving money for a rainy day. They'll see we over-extended on debt for wants and luxuries we didn't really need. They'll see we used our homes as piggybanks, instead of a way to build wealth and savings. And we discovered the piggybank wasn't as full as we thought it was, once housing prices declined. When people look back 30 years from now, what will they see as the long-term improvements that we made as a result of what transpired?

Theodore Roosevelt once said "there is no good reason why we should fear the future. But there is every reason why we should face it seriously." This is as true today, as it was a hundred years ago.

Looking to the future

I was born and raised in a small rural town. The citizens of Independence, Kansas were tempered by time. They were thrifty and hardworking. They saved their money and spent it only when they needed to. They had faith and compassion. And they always looked out for each other. My parents were both frugal.

And it's interesting. Both my mother and father were savers and investors. My father liked to do a little stock trading, though. He would get on his computer and trade. My Mother subscribed to the classic Warren Buffet philosophy: buy-and-hold. And her portfolio was quite a lot bigger than my father's!!

As the economy continues to recover, I hope we see a new "back-to-basics society." I hope we see banks promoting real growth and long-term value. I hope we see people rediscovering the peace of mind of financial security that comes from: thinking before spending, cutting up the credit cards and saving for a rainy day. I think we're already seeing a culture shift in this direction. And I think this is one of the positives of these times of economic adversity.

What does this mean for financial education? I think it could mean a fresh start for consumers, a "new deal." People have good reason to be interested again in learning the fundamentals of financial literacy, such as shopping for an account, or making a family budget. We need to think about what a "good financial education" means. Just as we have standards of learning for reading, math and other skills, why can't we have a baseline for financial knowledge and skills?

For starters, we could use standards that include selecting and managing a bank account, maintaining a budget, learning about ways to save, and boning up on financial scams. These are skills that can and should be taught in our schools. And then you should get a refresher at critical life moments, such as when you start a new job or buy your first home or open a retirement account.

A valid question for lawmakers on both the federal and state levels is how to encourage this. But, there are many other ways of doing this short of a national mandate. You can do it at the grassroots level with national support from regulators and community groups such as Operation Hope.

Banks, for example, can pair financial education with products and services. When you get a checking account, you should have an opportunity to get educated about managing the account. Perhaps banks could offer incentives, like some car insurance companies do for inexperienced drivers. Banks that teach classes through community based organizations can also consider allowing underserved individuals to open a basic bank account, even if they don't have a spotless credit report.

I think kids at a very early age are interested in money. A bank that goes into a school to teach financial education, as some now do, should think about ways it can offer savings accounts to students at the school. We need more financial education in the schools and through other agencies and organizations that serve youth. This doesn't happen overnight, but working with national and local non-profit organizations can really speed the process.

But, let's not make the mistake of assuming that a "financial ed" lesson or class in high school will empower students to confront every challenge they face throughout life. Rather, lessons on money should be taught and reinforced at every grade level starting at an early age. Financial literacy can be incorporated into math, reading, and economics classes. You can have it as part of freshman orientation when kids start college. (It would teach our kids to say "no" to all those credit card vendors you see in the fall on college campuses!)

And I challenge all of us, particularly parents, to take a long hard look in the mirror and think about how we can be models for responsible financial behavior. These are but a few initial thoughts on how we can create a "new deal" through financial education. But the rest is up to you.

Conclusion

I challenge everyone here today to think about how you can get involved in creating a "new deal" for consumers. All of you are already involved in teaching the "language of money," as John likes to call it. But think about how you can deliver on the promise of a "new deal" for consumers as we work our way past the financial mess that we're in? How can you use financial education as a tool to prevent it from happening again?

I'm an optimist by nature. And I strongly believe if we can arm consumers with enough knowledge about long-term saving ... if we can get them thinking and planning before spending ... if we can get them looking to the future ... then we'll be able to dig out of this. And we'll grow our personal wealth, as well as our wealth as a nation.

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