

Remarks by Governor Edward M. Gramlich

(Prepared text; appearance canceled)

Fall Conference of the Georgia Consortium for Personal Financial Literacy, Atlanta, Georgia

November 21, 2000

Financial Literacy

I am pleased to participate in your fall conference. Over the years I have spoken frequently about the importance of financial literacy and how it contributes to the efficient functioning of our society. We all know that the free market works best if consumers make informed financial decisions about savings, borrowing, investing, and banking.

Partnerships, such as the Georgia Consortium for Personal Financial Literacy, help consumers become more informed financial decisionmakers. You contribute by raising issues, searching for solutions, and delivering services. And you demonstrate that organizations uniting for a common purpose can respond to consumers' needs and help them learn how to manage money, borrow wisely, and build assets.

The program today furthers the goal we all share of encouraging individuals to learn about financial and economic matters. The United States has always had a relatively low personal saving rate. Personal debt and bankruptcy rates are high, and many lower-income families have found it difficult to build wealth. More than 50 million Americans have no retirement savings beyond Social Security, and only half of American workers currently participate in any employer-provided pension plan.

The Federal Reserve commits significant resources to studying the financial conduct of consumers. We have gained a better understanding of issues related to family financial management through our Survey of Consumer Finances, a study of 4,500 households that is undertaken every three years. From our most recent survey, released early this year, we learned that 13 percent of all families surveyed do not maintain a checking account with traditional financial institutions, with nearly 83 percent of these households reporting annual incomes of less than \$25,000.

Moreover, evidence suggests that many families are not well informed about the financial marketplace. Many may not know the choices they have among financial service providers and among accounts. Others may not clearly understand the long-term costs and the opportunity costs of the services they use. And high-school students perform very poorly on tests of financial and economic literacy. For these present and future families, financial literacy could improve their economic well-being by helping them set financial goals, engage in financial planning, and build assets.

In addition to our concern with the economic well-being of families, the Federal Reserve is also concerned about practices of abusive creditors who prey on vulnerable homeowners.

Financial literacy efforts could pay large dividends in this area. Last summer, we conducted a series of public meetings across the country to learn more about the issues surrounding predatory lending. Currently, we are analyzing the information provided at the hearings, and other data, to determine how best to revise our regulations to help ensure the continued availability of credit to low- and moderate-income borrowers, but without the problems that can be caused by predatory lending.

Besides gathering the regulatory advice at the hearings, we also learned from community groups about their experiences in fighting predatory lending. They find what we all suspect: In the end, solid consumer understanding of household finances is the best defense against predatory lending. Community groups confirmed the importance of information on fundamental banking services in stemming the economic difficulties faced by families and communities when they become victims of predatory lenders. At the hearings, community organizations also talked about their important role in teaching members of their communities about how to identify and use appropriate financial instruments to ensure a better financial future.

The Federal Reserve participates in several activities to add to knowledge about these issues and contributes resources to resolving them. I have already talked about the research we conduct on consumer finances. Many individual Reserve Banks have developed long-standing and very successful programs on financial literacy. We also are actively involved with the National Partners for Financial Empowerment (NPFE), a public-private, nonpartisan coalition that promotes the development of personal financial literacy skills. The NPFE partnership is composed of community organizations; corporations; business organizations; federal, state, and local governments; and nonprofit groups. NPFE is engaged in a major campaign to raise public awareness of the critical importance of financial literacy and to promote financial literacy efforts already under way.

NPFE has developed a web site that provides educational materials and links to national, local, and other initiatives. Participants are also planning workshops, conferences, and other events to promote financial skills. And coalition members are engaging in national and local partnerships to address challenges facing targeted populations such as retirees, immigrant communities, and lower-income consumers.

One of my duties as a governor of the Federal Reserve Board is serving on the Neighborhood Reinvestment Corporation Board of Directors. In my travels with the NRC, I have visited successful projects and talked to many new homeowners who were pleased with their investment and anxious to improve their economic future. At many of these stops, I found organizations committed to building financial literacy skills for their constituency. Leaders of these organizations acknowledge the essential link between knowledgeable borrowers and strong communities. The organizations provide counseling to help prospective borrowers realize the economic promise of homeownership.

In all these activities, groups such as the Georgia Consortium for Financial Literacy are valuable partners. Your group understands the needs of families and serves as a critical link in the development and implementation of educational initiatives designed to help families stabilize their finances and build wealth.

In Georgia, there are also many examples of public-private collaborations that work to build better communities and secure financial well-being for their residents. On future trips to

Atlanta I hope to visit several model projects to see for myself the rehabilitated houses, revitalized commercial sectors, and expanding market opportunities.

This morning, you heard about a number of other innovative programs that foster financial literacy and encourage asset building--programs such as those developed by the Georgia Bankers Association and the United Way of Greater Metropolitan Atlanta.

One program that has been especially effective in supporting savings among lower-income households is the individual development account. As you learned earlier, an IDA is a vehicle for helping lower-income families to save toward purchasing a home, starting a business, or continuing higher education. The IDA program applies a comprehensive approach, offering matching dollars to support the account holders' savings efforts and providing education to help them develop financial goals for their future. This concept enjoys widespread support, with more than 300 IDA programs currently in operation throughout the country. In 1998, the Congress authorized a five-year, \$125 million IDA demonstration, and currently, twenty-seven states have passed IDA legislation, with Georgia now considering its own legislation.

Here in Atlanta, the United Way of Metropolitan Atlanta is in its fourth year of operating an IDA homeownership program in eight Atlanta communities. Currently, the United Way program has 110 savers, who have saved approximately \$114,000, which has enabled 26 account holders to purchase homes. United Way has also received a \$500,000 federal grant from the Department of Health and Human Services (HHS) to implement an IDA program to support micro-enterprise development.

Some of these IDA programs, such as the one with the Gwinnett Housing Resource Partnership, familiarize non-English speakers with banking and savings instruments in this country. Such efforts help ensure that families at all income levels have an opportunity to enhance their financial future.

Like you, the Federal Reserve is interested in the financial health and literacy of all Americans. Our goal, through effective monetary policy, is to help maintain price stability and create conditions for sustainable growth that provide opportunities for individuals and families to flourish.

Sustainable growth helps citizens enter the job market and obtain important skills. By creating conditions conducive to maximum sustainable growth with stable prices, the Federal Reserve can best do its part to ensure that all Americans have the chance to guarantee their financial well being. The Federal Reserve is also committed to continuing its research on consumer finance and to promoting financial literacy in partnership with national and local agencies and nonprofit organizations.

In April 2001, we will sponsor a research conference, "Changing Financial Markets and Community Development," which will feature two panel presentations of studies on these topics. One panel will be devoted to a discussion of financial service delivery by banks and non-banks in low-income communities. Another panel of experts will analyze wealth-building strategies for lower-income households.

Besides the research that we conduct, the Federal Reserve continues to promote consumer and community financial education. We publish public information guides on consumer

protection laws and borrowers' rights. Furthermore, through our Community Affairs Offices, we help determine local credit and information needs and provide technical assistance to community leaders. We work to facilitate public-private partnerships that support the development of innovative solutions to challenges in community economic development. The Community Affairs Offices also produce numerous publications and sponsor conferences devoted to sharing information about community development finance, best practices, and resources. Here in the Federal Reserve Bank of Atlanta's District, Courtney Dufries serves as your Community Affairs Officer, and he and his staff are valuable assets.

In the meantime, I look forward to hearing about the successes you have realized on behalf of Georgia savers and extend my thanks to all of you who have dedicated your time and talent to ensure that our current economic gains are enjoyed by all Americans.

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