



Financial Education: Is It Making a Difference?

The savings rate in our country is low. Bankruptcy and foreclosure rates are high. Predatory lending and unscrupulous check-cashing practices are victimizing low- to moderate-income individuals, including the elderly. And our young people are being lured into the debt cycle as society encourages a “get it now, pay for it later” mentality. Are our financial education programs strong enough to turn the tide?

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Few would argue that the time is ripe for financial education in America. Financial products and services are growing in diversity and complexity, the retirement paradigm is shifting, and far too many individuals and families are struggling to make ends meet, often turning to “payday” loans and other high-cost funding alternatives. Low- to moderate-income populations are feeling the worst sting, but financial literacy is an issue among all income levels and age groups.

And so, financial institutions, nonprofits, government agencies, corporations, and other concerned entities have taken on the responsibility of creating and implementing financial education programs. Programs exist to cover everything from basic money management skills – budgeting, banking, saving, credit – to small business development, investing, retirement planning, and estate planning. The challenge is ensuring that these programs are reaching the right people at the right time and effecting positive financial behaviors.

Financial institutions look for positive behavior changes in the low- to moderate-income segment to include establishing banking relationships. Bruce Murphy, president of Community Development Banking for KeyBank, explains: “The exponential growth of the check-cashing industry indicates that there is great

opportunity to link people in this segment with legitimate products and services ... to turn largely unbanked populations into knowledgeable, mainstream banking customers.” KeyBank is backing this belief with its own financial education center, which opened about a year ago.

Getting the Right Program to the Right Audience

While every American needs to make life decisions about finances, the degree to which each person needs to be informed about particular issues varies widely. For example, programs might teach the basic values of saving and budgeting to children, retirement planning and investing to middle-age consumers, and retirement spending to seniors. Low- to moderate-income and immigrant populations might require help in a variety of areas: budgeting, buying a home, establishing credit, avoiding predatory loan practices, accumulating assets, etc.

“As financial institutions, we need to give low- to moderate-income individuals more than knowledge; we need to give them options to use that knowledge – products and services that can help them reach their financial goals.”

– Bruce Murphy, President of Community Development Banking, KeyBank

How do practitioners determine appropriate content and delivery methods for the audiences they intend to serve?

Many have found individual assessments to be helpful. The Urban League of Pittsburgh, for example, does intake counseling with every person who enters its program to identify areas of concern. Other organizations view the community their programs serve as a whole, consulting with affiliated organizations to determine the types of educational efforts likely to have the most positive impact.

Alexis Afzal, executive director of Alex CDC in Cleveland, Ohio, also assesses need by examining generational trends. “We need to look at the ‘why’ behind people’s lack of money management skills,” she says, “and then apply a variety of education and counseling methods.” Alexis ensures that she incorporates a financial literacy component into every program her organization sponsors.

David Dewberry agrees with that approach. Vice president of the Community



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“If we look at the histories – the generational trends – of various populations, we can identify the underlying situations that have led to their financial challenges. It’s not enough to treat symptoms; we need to dig to root causes and integrate a variety of types of counseling to effect long-term behavioral changes.”

– Alexis Afzal, Executive Director, Alex CDC

Reinvestment Institute Alumni Association in Dayton, Ohio, David stresses the importance of taking a comprehensive approach. “We need to offer complete programs that address every aspect of the individual’s situation,” he says. “And just as importantly, we need to make these programs convenient – take them to the people – and then back them up with a support network.”

Support often takes the form of coaching, wherein program participants can call or meet with a counselor one-on-one to reinforce the skills he or she has learned and to ensure that behaviors align with intent. In addition to coaching, programs include classroom sessions, workshops, printed materials, and Internet-based self-paced learning programs. The objective is to make courses as accessible as possible, offering participants the opportunity to learn in their own particular comfort zone.

How Are We Doing?

One of the realities of financial education is that funding often falls short of the post-program research level. While most organizations strive to follow up, evidence to support financial education effectiveness has to date been far more anecdotal than empirical.

Organizations are beginning to take the plunge into research, however. Cleveland Saves is working with a research team at the University of Vermont to determine the effectiveness of its program and to guide improvements. Results are

expected in July from this study, which will involve in-depth interviews of 60 corporate leaders and phone interviews with 500 savers.

The Federal Reserve System is engaged in research as well. The Board of Governors in Washington, D.C., has begun a three-year study to trace the financial behaviors of two groups of young men and women enlisted in the Army. One group attended a two-day financial course; the other did not.

Another Fed effort, being launched by the Philadelphia Bank, is a five-year longitudinal study tracking the effectiveness of homeownership education and counseling among low- to moderate-income consumers. The treatment group will participate in a homeownership education and counseling program provided uniformly by a single nonprofit organization. The control group will not participate in the program. The Fed’s intent is to reveal more relevant data about program effectiveness through the long-term tracking than has been achieved by past studies offering more of a “snapshot” methodology.

What Can We Do Better?

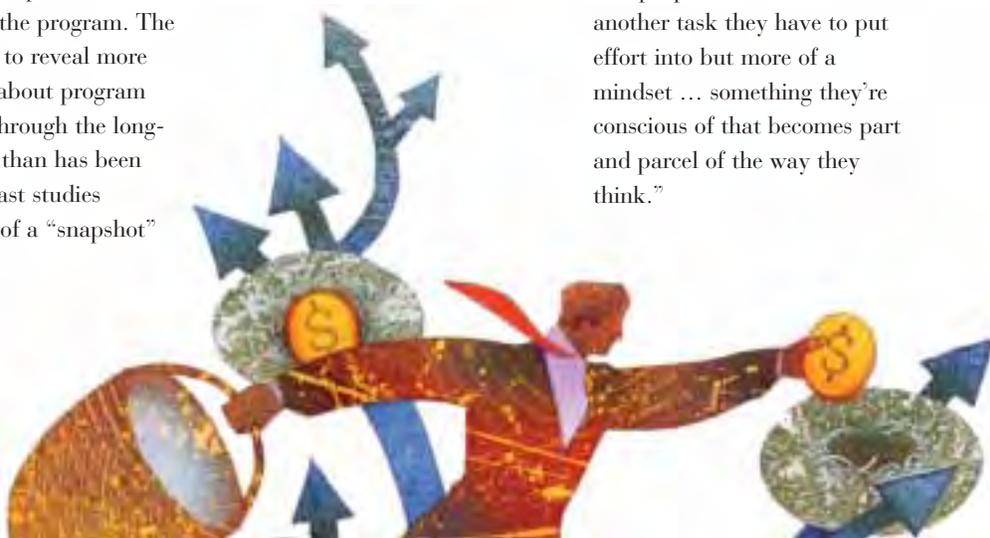
Even before research results start pouring in, the people most closely involved in financial education have some very tangible ideas of how they would like to improve efforts.

George Barany, director of financial education for the Consumer Federation of America and executive director of WECO Fund, Inc., in Cleveland, Ohio, proposes that the basic concept of saving be at the root of all financial education efforts. “The financial action model, as promoted through America Saves, Cleveland Saves, and other related programs, is the perfect backdrop for education efforts. Once you’ve motivated people to act – to begin saving – they will be more strongly inclined to take advantage of specific financial education programs.”

Practitioners will also tell you we need to integrate financial education into school curricula, to encourage good financial habits early on and help our nation’s youth build a solid foundation for the future. (Refer to the Resources section of “Of Interest” on page 8.)

Additionally, many suggest that financial education be incorporated into community-based programs of all types – parent headstart, housing counseling, and welfare-to-work programs, for example – and that employers consider offering workers time off to participate in programs.

Jeanne Hogarth, a program manager at the Division of Consumer and Community Affairs at the Board of Governors of the Federal Reserve System, concludes, “The key to our success with financial education is to find ways to integrate it seamlessly into people’s lives so it’s not another task they have to put effort into but more of a mindset ... something they’re conscious of that becomes part and parcel of the way they think.”



4th district profi

Cleveland Fed Promotes Financial Education Efforts in the 4th District

Backed by the steadfast conviction that financial education helps sustain a strong national economy, the Federal Reserve Bank of Cleveland supports financial education. The Community Affairs Office conducts research, provides technical support, and organizes consortia to address the financial education needs of our communities.

institutions, government agencies, and community-based nonprofits joined the Fed to discuss ideas for improving delivery of financial education programs and tools throughout our district. The Community Affairs Office then organized and coordinated the following consortia, which created a network for providers to share best practices and address the need for impact measures.

“Once you’ve motivated people to act – to begin saving – they will be more strongly inclined to take advantage of specific financial education programs.”

– George Barany, Director of Financial Education for the Consumer Federation of America and Executive Director of WECO Fund, Inc.

These efforts are in large part the result of roundtable meetings the Cleveland Fed hosted in 2003, in response to a variety of financial challenges consumers face: the growing complexity of financial services, predatory lending practices, a high incidence of bankruptcy, etc. Representatives from financial



Financial Education Partnership of Northern & Central Ohio

This consortium of nonprofit agencies, financial institutions, academic organizations, and government offices and agencies determined that financial education programs in northern and central Ohio were being underutilized due to the marketing constraints of individual providers, so they initiated efforts

to develop and promote an Internet-based directory of financial education providers.

Introduced in February 2005 through a community and media event, the Financial Education Directory of Northern and Central Ohio, www.ohiofinancialeducationdirectory.org, provides information about organizations that offer financial counseling, training, and information; a glossary; and a resource section providing links to related websites.

Looking forward, the Cleveland Consortium plans to continue development and marketing of the directory and to approach large employers and universities to discuss new financial education opportunities.

For more information, contact Senior Advisor Maria J. Thompson at 216-579-2903 or maria.j.thompson@clev.frb.org.

Financial Education Consortium of Southwestern Pennsylvania

More than 125 individuals representing a diverse group of organizations in Southwestern Pennsylvania have joined efforts as the Financial Education Consortium, a group that meets quarterly to share insights and develop strategies related to financial literacy.

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Among its accomplishments of 2004, this consortium developed a directory of financial education providers, released in hard copy and electronic format (pdf) in March 2005 and distributed through banks, credit counseling agencies, and social service organizations. The directory was publicized on March 22 during a consortium-sponsored event titled "Take Control of Your Money!"

The Pittsburgh branch of the Federal Reserve Bank of Cleveland serves as coordinating agency for this consortium.

For more information, contact Senior Advisor Dan Holland at 412-261-7947 or daniel.holland@clev.frb.org.

The Greater Cincinnati Financial Education Partnership

This partnership has accomplished a number of objectives in 2004, including introducing "Get Checking," a program designed to help financial institutions reach new customers or established customers who have experienced problems managing their accounts;

developing handouts explaining the Earned Income Credit and the Fair and Accurate Credit Transactions (FACT) Act; helping to update financial education resources and referral services provided by the United Way's 211 Hotline; and establishing a list server through which practitioners can communicate, seek answers, and share experiences and concerns about financial education.

In the coming year, this consortium plans to strengthen financial education marketing efforts, produce a "How to Read a Credit Report" handout, enhance financial education opportunities for seniors, identify financial education needs in schools, and address issues related to check-cashing establishments and the large number of foreclosures in Ohio.

For more information, contact Community Affairs Advisor Candis Smith at 513-455-4350 or candis.smith@clev.frb.org.



Financial Education Partnership of the Miami Valley

Representatives from 30 organizations have come together with the objectives of identifying financial literacy needs, developing financial education resources, sharing best practices, and building partnerships for educating consumers and providers in Dayton and the nine surrounding counties of the Greater Miami Valley.

Like the Cincinnati consortium, the Miami Valley group has established a list server. Plans for

2005 include developing and hosting a web-based financial education directory that will also be available in electronic format (pdf) for users who would like to print hard copies. Consortium members also intend to meet for a "curriculum blitz" in 2005 to compare programs and work toward the most effective content.

For more information, contact Candis Smith at 513-455-4350 or candis.smith@clev.frb.org.

For more information about the consortia actively engaged in financial education in the 4th District, visit www.clevelandfed.org/CommAffairs/FinancialLit/Index.cfm

To read the CR Report on Financial Education, Spring 2003, go to www.clevelandfed.org/CommAffairs/CRREPT.cfm

compliance Corner

Financial Education and CRA: How Examiners Make the Connection

“Regulators, consumer advocates, and policymakers all agree that consumer education is essential in the quest to stem the occurrence of abusive, and at times illegal, lending practices. An informed borrower is simply less vulnerable to fraud and abuse.”

– Federal Reserve Bank Chairman
Alan Greenspan

As our chairman indicates, a financially literate consumer is better equipped to avoid abusive products and services. Even more importantly, he or she, by becoming informed, builds the foundation for economic success.

While nearly every community has public schools and adult education programs that provide opportunities for building computer and other technical skills, few offer financial education programs targeted toward building critical financial savvy related to budgeting, saving, and the cost of credit.

Many bankers, however, are eager to offer financial or technical support to programs such as these. In many communities, bankers teach financial education classes or provide grants to organizations offering financial literacy programs. Often, bankers will serve on the boards of such entities or in crucial roles in organizing and developing the curricula. These bankers recognize that their participation can help build stronger communities and ultimately pay off in future consumers of deposit and loan products. In addition, the grants and services bankers provide may qualify under investment and service tests for Community Reinvestment Act (CRA) evaluations.

As part of those evaluations, examiners review the grants and investments as well as the other support and services the institution provides to promote and provide credit to low- and moderate-income consumers within the bank’s assessment area. The bank’s efforts directed toward this target audience are factored into our analysis. For example, if the bank provided



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financial grants or its staff participated in an educational program for first-time homebuyers targeted to low- and moderate-income individuals, the amount of the grant and the staff participation would be included in the examiner’s analysis of the bank’s performance under these tests. The key is the target audience, which, for CRA purposes, is low- and moderate-income individuals.

In the end, the efforts of banks in providing and supporting financial education often create a win-win situation, as those consumers who most need to build financial knowledge are the same individuals who can become long-term, profitable bank customers. Banks also win when the resources they invest in financial education are recognized by their supervisory agencies as being instrumental in community development.

in my Opinion

CR FORUM

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We welcome your comments, suggestions, and requests for additional copies. Send them to maria.j.thompson@clev.frb.org. Also feel free to contact the following members of the Community Affairs staff if you have questions.

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Dollar Wi\$: Building Financial Literacy City by City

BY **MAYOR DONALD L. PLUSQUELLIC**

*Mayor of Akron, Ohio
President of The United States Conference of Mayors*



As America's financial landscape changes, holding each of us increasingly responsible for our own financial well-being, the need for financial literacy grows.

Proposed changes to the Administration of Social Security are a timely example of the changing role Americans will have to play in their personal financial matters. Corporate pension plans and other benefits the American worker once enjoyed are scarcer, leaving us to do our own homework on saving and investing.

Additionally, the number and complexity of consumer credit opportunities seem to grow each day. Many citizens are making poor choices – choices that can damage their financial stability, going so far as to push them into bankruptcy or foreclosure. It is clear that Americans need to be more knowledgeable and strategic as we make decisions for our personal financial futures.

Recognizing this pressing need for financial literacy, The United States Conference of Mayors (USCM), in tandem with its Council for the New

American City, launched the Mayors' National Dollar Wise Campaign last summer. This program urges mayors and cities to collaborate on customized financial literacy programs that address the specific needs of their constituents.

The Council for the New American City is a coalition of nonprofit groups, corporations and businesses that share a common goal of increasing investment in American cities. Dollar Wise provides them with the opportunity to further strengthen our cities, ultimately helping to attract new business and investments.

Under the Dollar Wise Campaign, mayors organize and implement financial literacy programs in their communities using materials provided by Council members. Along with the Mortgage Bankers Association, the USCM encourages cities to launch financial literacy programs that help individuals and families maintain good credit, increase savings, and become educated borrowers. Further, USCM recommends that mayors begin by focusing on one core group – homebuyers/homeowners, the unbanked community, students, the elderly, retirees, or immigrants, for

example – and customizing a financial education program to their needs. As that program becomes effective, they should consider expansion opportunities.

I thank the mayors and corporate leaders who are driving the success of this program by working together to develop fresh, creative, relevant ideas in their communities. Thanks, too, to the Federal Reserve Board for partnering with us to promote awareness of the program.

Thirty-eight cities are now participating in our 2005 campaign, and we expect many more. Those that are involved report very positive results. Clearly, our nation is thirsty for this kind of education just as our cities are thirsty for economic strength. Dollar Wise is a tool to help our mayors face their economic challenges head-on and fix some of what is wrong. I encourage every mayor and community leader to promote and become actively involved in Dollar Wise.

Federal Reserve Bank of Cleveland
2005 Community Development Policy Summit

June 22-23, 2005
 Cleveland, Ohio

Plan to attend the third annual Community Development Policy Summit and learn how proposed changes in the funding and administration of federal programs could impact wealth creation in low- and moderate-income communities.

This one-and-a-half day conference will examine the changing roles and expectations of community development practitioners at banks, nonprofit organizations, and government agencies as they strive to meet the challenge of creating an ownership society. National and regional policy experts will look at the reality behind the rhetoric.

Special breakout sessions will include a legislative and regulatory update on CRA and HMDA by senior staff from the Federal Reserve, Office of the Comptroller of the Currency (OCC), Federal Deposit Insurance Corporation (FDIC) and Office of Thrift Supervision (OTS).

For more information and the latest conference agenda, visit www.clevelandfed.org/policysummit2005.

of interest

2005 Financial Education Conference

October 6, 2005
 Columbus, Ohio

Regulatory Roundtables

Fair Lending & Public Data Collection

Pittsburgh, Pennsylvania
 September 13, 2005

Cincinnati, Ohio
 October 2005

Details on 2005 planned programs and workshops are posted regularly to the Community Affairs Office web page: www.clevelandfed.org/CommAffairs.

Please take a moment to help us update our mailing list. Below is the information currently on file. Please confirm, correct and/or add new contact information to ensure that publications, conference notifications, invitations, and other mailings of interest are sent to the attention of the right person(s) at your organization.

To complete by email, go to www.clevelandfed.org/CommAffairs to find the Word document. Detach, complete, and email back to paula.s.warren@clev.frb.org

Resources

Financial Education Directory of Northern and Central Ohio – Visit www.ohiofinancialeducationdirectory.org

Financial Education Directory of Southwestern Pennsylvania – Contact Dan Holland, senior advisor: 412-261-7947; daniel.holland@clev.frb.org

4th District Regional Research and Data

You'll want to bookmark the Federal Reserve Bank of Cleveland's new Regional Research and Data web pages: www.clevelandfed.org/regional. There you'll find analysis, commentary, and data on issues that concern the residents and businesses of the states that lie within the 4th Federal Reserve District: Ohio, Kentucky, Pennsylvania, and West Virginia. Employment, education, and economic growth are just some of the topics covered on the site, where you'll also find the latest regional economic indicators.

Federal Reserve System Resources

- Financial Education Research Center – From Federal Reserve Bank of Chicago: www.chicagofed.org
- Building Wealth: A Beginner's Guide to Securing Your Financial Future – From Federal Reserve Bank of Dallas: www.dallasfed.org
- Guide to Financial Literacy Resources – From Federal Reserve Bank of San Francisco: www.frbsf.org
- Fed 101, Teacher's Resources and Personal Financial Education – From Federal Reserve Board of Governors: www.federalreserve.gov

Also be sure to check out:

- Cleveland Saves and other America Saves initiatives: www.consumerfed.org
- Jumpstart as a resource for high school students: www.jumpstartcoalition.org

The Latest Word on HMDA

If you have questions about the new reporting regulations of the Home Mortgage Disclosure Act (HMDA), try these sources:

- www.clevelandfed.org/bsr/Conf2003/HMDA/docs/Handouts.pdf
- www.clevelandfed.org/bsr/Conf2003/HMDA/docs/HMDAQA_1.pdf

The Federal Reserve Bank of Cleveland's 2004 Annual Report is now available online at www.clevelandfed.org

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