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Remarks by

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I am pleased that this conference has drawn together such a knowledgeable group of economists, academics, lenders, practitioners, and other experts to address issues of great significance to consumers and banking communities. There are, no doubt, many different views on the effects that credit scoring, wealth creation strategies, and the Community Reinvestment Act are having on the availability and accessibility of financial services to lower-income populations and small businesses. But I think we would all agree that sound analysis and open discussion in meetings like this are essential to furthering our understanding of financial markets and how they serve the diverse financial needs of our populace.

In my remarks today, I would like to offer some observations on how the rapid adoption of new information technologies has expanded the scope and utility of our financial products and on how we can address some of the challenges these changes pose to our efforts to ensure that our financial system meets the evolving needs of businesses and consumers.

Given the importance of accurate and timely information in the financial services industry, it is not surprising that this sector has been affected enormously by the adoption of new technologies. The resultant advances in the flow of information have greatly facilitated the development of a wide range of new financial products. Similarly in the case of household and business credit, computer and telecommunications technologies have lowered the cost and broadened the scope of financial services. As a consequence, we have seen a proliferation of specialized lenders and new financial products that are tailored to meet very specific market needs. At the same time, the development of credit-scoring tools and the securitization of pools of loans hold the potential for opening doors to national credit markets for both consumers and businesses.

Overall, our evolving economic and financial systems have been highly successful in promoting growth and higher standards of living for the majority of our citizens. But we need to reach further to engage those who have not been able to participate fully. The results of the Federal Reserve's most recent Survey of Consumer Finances, for example, indicate that families with low-to-moderate incomes and some minority groups did not appear to fully benefit from the highly favorable economic developments of the mid-1990s. Between 1995 and 1998, the median real net worth for all families increased 17-1/2 percent, whereas the median net worth for families with incomes below \$25,000 declined and medians for non-whites and Hispanics were little changed. Although this performance leaves much to be desired, positive signs can also be found. For example, between 1995 and 2000 the homeownership rate among minorities rose from 44 percent to 48 percent, and for the first time, the fraction of households without some kind of transaction account fell below ten percent.

One challenge we face in expanding opportunity for all Americans is to overcome the anxieties created by technological innovation. In the workplace, for example, significant segments of our population have exhibited fears that their skills will not be adequate to deal with a rapidly changing work environment. Clearly, technological advances make some jobs obsolete--for example, switchboard operators and tenders of typesetting machines. But even for many other workers, a rapidly evolving work environment in which the skill demands of their jobs are changing can lead to very real concerns about losing their jobs.

One very tangible response to this anxiety has been a massive increase in the demand for educational services. The day when a high-school or college education would serve a graduate for a lifetime is gone. Today's recipients of diplomas expect to have many jobs and to use a wide

range of skills over their working lives. As a result, we are moving toward a more flexible educational system--one that integrates work and training and that serves the needs both of experienced workers at different stages in their careers and of students embarking on their initial course of study. Community colleges, for example, have become important providers of job skills training not just for students who may eventually move on to a four-year college or university but also for individuals with jobs--particularly older workers seeking to retool or retrain.

As in the workplace, fostering education that will enable individuals to overcome their reluctance or inability to take full advantage of technological advances and product innovation in the financial sector can be a means of increasing economic opportunity. As market forces continue to expand the range of providers of financial services, consumers will have more choice and flexibility in how they manage their financial matters. They will also need to accumulate the appropriate knowledge on how to use new technologies and on how to make financial decisions in an informed manner.

Indeed, surveys repeatedly demonstrate a strong link between education and the use of new financial technologies. For example, data from the Survey of Consumer Finances suggest that a higher level of education significantly increases the chances that a household will use an electronic banking product. In particular, in 1998, the typical user of an electronic source of information for savings or borrowing decisions had a college degree--a level of education currently achieved by only about one-third of U.S. households.

Similarly, education can play a critical role in equipping consumers with the fundamental knowledge required to choose among the myriad of products and providers in the financial

services industry. This is especially true for populations that have traditionally been underserved by our financial system. In particular, financial literacy education may help to prevent vulnerable consumers from becoming entangled in some types of financially devastating credit arrangements.

One long-standing source of concern is abusive lending practices that target specific neighborhoods or vulnerable segments of the population and can result in unaffordable payments, equity stripping, and foreclosure. With this issue in particular, consumer and community advocates, bankers, and policymakers have all sought to raise consumer awareness about the dangers of such aberrant lending practices, and financial education is an important component of their efforts.

In addition, education can help to provide individuals with the financial knowledge necessary to create household budgets, initiate savings plans, and make strategic investment decisions for their retirement or children's education. Such financial planning can help families to meet their near-term obligations and to maximize their longer-term financial well-being.

While data available to measure the efficacy of financial education are not plentiful, the limited research available on the benefits of financial education programs is encouraging. For example, a recent study by Freddie Mac, one of the nation's largest purchasers of home mortgages, finds that homebuyers who obtain structured homeownership education have reduced rates of loan delinquency. Similarly, an evaluation conducted by the National Endowment for Financial Education on its high-school-based programs found that participation in financial-planning programs improved students' knowledge, behavior, and confidence with respect to personal finance, with nearly half of participants beginning to save more as a result of the

program. And a recent study of the relationship between financial behavior and financial outcomes revealed that comprehension of the general principles of sound financial behavior, such as budgeting and saving, is actually more beneficial in producing successful financial results over time than specific and detailed information on financial transactions.

These findings underscore, in particular, the importance of beginning the learning process as early as possible. Indeed, in many respects, improving basic financial education at the elementary and secondary school level is essential to providing a foundation for financial literacy that can help prevent younger people from making poor financial decisions that can take years to overcome. For example, through a fundamental understanding of the mathematics of compounding interest, one can appreciate the cumulative benefit of routine saving. Similarly, learning how to conduct research in a library or on the Internet can be instructive in where and how to look for information to evaluate decisions.

As I noted earlier, we have seen the market respond to an increased demand for conceptual job skills by increasing the range of educational options available to individuals. We are beginning to see similar efforts to provide consumers with information and training that will improve their knowledge on financial matters throughout their lives. For example, the U.S. military, in response to surveys that revealed that nearly one-third of enlisted service members reported moderate-to-severe difficulty in paying bills, has mandated that all incoming enlisted personnel receive financial education as a means of reducing stress related to personal fiscal matters. Similarly, we are starting to see some school systems introduce financial management classes as part of their high-school curricula and many employers are taking up the challenge as well. At the Federal Reserve Board, for example, interest in financial education prompted an

employee committee to host a seminar on financial planning strategies, and our Consumer and Community Affairs staff recently hosted several well-attended educational programs for employees who are thinking of buying their first home

More fundamentally, the recognition that more-productive workers and learning go hand-in-hand is becoming ever more visible both in the workplace and in schools. Similar collaborative efforts to increase awareness of, and access to, information that promotes financial literacy are increasingly seen as necessary to ensure that consumers can meet their immediate obligations as well as achieve their broader goals of buying a home, funding higher education for themselves or their children, and preparing for retirement. Just as we have recognized how critical it is to demystify technology and to increase workers' comfort and familiarity with the new tools required for their success, so should we work to educate consumers on evaluating the broad array of products offered by financial service providers and to empower them to make the choices that contribute to their overall economic well-being.

An example of a collaborative effort in which the Federal Reserve System is involved is the Treasury Department's financial literacy initiative. This nonpartisan, public-private endeavor promotes the development of personal financial literacy skills by capitalizing on the educational efforts of the partners. In particular, an Internet web site was created that offers users the ability to instantly access a broad spectrum of financial-management information from a wide variety of market participants, including governmental agencies, associations, and private-sector financial services providers.

As researchers, lenders, and leaders in community economic development, you have all been dealing with the practical effects of technological change in the financial services industry,

which have increased opportunity but have also presented important challenges. The twenty-first century will certainly bring us new technologies and, along with them, new challenges and new possibilities. We cannot know the precise directions in which technological change will take us, but as in recent years, the future role of banks and other providers of financial services will surely be significantly affected by the same basic forces that guide the real economy. Building bridges between our educational institutions, the private business sector, and community organizations will be an essential aspect of our efforts to increase familiarity with new technological and financial tools that are fundamental to improving individual economic well-being. And the success of such efforts will have a critical bearing on how well prepared we are to meet the challenges of an increasingly knowledge-based global economy.