



Consumer Federation of America

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Testimony of

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Before

**The U.S. House of Representatives
Committee on Financial Services**

On

Improving Financial Literacy

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I am Stephen Brobeck, executive director of the Consumer Federation of America. CFA is a non-profit association of 300 organizations that, since 1968, has sought to advance the consumer interest through research, education, and advocacy. For three decades, CFA, and I personally, have sought to increase financial literacy. We commend you, Mr. Chairman, for organizing these hearings and for providing us with the opportunity to recommend ways the federal government could improve consumer decision-making.

You have asked us to address several topics related to financial literacy. I had the opportunity to do so before a subcommittee of this Committee in September 2006 and also before different Senate committees in May 2006 and April 2007. My testimony in these three hearings is still relevant to today's hearing, specifically:

- There has been a growing need for dramatic improvements in financial literacy because of the erosion of economic and social security and because of the emergence of a highly complex, dynamic, and risky financial services marketplace. At greatest risk are low- and moderate-income households with little or no discretionary income and modest educations that failed to equip them to make informed decisions about personal financial matters.
- The most effective financial literacy programs produce desired behavioral change -- not just increased knowledge -- and have the capacity to reach a significant proportion of those Americans making less than optimal financial decisions. Unfortunately, we have no idea whether the vast majority of financial education initiatives work because their impacts have not been carefully studied. And even if many are effective, these programs lack influence because they are uneven and fragmented, in part because there is no coherent national financial education strategy or effective leadership for the implementation of this strategy. Such a strategy must recognize that knowledge alone is not enough to ensure effective management of financial resources; consumers must value this management enough to learn and practice it, and there must be accessible opportunities in the marketplace for utilizing these skills. Such opportunities include access to financial products offering good value and to affordable and effective advice for utilizing these complex and often risky products.
- For decades, federal agencies now participating in the Financial Literacy and Education Commission have played an important role in informing and educating consumers about personal financial challenges and opportunities. On financial literacy initiatives involving my organization, federal agencies have made significant contributions to strategic planning, consumer message development, and message dissemination. More recently, so has FLEC itself, through providing greater coordination of federal agency efforts, initiating productive public-private partnerships, providing a useful point of contact for consumers, and publishing comprehensive information about consumer literacy programs. However, we also agree with the findings of the GAO's thoroughly researched and well-reasoned 2007 assessment of FLEC, which concluded that the Commission has yet to develop an effective national strategy for significantly advancing financial literacy.

- Financial education, even those programs that are highly effective, are insufficient for ensuring effective consumer decision-making in the financial services marketplace. This marketplace is too complex and dynamic, and much of the nation's population too poorly educated, for any financial literacy efforts to succeed on their own without effective regulation. Even well-educated, financially sophisticated Americans have difficulty understanding and evaluating complex mortgage, investment, and life insurance products. Given the financial stakes for consumers, only government can ensure that financial services products meet certain minimum standards and that consumers have access to important information about these products.

These points have been elaborated in the three previous testimonies. What I would like to do in today's testimony is suggest two specific ways that this Committee and Congress could usefully advance consumer literacy and informed consumer decision-making.

Support a National Initiative to Encourage and Assist Americans to Assess and Improve Their Financial Condition

In earlier congressional testimony, we suggested that Congress consider asking FLEC to fully develop specific financial literacy strategies to achieve significant and measurable improvement in consumer decision-making. One such strategy with much promise is encouragement of all Americans to periodically estimate their net personal wealth. As financial educators as diverse as columnist Michelle Singletary and the Financial Planning Association have concluded, awareness of net personal assets is an important motivator for better money management, debt management, and savings accumulation. People who have a fairly accurate idea of their net wealth are more likely to spend money carefully, monitor their finances, live within their financial means, and patiently accumulate wealth through saving for emergencies, education, homeownership, and retirement and through repayment of consumer debts. And, if Americans were more aware of their net personal wealth, they would be more receptive to financial and information programs that helped them monitor, conserve, and accumulate financial resources.

This specific strategy has been incorporated into America Saves Week, a national effort involving hundreds of organizations that encourages and assists Americans to assess their savings progress and make needed improvements. The Week is coordinated by America Saves, a nationwide campaign of some 1,000 organizations to promote and assist low- and moderate-income household savings, and by the American Savings and Education Council, a national coalition of government agencies, large employers, financial institutions, and national non-profits to promote and assist workplace and retirement saving. During America Saves Week 2008, held during the last week in February, more than 80 national groups (see Appendix A), including many members of FLEC, and hundreds of state and local organizations promoted savings, including encouraging individuals to use the savings tools on the new America Saves Week website (www.americasavesweek.org) (see Appendix B). These tools include a savings quiz, savings checklist, personal wealth estimator, Ballpark Estimate of needed retirement

savings, and monthly emailed savings messages. In the next several years, ASEC and America Saves aim to involve thousands of organizations who would persuade millions of Americans to assess and improve their financial condition. In doing so, the Week could provide all financial educators with the opportunity to enhance and link their individual efforts.

Congress could provide invaluable support to America Saves Week in two important ways. First, it could encourage all members of FLEC, especially Treasury, to participate more actively. Such participation could productively emulate the organization of state and local Week activities by dozens of U.S.D.A. Cooperative Extension Service offices, support for extensive Military Saves Week activities by the Department of Defense, and employee education by the Federal Reserve Board. It could even include, during the next administration, encouraging the president to make personal financial assessment and improvement, using the Week, a priority in order to improve the economic condition of American families and the whole country.

Second, members of Congress could encourage organizations and individuals in their districts to participate in the Week. This encouragement could take the form of press communications, individual contacts with organizations, and recruitment of local organizers to plan Week activities. ASEC and America Saves are willing to support these activities. For example, if a member wished to sponsor a district meeting of organizations with a potential interest in participating in America Saves Week, our two organizations would be willing to help organize and staff such a meeting and any subsequent planning for the Week.

Support Needed Financial Disclosures to Consumers

Congress also can improve financial literacy through greater support for improved financial product disclosures. Even consumers who do not understand the financial services marketplace well increase their understanding of specific products, and ability to purchase and use them wisely, if they have greater access to important information about these products.

That was the conclusion, for example, of a recent Federal Trade Commission study of consumer knowledge about specific mortgage products using traditional and improved disclosures. Tested using traditional disclosures, many participating consumers could not correctly identify key characteristics of a loan such as loan amount (c. 50%), total monthly payment (20%), annual percentage rate (c. 20%), total settlement charges (c. 25%), and charges for optional credit insurance (c. 75%). But tested with new and improved disclosures, consumer understanding of a mortgage loan improved substantially -- by 66 percentage points for identifying the total amount of up-front charges, by 37 percentage points for knowing the amount borrowed, by 24 percentage points for recognizing when a prepayment penalty would be assessed, by 16 percentage points for identifying the APR, and by 13 percentage points for understanding which of two loans was less expensive.

Better product disclosures would also improve the financial literacy of credit card users. Behavioral economists have argued that cardholders would be less likely to run up unsustainable balances if monthly statements clearly stated the total interest and fees paid during the past twelve months. Others have suggested that requiring statements to also include the number of

months it would take to pay off the current balance, assuming no new card purchases, would also persuade some cardholders to use plastic more prudently.

If consumers do not have easy access to important information about individual financial products, they benefit far less from financial education. Even if they understand the general differences between complex new nontraditional mortgage loans, without access to information about specific features of these loans, consumers cannot apply general financial knowledge to make sensible product-related decisions. If consumers are denied access to this information, the best advice they can often receive from financial educators is to be extremely skeptical of financial products.

We know that many members of this Committee strongly support improved consumer information disclosures on products such as nontraditional mortgage loans and credit cards. Now that the Federal Reserve Board is considering improved disclosures for both types of products, there has never been a better opportunity to make progress in this area. We urge you to encourage the Fed to require new credit disclosures that would not only assist consumer decision-making but also increase real competition in the financial services marketplace. We also urge you to always consider improved financial product disclosures to be one of the most effective ways to raise the level of financial literacy.

Thank you again for the opportunity to present this testimony.

Appendix A

America Saves Week 2008 List of National Participating Groups

Government Agencies

Federal Citizen Information Center, General Service Information
Federal Deposit Insurance Corporation
Federal Reserve Board
Federal Trade Commission
Internal Revenue Service
Missouri State Employees' Retirement System
Ohio Treasurer of State
Securities and Exchange Commission
Social Security Administration
U.S. Department of Agriculture, Cooperative State, Research, Education and Extension Services
U.S. Department of Defense
Armed Forces Tax Council
Department of the Air Force
Department of the Army
Department of the Navy
U.S. Coast Guard
U.S. Marine Corp
U.S. Department of Labor, Employee Benefits Security Administration
U.S. Department of the Treasury
U.S. Postal Service
Washington Department of Financial Institutions
Washington State Department of Retirement Services
Wisconsin Department of Financial Institutions

Non-Profit Organizations

AARP
American Institute of Certified Public Accountants
360 Degrees of Financial Literacy
American Society of Military Comptrollers
Armed Forces Financial Network
Aspen Institute Initiative on Financial Security
Center for Financial Services Innovation
Consumer Federation of America
Consumer University
CUPA-HR
Employee Benefit Research Institute
Family, Career and Community Leaders of America
FINRA Investor Education Foundation
SaveAndInvest.org
HR Policy Association
InCharge® Education Foundation
International Foundation of Employee Benefit Plans
Jump \$tart Coalition for Personal Financial Literacy
Money Management International
National Cooperative Bank
National Council on Economic Education
National Endowment for Financial Education

National Foundation for Credit Counseling
National Military Family Association
New America Foundation
North American Securities Administrators Association
Operation Hope
The Retirement Security Project
United Way
Washington Society of CPAs
Women's Institute for a Secure Retirement
WorldatWork

Industry Trade Associations

American Bankers Association
American Council of Life Insurers
American Society of Pension Professionals and Actuaries
Association of Military Banks of America
Consumer Bankers Association
Credit Union National Association
Defense Credit Union Council
Independent Community Bankers of America
Investment Company Institute
National Association of Federal Credit Unions

Companies

American Express Company
Bank of America
Capital One
Capital Research and Management
Citi Foundation
Countrywide Bank
Deseret Mutual Benefit Administrators
Edelman Financial Services, LLC
Fidelity Investments
GlaxoSmithKline
Greenwald & Associates
H&R Block
Hartford Life Insurance Company
Merrill Lynch
MetLife
National City Bank
Prudential Financial
Russell Investments
Segal Company
TIAA-CREF
Towers Perrin
Wachovia
Washington Mutual
Wells Fargo Bank, NA

Appendix B

AmericaSavesWeek.org

The screenshot shows a Mozilla Firefox browser window displaying the America Saves Week website. The browser's address bar shows the URL <http://americasavesweek.org/>. The website content includes the following elements:

- Header:** "February 24-March 2, 2008" and "The Federal Reserve Board is pleased to be part of the team that provides support for national and local America Saves programs." Below this is a quote from Ben S. Bernanke, Chairman of the Board of Governors of the Federal Reserve System.
- Logo:** "america saves week.org" with a graphic of a coin.
- Left Column:** The slogan "Build Wealth Not Debt" is displayed.
- Central Column:**
 - How Can Organizations Participate?**
 - > Employers
 - > Financial institutions
 - > Non-profits and governments
 - > Military
 - > Educators and Youth Organizations
 - > Media
 - How Can Individuals Participate?**
 - > View Savings Messages
 - > Receive monthly savings messages
 - > Read saver stories
 - > Test your savings knowledge
 - > Assess your savings progress
 - > Take action to save more effectively
- Right Column:**
 - What is America Saves Week?**
 - > Our purpose
 - > America Saves Week 2007
 - > America Saves Week 2008
 - > Participating organizations
 - > Coordinating organizations

A vertical navigation bar on the right side of the central column contains three circular buttons: "What I know about savings", "Complete my savings checklist", and "How I can take action".

At the bottom of the main content area, there are links for "Contact Us", "Privacy Policy", and "America Saves". Below these links is a row of five small photographs showing diverse people smiling.

The browser's status bar at the bottom shows the Windows Start button, taskbar with open applications (Inbox - Microsoft Out..., America Saves Week..., 3 Microsoft Office ...), and system tray with the time 1:17 PM.