REMARKS OF THE HONORABLE RUBEN HINOJOSA
COMMITTEE ON FINANCIAL SERVICES
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS
HEARING ENTITLED
"IMPROVING CONSUMER FINANCIAL LITERACY UNDER THE NEW REGULATORY SYSTEM"
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I want to welcome the witnesses to today's hearing, and I commend Chairman Luis Gutierrez for holding it.

Today's hearing on financial literacy is important to all of us in the Congress…for today's witnesses; to all of you attending this hearing in person; watching the live webcast of the hearing; those of you who might be reading today's transcript or watching the archived hearing webcast; and really each and every resident in the United States, but especially for our children and the generations to come.

I ask that those of you with financial literacy programs and recommendations for programs and legislation and regulations understand that it was very difficult to select today's witnesses for this hearing. Our Committee and this Subcommittee have a limited amount of time and space for everyone to testify today.

I believe that we have put together a comprehensive panel of witnesses, and this Subcommittee welcomes statements for the record from those of you desiring to submit them, with the understanding that they will be accepted if they address the intent of today's hearing: recommendations as to which agency should have primacy over all others on financial literacy.

I am wearing six hats today:

I am a member of this Subcommittee;

I am a Co-Founder and Co-Chair of the Financial and Economic Literacy Caucus alongside my good friend from Illinois, Congresswoman Judy Biggert, and her dedicated staff Nicole Austin, Zach Cikanek, and Chris Barr;

I am Chairman of the Subcommittee on Higher Education;

I am Chairman of the Congressional Hispanic Caucus Task Force on Education;

I am a consumer just like all of you here today; and, most important,

I am a father.

I have three grown children and two young daughters.

What we do here today;

The actions we take during the 111th Congress, and the steps that the States make to graduate financially literate students are all of the utmost importance.

There is a growing consensus that too many Americans lack the basic financial literacy skills to enable them to navigate our increasingly complex financial system, make informed financial decisions, and avoid abusive financial products and services. Studies consistently show that a significant number of Americans have inadequate knowledge about concepts related to personal finance and basic economics including budgeting, managing credit use and debt problems, reading and understanding credit reports, understanding the terms of a mortgage or vehicle loan, using and maintaining a checking account, and understanding the importance of saving for retirement. Financial illiteracy appears more pronounced among those with lower incomes and less education, who lack a relationship with a mainstream financial institution, and who are members of racial or ethnic minority groups.

Teenagers have repeatedly scored poorly on the Jump$tart Coalition's biennial surveys on knowledge of financial basics. In 2008, high school seniors were able to answer only 48.3 percent of the questions correctly, down from 52.4 percent in 2006. Although college students performed better and scored an average of 62 percent in 2008, only 5.7 percent appear to have an understanding of the nature of inflation and its impact. White students achieved the highest performance with a mean score of 52.5 percent, followed by Asian-Americans with a mean score of 47.2 percent. Native Americans fared least well with a score of 37.7 percent and African Americans did somewhat better with a mean score of 41.3 percent. Perhaps most importantly, no racial group, including whites, had more than about a third of students passing the exam. The problem is national, rather than strictly one of race or poverty. Students from the Northeast region of the United States did best on the exam with a mean score of 53.2 percent. Those from the West did least well with a mean score of 45.2 percent. Nearly 93% of Native high school seniors received a failing score (less than 60% correct), compared to 78% of non-Native students. Worse, the scores probably overstate the financial literacy of Native American youth, who are less likely to complete high school than non-Native peers.

The Federal Reserve Board's 2007 Survey of Consumer Finance (SCF) shows that the wealth gap between White and Hispanic households is more than 8 to 1. According to the Inter-American Dialogue, 40% of Latinos are unbanked, and 50% of Latino immigrants are unbanked and with poor financial access. The majority does not have access to loans or saving products, yet are able to keep savings above US$3,000 but many run into trouble trying to manage their funds with complex financial products due to a historical lack of access to mainstream financial services entities. In fact, nearly every indicator of wealth shows severe and persistent disparities between Hispanic and White families. Lack of basic bank accounts, however, does not translate into a lack of demand for banking services. Where mainstream providers fail to meet the needs of the underbanked, fringe financial providers and abusive lenders have moved in to fill the gap. Consequently, Latinos often pay too much for check cashing, remittances, auto loans, home loans, and other financial services and products, and many are enticed into predatory or high-cost loans with exorbitant interest rates or fees.

The need for financial education is very pronounced in underserved areas such as American Indian, Alaska Native and Native Hawaiian communities. According to a 2008 study by Oweesta

Corporation, Jump$tart Coalition for Personal Financial Literacy, University of South Dakota and the Harvard Project on American Indian Economic Development, Native youth are significantly less likely than non-Natives to have a strong foundation for lifelong financial skills. The study, entitled *Deepening Our Understanding of the Financial Education of Native Youth*, showed that Native youth lag because of structural, economic, and cultural factors—factors that either limit their access to practical and school-based learning opportunities or diminish the effectiveness of those activities. The report also suggests ways to move beyond concern about the gaps in Native youth financial education toward concrete action. Promising efforts include placing culturally competent curricula in Native-serving schools, making strong linkages between financial education and Native students' hopes and dreams, and increasing opportunities for Native youth to manage money through experiential learning.

According to CreditCards.com, credit card debt included the following:

- Americans' credit card debt reached $972.73 billion at the end of 2008, up 1.12% from 2007; That number includes both general purpose credit cards and private label credit cards that aren't owned by a bank. (Source: Nilson Report, April 2009);

- Average credit card debt per household -- regardless of whether they have a credit card or not -- was $8,329 at the end of 2008. (Source: Nilson Report, April 2009);

- The average outstanding credit card debt for households that have a credit card was $10,679 at the end of 2008. One year earlier, that average was $10,637. (Source: Nilson Report, April 2009);

- The average balance per open credit card -- including both retail and bank cards -- was $1,157 at the end of 2008. That's up from $1,033 at the end of 2006, a growth of nearly 11 percent in two years. (Source: Experian marketing insight snapshot, March 2009);

- As of March 2009, U.S. revolving consumer debt, made up almost entirely of credit card debt, was about $950 Billion. In the fourth quarter of 2008, 13.9 percent of consumer disposable income went to service this debt. (Source: U.S. Congress' Joint Economic Committee, "Vicious Cycle: How Unfair Credit Card Company Practices Are Squeezing Consumers and Undermining the Recovery," May 2009)

As household wealth has declined in the downturn, more American families are facing financial distress due to high debt burdens. In 2007, before the recession began, 14.7 percent of U.S. families had debt exceeding 40 percent of their income." (Source: U.S. Congress' Joint Economic Committee, "Vicious Cycle: How Unfair Credit Card Company Practices Are Squeezing Consumers and Undermining the Recovery," May 2009) In 2007, credit card balances made up 3.5 percent of the total debt for all U.S. families, including those with and without credit card debt. (Source: Federal Reserve Survey of Consumer Finances, February 2009)

According to Sallie Mae's National Study of Usage Rates and Trends 2009, students also appear to have amassed disturbing levels of debt which they have difficulty repaying. College students are relying on credit cards more than ever before. Nearly every indicator measured in spring 2008 showed an increase in credit card usage since the last study was conducted in fall 2004.

According to the same study, 84 percent of undergraduates had at least one credit card, up from 76 percent in 2004, the last time the study was conducted. The average number of cards has grown to 4.6, and half of college students had four or more cards. Undergraduates are carrying record-high credit card balances. The average (mean) balance grew to $3,173, the highest in the years the study has been conducted. Twenty-one percent of undergraduates had balances of between $3,000 and $7,000, also up from the last study. Median debt grew from 2004's $946 to $1,645.

Since 2004, students who arrived on campus as freshmen with a credit card already in-hand have increased from 23 percent to 39 percent. In spring of 2008, only 15 percent of freshmen had a zero balance, down dramatically from 69 percent in the fall of 2004. The median debt freshmen carried was $939, nearly triple the $373 in 2004. Seniors graduated with an average credit card debt of more than $4,100, up from $2,900 almost four years ago. Close to one-fifth of seniors carried balances greater than $7,000.

Two-thirds of survey respondents said they had frequently or sometimes discussed credit card use with their parents. The remaining one-third who had never or only rarely discussed credit cards with parents were more likely to pay for tuition with a credit card and were more likely to be surprised at their credit card balance when they received the invoice.

Eighty-four percent of undergraduates indicated they needed more education on financial management topics. In fact, 64 percent would have liked to receive information in high school and 40 percent as college freshmen.

43.5 percent of American families reported they did not save in 2007, according to the 2007 Federal Reserve Board's Triennial Survey of Consumer Finances, which also found that less than half of the population has a savings account, one month of savings or liquid assets, much less the recommended 6 to 12 months worth of emergency savings they might need for an incident such as unexpected unemployment, a medical crisis, rent or a mortgage payment adjustment enabling them to avoid foreclosure…..the worst case scenario.

A 2008 Survey by the Employee Benefit Research Institute found that there are `savers' and `spenders' in all income classes and almost all have the ability to build wealth through contributions to a workplace retirement program, building home equity, and other savings.

Personal savings as a percentage of disposable income was 2.2% in the fourth quarter of 2007 and 4.4 percent in the fourth quarter of 2008, a 1.2 percentage point increase, according to the Bureau of Economic Analysis.

Disposable personal income (DPI) in the fourth quarter of 2007 was negative 2.1% but 5.4% in the fourth quarter of 2008, an increase of 7.5 percentage points; In April 2009, it increased $121.8 billion, or 1.1 percentage points.

Personal consumption expenditures (PCE) decreased $5.4 billion. In March 2009, personal income decreased $25.9 billion, DPI increased $8.2 billion, and PCE decreased $33.0 billion, based on revised estimates. The pattern of changes in income reflect, in part, the pattern of reduced personal current taxes and increased government social benefit payments associated with the American Recovery and Reinvestment Act of 2009, according to the Bureau of Economic Analysis Press Release dated June 1, 2009.

Consumer credit decreased at an annual rate of 7-1/2 percent in April 2009. Revolving credit decreased at an annual rate of 11 percent, and non-revolving credit decreased at an annual rate of 5-1/4 percent, according to the June 5, 2009 Federal Reserve Statistical Release on Consumer Credit.

Older Americans are more likely to live within 200 percent of poverty than any other age group, according to the 2009 Employee Benefit Research Institute's Databook, and more than 60 percent of the current elderly population relies on Social Security for over three-fourths of their annual income according to a 2009 Social Security Administration report on Income of the Elderly over Age 55, 2006, and the average savings of retirees remains at $50,000 according to the Federal Reserve Board's Survey of Consumer Finances for 2007, and the current financial crisis is draining those funds.

The average American retiring at 65 years old can expect to spend 18 years in retirement. Unfortunately, a 2008 survey published by the Employee Benefit Research Institute found that only 47 percent of workers reported that they or their spouse have tried to calculate how much money they will need to save by the time they retire so they can live comfortably. Twenty-two percent of workers and 28 percent of retirees report having no savings. Moreover, according to Choosetosave.org, nearly a quarter of employees surveyed do not participate in their employer-provided 401(k) plans.

According to the 19th Annual Retirement Confidence Survey conducted by the Employee Benefit Research Institute, employees lack basic knowledge about retirement, have given little or no thought to how much they will need in retirement, and underestimate the amount of money that will be necessary for retirement. Retirement confidence declined to 13 percent this year, the lowest since 1993.

The average baby boomer has only $50,000 in savings apart from equity in their homes, according to the Federal Reserve Board's Survey of Consumer Finances for 2007.

Numerous Federal agencies and others created a website, www.usa.gov, which provides consumers with information they need to make smart choices in today's market.

The Federal Trade Commission collects consumer complaints about identity theft, fraud, debt collection, and other consumer issues, and in 2008 collected over 1.2 million consumer complaints, more than half of which were fraud complaints that resulted in consumers losing over $1.8 billion.

U.S. consumer bankruptcy filings increased nearly 33 percent nationwide in 2008 from the previous year, according to a release by the American Bankruptcy Institute based on data from the National Bankruptcy Research Center (NBKRC). The data showed that the overall consumer filing total for the 2008 calendar year (Jan. 1 – Dec. 31, 2008) reached 1,064,927 compared to the 801,840 total consumer filings recorded during 2007.

The total number of U.S. bankruptcies filed during the first three months of 2009 increased 34.5 percent over the same period in 2008 nationwide, according to data released June 9, 2009 by the Administrative Office of the U.S. Courts. As total filings reached 330,477 during the first calendar year quarter of 2009 (Jan. 1-March 31), the total surpassed the 245,695 new cases that were filed over the same period in 2008. The total filings in the 2009 first quarter also represent a 9.7 percent increase from the 301,317 bankruptcies filed during the fourth quarter of 2008 (Oct. 1 – Dec. 31).

In recognition of June 2009 as National Homeownership Month, the National Foundation for Credit Counseling (NFCC) released the results of a recent housing survey which revealed that almost half of all American adults, more than 100 million people, no longer believe that homeownership is a realistic way to build wealth. This is counter to the long-held belief that buying a home and building equity should be a major component of a person's financial strategy.

Other findings from the NFCC survey were equally reflective of this new attitude toward homeownership:

- Almost one-third of those surveyed, or roughly 72 million people, do not think they will ever be able to afford to buy a home;

- Forty-two percent of those who once purchased a home, but no longer own it, do not think they'll ever be able to afford to buy another one;

- Of those who still own a home, 31 percent do not think they'll ever be able to buy another home (upgrade existing home, buy a vacation home, etc.); and,

- Seventy-four percent of those who have never purchased a home felt that they could benefit from first-time homebuyer education from a professional.

In addition, the results of the NFCC survey found the following:

- 41 percent of U.S. adults, or more than 92 million people living in America, gave themselves a grade of C, D, or F on their knowledge of personal finance, suggesting there is considerable room for improvement;

- 26 percent, or more than 58 million adults, admit to not paying all of their bills on time;

- 42 percent of adults, or more than 94 million people, currently have a home mortgage and, of those, 28 percent say that the terms of their mortgage somehow turned out to be different than they expected;

- 32 percent, or 72 million people, report that they have no savings and only 23 percent are now saving more than they did a year ago because of the current economic climate;

- 57 percent of adults report spending less than they did a year ago. 72% of Hispanic American adults have not ordered a copy of their credit report in the past year.

- One-third of adults (33 percent), or more than 74 million people, do not put any part of their annual household income toward retirement. This is up from 28 percent in 2008.

A March 2005 GAO study revealed that some consumers do not understand many aspects of credit reports and the impact of personal credit histories. For instance, many do not know how long items remain on credit reports or the impact credit history may have on insurance rates and potential employment. Also troubling is that only 28 percent of consumers surveyed could name a number within a possible credit score range or knew that credit bureaus investigate incorrect information for free. In addition, the NFCC Survey found that fewer than half of Americans have ever ordered their credit reports.

This lack of financial literacy and poor financial management has profound implications for individual consumers and the U.S. as a whole. Lack of financial literacy has resulted in the inability to save, the accumulation of dangerous amounts of credit card and other household debt, reliance on fringe financial service providers, vulnerability to high-cost products, and an inability to plan for a secure retirement.

Over the last two decades financial literacy efforts have dramatically expanded in response to the low level of national savings, the increased debt loads, the changes in the financial services structure and U.S. job market that have required more Americans to take control of their retirement savings, and the increased availability of credit cards and complicated financial products.

In addition to the entities testifying at today's hearing, numerous federal, state and local governmental agencies, as well as private employers, financial services industry firms, educational institutions (elementary, secondary, and post-secondary), community and faith-based organizations, and others have undertaken important financial education programs and campaigns including the FDIC, FTC, SEC, OCC, Department of Defense, the Council for Economic Education, Junior Achievement, Jump$tart Coalition for Personal Financial Literacy, the American Bankers Association Education Foundation, National Foundation for Credit Counseling, Financial Services Roundtable, Independent Bankers Association of Texas, Texas Credit Union League, Credit Union National Association, National Council of La Raza, Urban League, Employee Benefit Research Institute, AFSA, NEFE, and many more.

These initiatives take a variety of forms and target diverse populations. They include national public relations campaigns aimed at increasing public awareness of the need to save and budget; private sector and nonprofit coalitions that devise curricula and craft multilingual education materials; personal finance and economic education in elementary, secondary and post-secondary education; research-based consumer initiatives; homebuyer seminars on avoiding predatory loan products; and workplace financial literacy programs. Some initiatives focus on educating the general population while others target specific groups of consumers (low-income, teenagers, college students, the elderly, or members of the military).

Empirical evidence suggests that many programs have improved financial literacy for targeted groups. For instance, a 1996 study found that workplace financial education led to a 20 percent increase in retirement plan participation rates among attendees. Likewise, a 1997 study concluded that adults that received financial education in high school have higher savings rates and higher net worth. In addition, a 2004 study of an Illinois financial literacy program for low-income people found that the participants report budgeting more, increasing savings, opening bank accounts and participating in employer-sponsored retirement programs as a result of the program.

Despite the documented successes of some financial literacy programs, the efficacy of widespread efforts to raise public awareness and make personal financial education more available to Americans has been questioned. The results of general financial literacy surveys and anecdotal evidence suggest that lack of financial literacy among Americans of all ages and socioeconomic groups persists. In response to criticism of current efforts, a number of academics, financial literacy advocates, elected officials at all levels of government, financial services industry experts, and other concerned parties are spearheading efforts to identify and examine those attributes that make financial education programs effective and beneficial to consumers.

The Financial Literacy and Education Commission (FLEC or Commission) was established under Title V (the Financial Literacy and Improvement Act) of the Fair and Accurate Credit Transactions Act of 2003 (FACT Act) to improve financial literacy and education of persons in the U.S. The principle duties of FLEC include: (i) encouraging government and private sector efforts to promote financial literacy; (ii) coordinating financial education efforts of Federal government; (iii) developing a national strategy to promote financial literacy; (iv) establishing a website mymoney.gov to serve as a clearinghouse and provide information about financial education programs and grants; and (v) establishing a toll-free hotline (1-888-MyMoney) to provide information about issues of financial literacy and education.

The Treasury Department's Office of Financial Education provides the primary support for the FLEC. The Commission is Chaired by the Secretary of the Treasury and composed of 19 other Federal agencies: Agriculture Department, Commodities Future Trading Commission, Defense Department, Education Department, Federal Deposit Insurance Corporation, Federal Reserve Board, Federal Trade Commission, General Services Administration, Health and Human Services Department, Housing and Urban Development Department, Labor Department, Office of Personnel Management, National Credit Union Administration, Office of the Comptroller of the Currency, Office of Thrift Supervision, Securities and Exchange Commission, Small Business Administration, Social Security Administration, and Veterans Affairs Department. The first meeting of the Commission took place on January 29, 2004.

In April 2007, the Commission launched the National Financial Education Network of State and Local Governments which consists of 60 state and local governments as well as non-profit organizations that represent state and local governments.

On April 3, 2008, the Commission submitted the Strategy for Assuring Financial Empowerment ("SAFE") Report. FLEC is required to issue the report annually. The SAFE report includes a copy of the National Strategy and other documents describing the Commission's ongoing work, plans for future activities and revisions to the National Strategy.

The GAO has consistently praised the Commission for raising awareness about financial literacy. However, in reports published in 2006, 2007, and more recently on April 29, 2009, the GAO criticized FLEC's national strategy for its lack of clear plans of action to increase financial literacy, for being more descriptive than strategic. Specifically, the agency found that although the strategy provides a clear purpose, scope and methodology, it does not: (i) serve as a plan of action designed to achieve specific goals and (ii) its recommendations are presented as "calls to action" that generally describe existing initiatives and do not include plans for implementation. Because of these shortcomings, most surveyed organizations said that the strategy was unlikely to have a significant impact on their financial literacy efforts. In addition, GAO noted that coordinating federal financial literacy efforts is challenging for FLEC, in part, because it must achieve consensus among 20 federal agencies. In response to these concerns, GAO recommended that the Commission: (i) incorporate additional elements into the national strategy to help measure results and ensure accountability, (ii) conduct usability tests of, and measure customer satisfaction with, its Web site, (iii) provide for an independent reviewer to evaluate duplication and effectiveness of federal activities, and (iv) expand upon current efforts to cultivate sustainable partnerships with nonprofit and private entities.

In light of all these disturbing facts, we have a mandate to improve the financial literacy rates of all residents throughout the United States during all stages of life, and I believe that today we might find some of the tools necessary to accomplish this goal, which most definitely will include revamping the Financial Literacy and Education Commission, and selecting one agency that should have primacy over financial literacy efforts going forward under the new regulatory plan proposed by President Obama.

Again, I want to express my sincere appreciation for Chairman Luis Gutierrez holding today's hearing with the assistance of his staff: Eric Edwards and Karl Haddeland; as well as Lois Richerson on Full Committee staff. It is my hope that this will be the first in a series of hearings on financial literacy and deciding which agency will have primacy over all others on financial literacy once the new regulatory system has been put into place.

I yield back the remainder of my time.