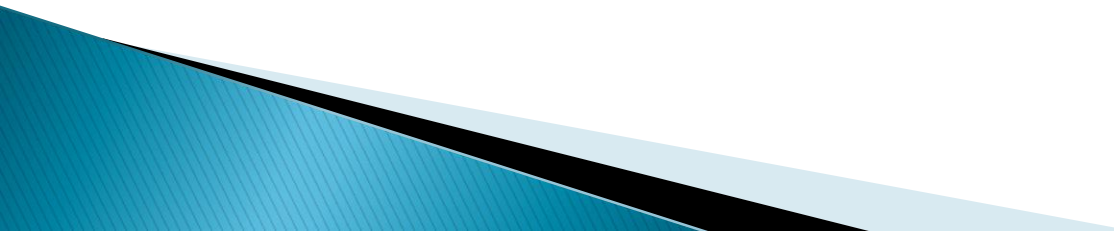


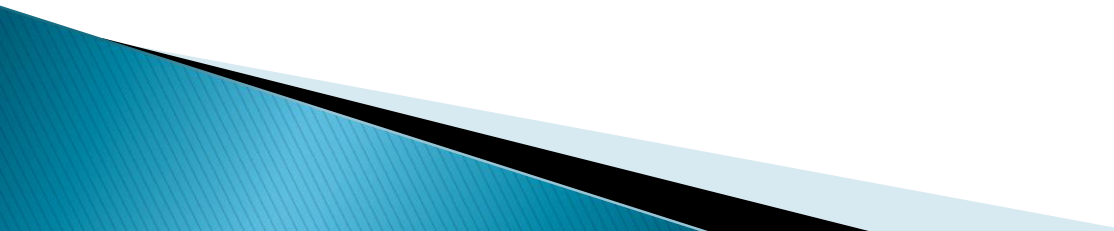
Role of Financial Education in Community Development

Ana Cruz-Taura
Federal Reserve Bank of Atlanta
May 27, 2010

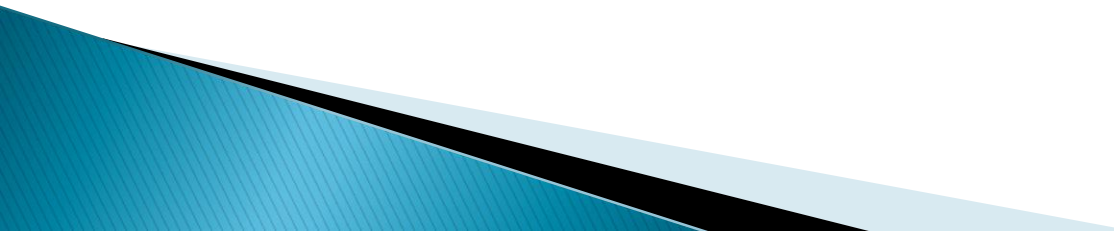
Why is financial education important?

- ▶ Better choices and financial decisions
 - ▶ Skills to build financial security
 - ▶ Asset building and wealth accumulation
 - ▶ Consumer protection
 - ▶ Market efficiencies
- 

Financial Stability Goals

- ▶ Increased financial independence and resiliency of individuals and families
 - ▶ Educated consumers making better-informed and more effective decisions
 - ▶ Improved consumer protection and market efficiency by decreasing demand for abusive products and practices.
 - ▶ Increased efficiency in allocation of resources and leveraging of community assets
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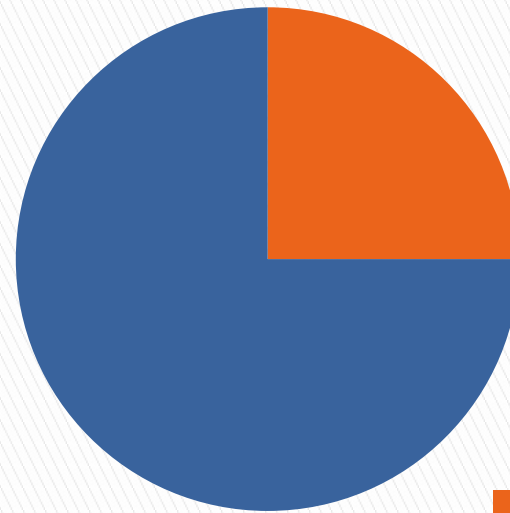
Environmental Factors Influencing Financial Education

- ▶ Predatory and abusive practices
 - ▶ Increasingly complicated system/products
 - ▶ Global marketplace/enforcement challenge
 - ▶ Increasing need for efficiencies
 - ▶ Persistent poverty/disinvestment
 - ▶ Increased competition/market demand
- 

FDIC Survey of Unbanked Households



■ Alternative
■ Mainstream



■ Cash
■ Recorded

Financial Services

Payments

Points of Contact



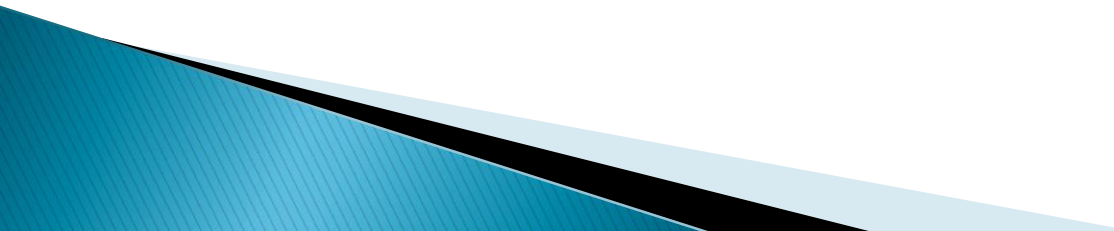
Carrot or Stick?

- ▶ Carrots:
 - Incentives, discounts, subsidies/grants, access
- ▶ Sticks:
 - Fees, interest expense, penalties, restrictions

Alternative Financial Services are combining the carrot and stick into high-priced services and creating poor financial management habits

Part of the education goal should develop positive habits and alter ineffective behavior

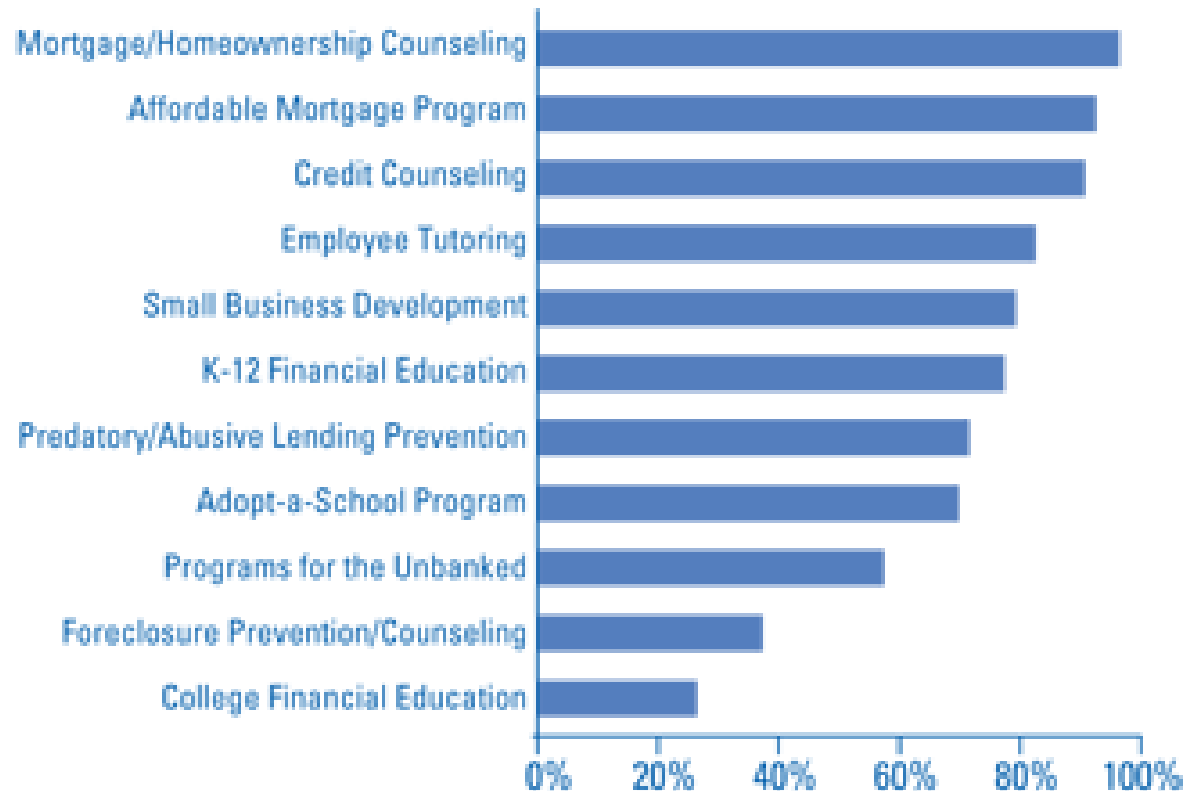
How does financial education support communities?

- Helps fight predatory lending and abusive practices
 - Allows financial institutions to develop untapped markets
 - Allows communities to leverage subsidies
 - Promotes wealth and prosperity
- 

Financial Education Delivery Network

<p><u>Federal Government</u></p> <p>Home ownership Welfare and subsidies Micro Business Small Business Import/Export Investment Insurance Banking Payments Financial Services Incentives</p>	<p><u>State/Municipal Government</u></p> <p>Incentives Tax Credits Economic Development Regulation Education Social Services</p>
<p>Direction & Regulation</p>	<p>Protection & Targeting</p>
<p><u>Private Market</u></p> <p>Accounting & Tax Investment Lenders Financial Institutions Credit Card Corporations Economic Development</p>	<p><u>Non-Profit</u></p> <p>Social Services Financial Counseling Intermediary Neighborhood Revitalization Education Re-training Advocacy</p>
<p>Knowledge & Funding</p>	<p>Training & Mentoring</p>

Financial Institutions Offer Many Targeted Financial Education Programs and Services



Source: Consumer Bankers Association, *2003 Survey of Bank-Sponsored Financial Literacy Programs* (Arlington, VA, 2003).

Goals and Measurement

<http://www.frbatlanta.org/edresources/assessment/>

- ▶ Financial Responsibility & Decision Making
 - Financial goals help guide decisions
 - Use of disclosures and trusted information

- ▶ Planning & Money Management
 - Budgeting
 - Payment choices

Goals and Measurement

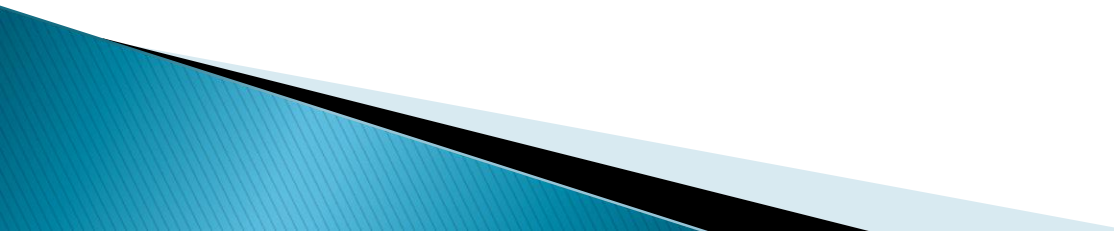
▶ Credit & Debt

- Understand benefits & cost of credit
- Responsible debt management
- Sound financial choices

▶ Saving & Investing

- Set personal savings goals
- Investment builds wealth & contributes to financial goals

Education Impact

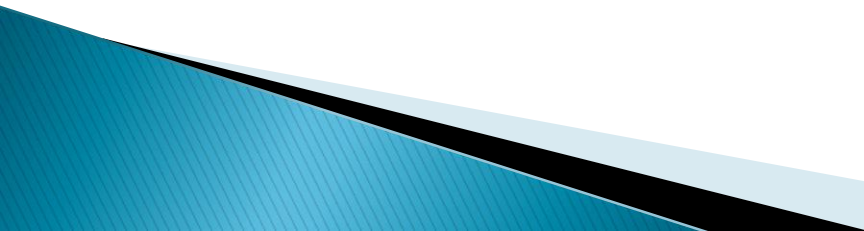
- ▶ When evaluating a wide range of financial management knowledge, education does not seem to be impacting performance.
 - ▶ However, specific activities show positive impact of education on stability and efficiency.
 - ▶ Education tied to ongoing mentoring leads to best results.
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Data Analysis

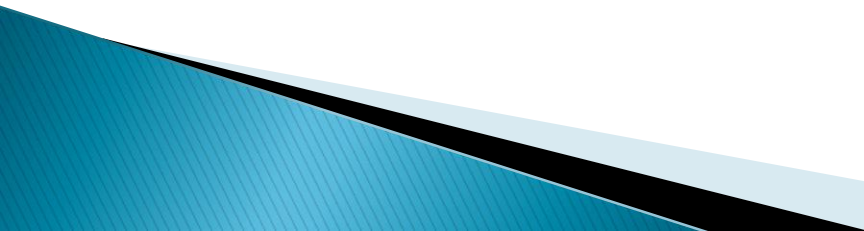
- ▶ Deposit balance trends
 - ▶ Credit demand/approval
 - ▶ Credit counseling demand/bankruptcies
 - ▶ Savings and investment

 - ▶ Economic development
 - ▶ Private leverage/investment
 - ▶ Interest rates as measure of risk
 - ▶ Profitability/tax base
- 

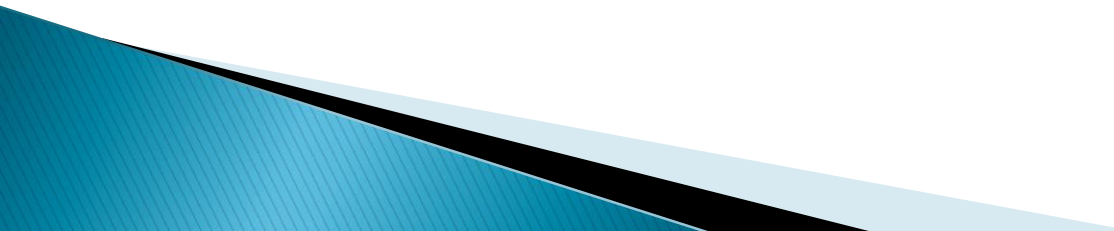
Challenges

- ▶ Many programs / curricula
 - Consistency, inefficiency, gaps in information
 - ▶ Many education providers
 - Certification, ethics, consistency, value
 - ▶ Unclear expectations & standards
 - Consistent eligibility & goals for products / services
 - ▶ Economies of scale & local responsiveness
 - Funding, cultural sensitivity, relevance
 - ▶ Incentives and rewards
 - Tangible to theoretical
- 

Marketing Challenges

- ▶ Creating value in education
 - ▶ Modification of community norms
 - ▶ Matching needs to programs – not a focus on eligibility criteria
 - ▶ Geographic versus income focus
 - ▶ Community benefits through individual performance
- 

Funding Challenges

- ▶ Stability and sustainability
 - ▶ Mission focus vs. unmet needs
 - ▶ Layering sources and expectations/limits
 - ▶ Tracking and controls
 - ▶ Training/Education/Mentoring functions
 - ▶ Quality control
 - ▶ Dynamic management – identification and incorporation of best practices
- 

National Programs

- ▶ FDIC Money Smart

<http://www.fdic.gov/consumers/consumer/moneysmart>

- ▶ US Department of Treasury My Money

www.MyMoney.gov

- ▶ US Small Business Administration

<http://www.sba.gov/smallbusinessplanner/index.html>

- ▶ US Department of Treasury CDFI Financial Education Pilot Program

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