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Federal Reserve Bank of San Francisco

Financial Education

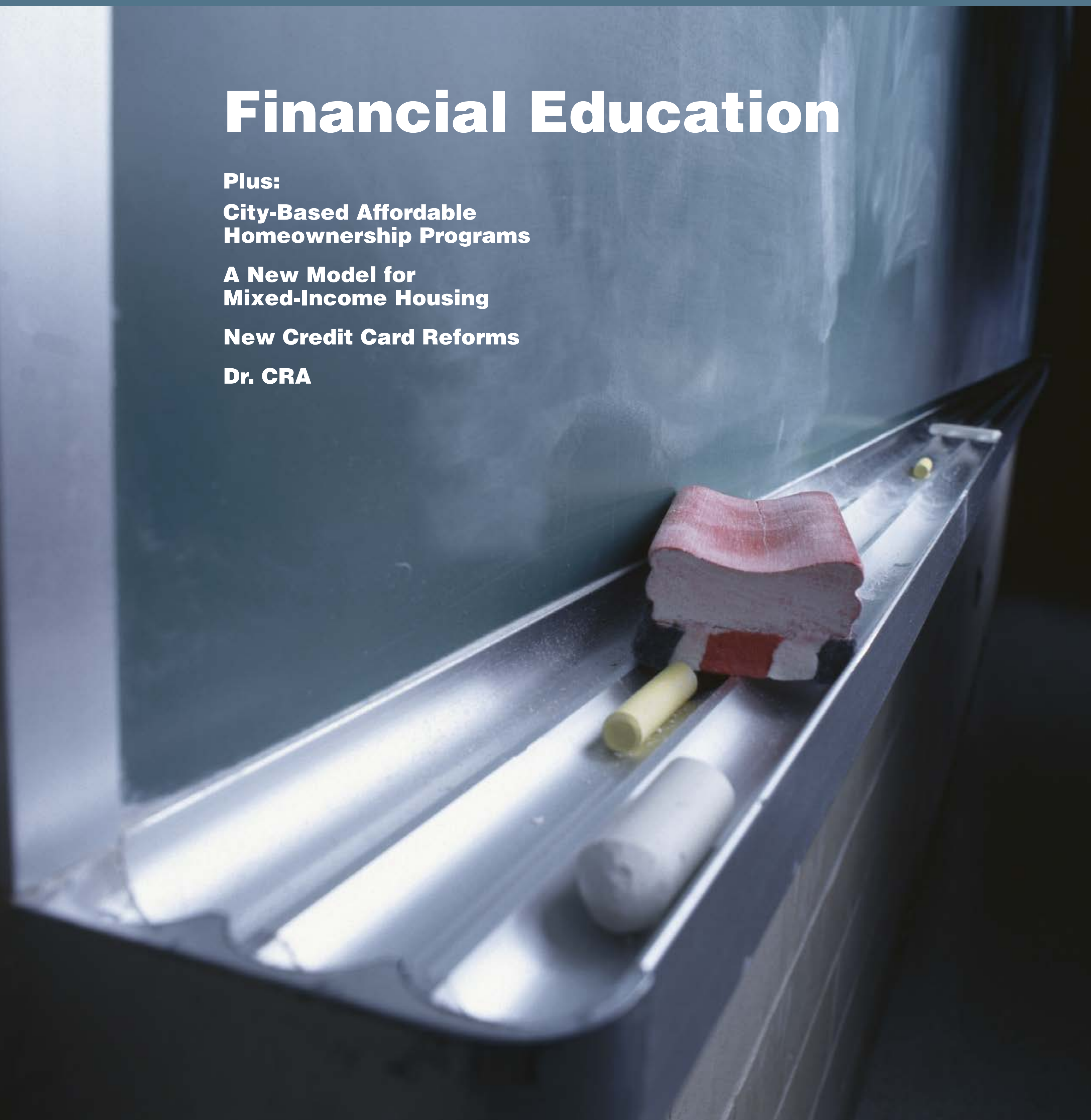
Plus:

City-Based Affordable Homeownership Programs

A New Model for Mixed-Income Housing

New Credit Card Reforms

Dr. CRA



CI Notebook

by Laura Choi, Editor

A comedy skit featured on the television show *Saturday Night Live* opens with a married couple trying to make sense of their worsening financial situation. Overwhelmed by credit card debt, the couple wonders aloud how they'll ever get out of debt. At that moment, a helpful announcer enters the scene. "Did you know that millions of Americans live with debt they cannot control? That's why I developed this unique new program for managing your debt. It's called *Don't Buy Stuff You Cannot Afford*." The couple struggles to make sense of this foreign concept and the skit ends with the announcer offering a free copy of his follow-up program entitled, *Seriously, If You Don't Have the Money, Don't Buy It!*

While these lessons may seem so obvious they're funny, the data suggest that many Americans haven't mastered them. The average household in the U.S. holds more than $8,000 in credit card debt and saves less than $400 each year. This combination of growing debt and inadequate savings has left many families particularly vulnerable to the current economic downturn. And it suggests we all need to do more to educate consumers about their personal finances and to expand access to appropriate financial products. Financial education programs and initiatives continue to develop, along with research efforts to gauge their success, but important questions remain. How do we measure success? Which programs are most effective? Can financial education change people's behavior?

In this issue of *Community Investments*, we explore some of these questions and discuss how the growing field of financial education can help people maximize their financial well-being. You'll learn about best practices in financial education, the role of financial institutions in delivering financial education tied to financial products, and how insights from behavioral economics can improve the design of financial education. In addition, we take a closer look at a research study measuring the effectiveness of financial education among soldiers and consider strategies to promote asset building at tax time.

In addition to the Special Focus articles on financial education, our Eye on Community Development examines the performance of city-based affordable housing programs, innovations in mixed-income housing, and the new reforms to credit card regulation. In addition, quarterly features like Dr. CRA, Research Briefs, and Data Snapshot provide the latest findings on important community development topics.

There's nothing like a recession to get people thinking about their personal finances, and we hope this issue of *Community Investments* motivates a discussion around ways to improve financial education in the Twelfth District and across the nation.

Laura

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This publication is produced by the Community Development Department of the Federal Reserve Bank of San Francisco. The magazine serves as a forum to discuss issues relevant to community development in the Federal Reserve's 12th District, and to highlight innovative programs and ideas that have the potential to improve the communities in which we work.

COMMUNITY INVESTMENTS
Federal Reserve Bank of San Francisco

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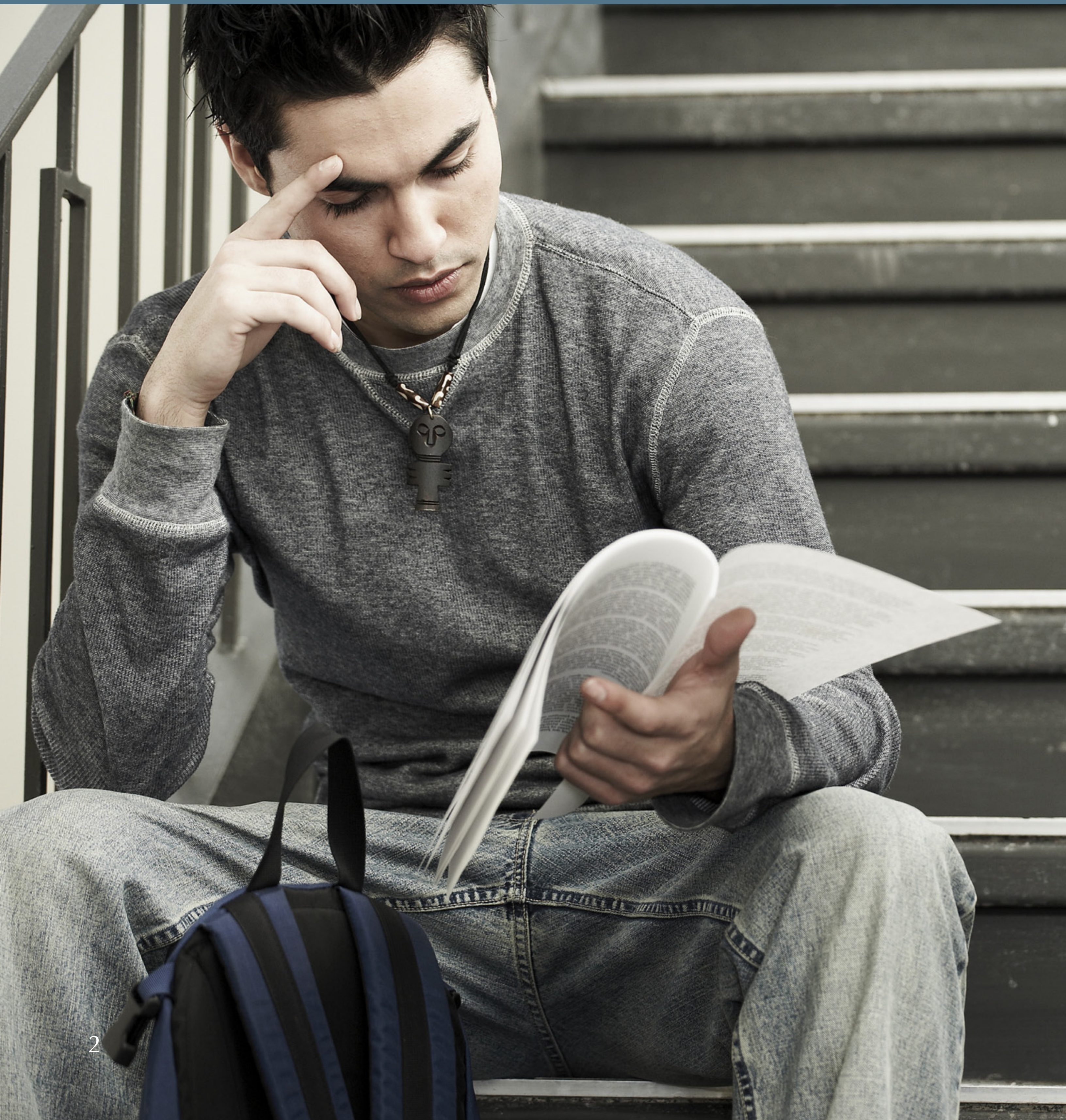
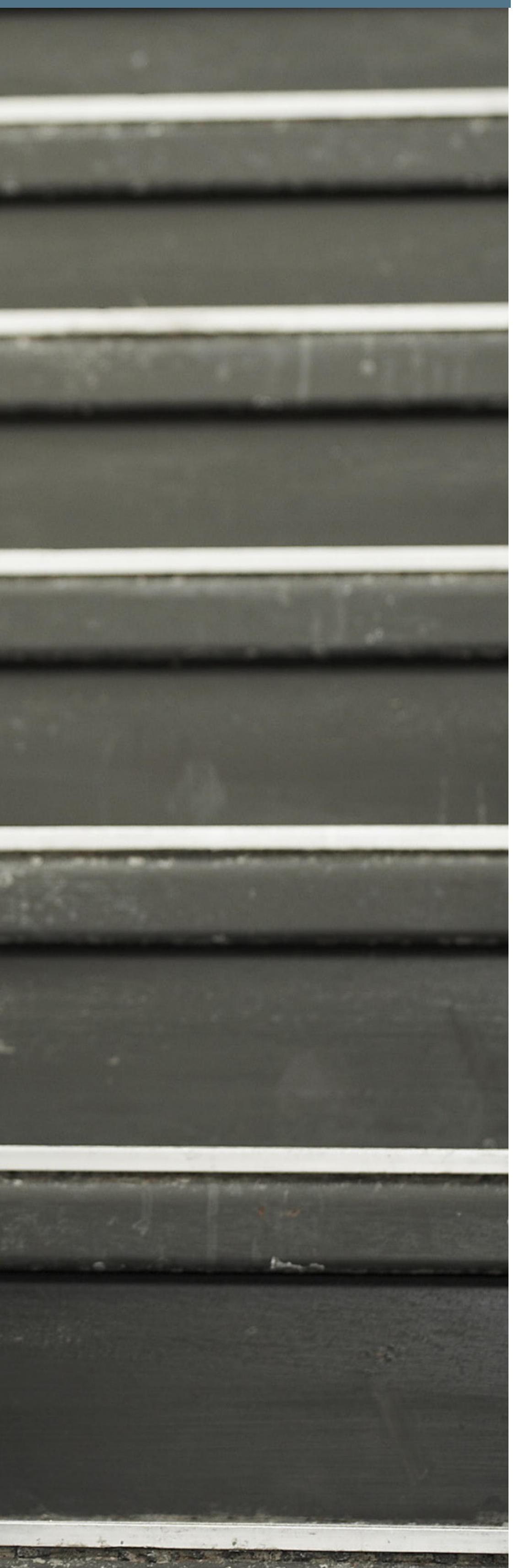
Financial Education for a Stable Financial Future

By Laura Choi





Introduction

Whether for lack of knowledge, resources, or self-control, far too many Americans are struggling with their personal finances. A recent survey by the National Foundation for Credit Counseling finds that 41 percent of U.S. adults gave themselves a grade of C, D, or F on their knowledge of personal finance and 26 percent admitted to not paying all of their bills on time (among African-Americans, this figure jumps to 51 percent); one in three adults reported no savings. Among those between the ages of 18 and 34, almost half reported that they did not have any savings.[1] At the same time, Americans' credit card debt reached $972.73 billion at the end of 2008, up 1.12 percent from 2007, consumers had an average of 5.4 credit cards, and the average outstanding credit card debt for households that have a credit card was $10,679.[2] The rate of personal saving has been in steady decline over the past twenty years while household debt service relative to income has been on the rise since the early nineties (these trends have recently begun to reverse, consistent with past recessions, see Figure 1.1 and Figure 1.2). These findings suggest that individuals from across the economic spectrum struggle to master the skills and "good" behaviors related to personal financial management.

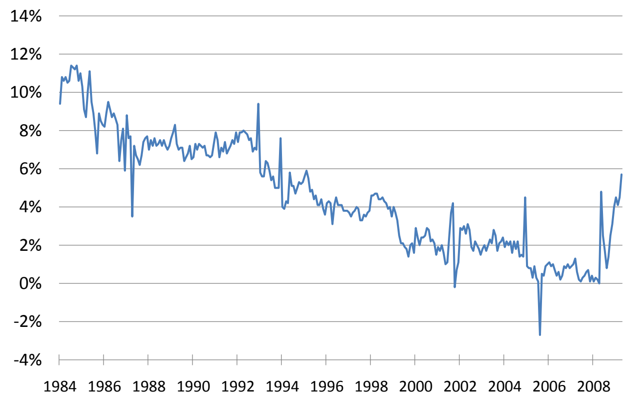
The need for financial education is especially salient in light of the current economic downturn. Families struggling to cope with job losses and reductions in household income need to be able to draw on financial skills such as budgeting, saving, and credit and debt management. In particular, many low- and moderate-income (LMI) families that were already stretched thin before the recession now face even greater financial challenges. These households suffer greater income losses (as a proportion of total income) during economic downturns and experience slower economic recovery relative to higher-income households.[3] Many of these families lack the basic knowledge and resources required to save and invest, build wealth, and avoid excessive debt; at the same time, many remain outside of the financial mainstream and lack access to important financial products and services.[4]

Financial education plays a vital role in equipping all individuals with the knowledge, skills, and opportunities they need to get back on solid financial ground. This article provides a brief overview of the field of financial education and explores some of the challenges and potential solutions for moving the field forward.

The Field of Financial Education

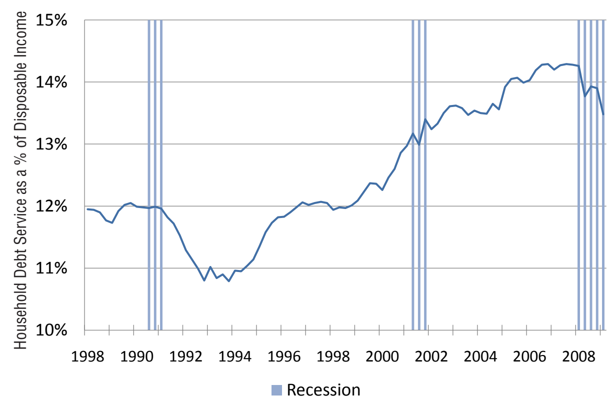
The contemporary financial education movement proliferated in the mid- to late-1990s in response to a number of widespread changes. Financial products became more complex; technology played a growing role in the financial services sector; employers shifted away from traditional pension plans to defined contribution plans; and the wave of "baby boomers" approaching retirement created apprehension around the adequacy of safety nets such as Social Security and Medicare. The need for greater education in the area of personal financial management spurred the creation of a number of large, nationally representative organizations, such as the National Endowment for Financial Education, the American Savings Education Council, the

Figure 1.1
U.S. Personal Saving Rate
1984 – 2009



Source: Bureau of Economic Analysis
Seasonally adjusted, personal saving as a percentage of personal disposable income

Figure 1.2
Household Debt Service
1988 – 2009



Source: Federal Reserve Board
Debt payments consist of the estimated required payments on outstanding mortgage and consumer debt.

Jump$tart Coalition, the Financial Literacy Education Commission, and the Treasury's Office of Financial Education. At the same time, financial education programs were introduced by a wide variety of providers, including community-based organizations, state cooperative extension services, financial institutions, and the military (see the article "Financial Education—Does it Work and How Do We Know?"). Today, financial education services are diverse, ranging from school-based programs for youth to specialized training for underserved adults.

Programs for youth make up a significant share of financial education activity and utilize a variety of delivery mechanisms. At the broadest level, certain states have mandates for financial education in public schools, typically at the high school level. The types of mandates vary by state, with some states requiring content standards for personal finance (which may or may not require implementation) while others may require students to take a personal finance course in order to graduate. Within the Federal Reserve's Twelfth District, Arizona, Idaho, and Utah are the only three states that require students to take a financial education course (see Table 1.3). Support for state mandates continues to grow as proponents argue that children should learn the importance of good financial behaviors early on as part of their basic compulsory education. The National Council on Economic Education reports that in 2007, 40 states had mandates for content standards, as compared to just 21 states in 1998.[5] But critics point out that the research findings on the effectiveness of youth financial education are mixed. For example, high school seniors consistently earn failing marks on the Jump$tart Coalition test of financial literacy and although questions relating to money management education have been asked since the 2000 survey, only in 2004 have mean scores of students who have taken a class in personal finance exceeded those of all students.[6] However, a study by researchers Douglas Bernheim, Daniel Garret, and Dean Maki suggests that state mandates for financial education in high school have a significant effect on savings rates and net worth during peak earning years later in life.[7] In addition, researchers have been able to demonstrate significant effects at the individual program level (most often occurring outside of the school system) including changes in knowledge, attitude, and behavior.[8] Although more rigorous research is required to assess the effectiveness of youth financial education, some promising practices have emerged, which include demonstrating relevance to students in order to engage their motivation and incorporating experiential learning opportunities.

In addition to state mandates for financial education, youth can also receive training through extracurricular programs. The Bank at School program establishes active bank branches on school campuses, and in a number of states, such as Delaware, Louisiana, West Virginia, and Illinois, the program operates as a partnership between schools, local banks, and the state treasurer's office. The program includes classroom based training on financial topics (often aligned with state educational standards), and couples the traditional curriculum with real world banking experiences. Students can open non-custodial, no-fee savings accounts at the school branches and have the opportunity to make regular deposits at the bank as part of the program.[9] The nonprofit organization Junior Achievement (JA) operates the "Finance Park"

Table 1.3

Financial Education Mandates in the 12th District

State	Mandate
Alaska	Content Standards only
Arizona	Social studies graduation requirement includes one-half credit of economics (which includes a personal finance concept in its standards) for the class of 2012.
California	None
Hawaii	Content Standards only
Idaho	Personal finance education provided within social studies economics content standards required for high school graduation.
Nevada	None
Oregon	Content Standards only
Utah	Financial literacy education (.5 credit) required for high school graduation effective January 1, 2008.
Washington	Content Standards only

Source: Jump$tart Coalition for Personal Financial Literacy and National Council on Economic Education

and "BizTown" programs in multiple locations throughout the country, which offer real-world learning simulations for elementary, middle, and high school students. Students learn about personal financial management and career exploration (Finance Park) as well as entrepreneurship, free enterprise, and financial planning (BizTown) in the classroom, and then visit a JA site to participate in a hands-on role play simulation. For example, students visiting Finance Park are randomly assigned a "life situation" card which determines their job, income, education level, marital status and number of children for the simulation. Based on these factors, students use bank services, purchase housing, food, health insurance, and other necessities, and experience firsthand the process of budgeting, saving, and making choices and tradeoffs to live within their means.

While it may be ideal to instill good financial habits at a young age, there is also a great need for financial education for adults. Many adults never learned the basics of good financial management and may be struggling with poor credit, while other adults may be facing new financial challenges in the current economic climate, such as significant losses to their retirement portfolios. In addition, the ever-changing nature of financial markets and products means that adults must continue to educate themselves in order to successfully manage complex financial decisions, such as paying down debt or purchasing a home. Financial education for adults is generally voluntary and programs attract participants through a variety of channels. For example, the FDIC's "Money Smart" program is a comprehensive financial education curriculum designed to help individuals outside the financial mainstream and is used by financial institutions and other community organizations interested in sponsoring financial education workshops. In a recent longitudinal evaluation of Money Smart, respondents reported significant positive changes in their level of savings, amount of debt, and likelihood to comparison shop for financial products at the end of their training and over the intermediate term (six to twelve months later).[10] Other financial education programs for adults may be tied to a specific asset building initiative. Many city-sponsored first-time homebuyer programs require participants to complete pre-purchase counseling in order to qualify. One study found that such counseling can be effective in reducing mortgage delinquency, and that different counseling programs vary in their effectiveness: individual-based programs resulted in a greater reduction in delinquency rates, relative to classroom and at-home self-study counseling. Most individual development account (IDA) programs also have a financial education requirement for participation, and studies have shown that even short courses, from 8-10 hours, can have a significant impact on savings behavior.[11]

While the effectiveness of financial education is still under debate, there is some consensus that delivering financial education around a specific life event or financial decision, such as the purchase of a home or opening a savings account, can increase the program's salience and impact (for more on tying financial products into financial education, see the article "Banks and Financial Education"). Often referred to as "just-in-time" education, this approach provides targeted information that is relevant and can be applied in the near term. For example, workplace training on retirement planning gained popu-

. . . individuals must have the opportunity to participate in economic life by being linked to financial institutions.

larity with the rise of defined contribution plans as the responsibility of saving for retirement increasingly fell on employees.[12] Studies show evidence of increased levels of participation and savings in retirement plans after completion of workplace training.[13] But participation in these programs is voluntary, and it could be the case that those who participate in such training are more likely to save and plan for their retirement, thus making it difficult to understand the true effect of the education. Researcher Lewis Mandell summarizes the issue by pointing out that, "those who need financial education the most—workers with little formal education, who have accumulated few assets and are in the greatest danger of retiring without sufficient income—are least likely to attend."[14] However, one study found that retirement seminars appear to have the strongest effect among workers with lower levels of wealth and that the impact decreases or disappears among wealthier workers.[15] This finding was verified by Dartmouth researcher Annamaria Lusardi, who also found that the effect of seminars was especially strong for those with little wealth or education, boosting financial wealth in some cases by as much as 18 percent.[16]

Challenges in the Field

One of the challenges facing the relatively young field of financial education is the lack of common terminology and standards. While "literacy" is universally defined as the ability to read and write, the meaning of the term "financial literacy" is less clear. The President's Advisory Council on Financial Literacy, a group of industry experts formed in 2008, defines financial literacy as "the ability to use knowledge and skills to manage financial resources effectively for a lifetime of financial well-being," but points out that, "the term 'financial literacy' is being used to describe financial education programs without taking into consideration exactly what the program's goal is, what particular skills the participants will learn, or if participants will emerge from the program with the ability to take control of their financial future."[17] Even the appropriateness of the term "financial literacy" is debated as practitioners point out that some program participants may find the connotation of illiteracy to be offensive, particularly among low-income populations or those with low levels of educational attainment. In addition, Johnson and Sherraden suggest that financial literacy is "a helpful but not sufficient idea," pointing out that individuals must have the opportunity to participate in economic life by being linked to financial institutions; they introduce a new term to the field and refer to this combined functioning of knowledge and practice as "financial capability."[18]

This inconsistency in terminology creates particular challenges for researchers trying to evaluate the effectiveness of the financial education field; without consistent definitions and clear standards, it's extremely difficult for evaluators to compare the changes in knowledge or behavior from one program to the next and make industry-wide assessments.[19] In addition, there is wide variation across programs in terms of what is being measured and how.[20] Program evaluation remains a significant challenge for financial education practitioners and researchers alike for a number of reasons: a general lack of understanding about how to measure program impact (designing a survey instrument, identifying appropriate metrics); capacity limits in terms of staff, time, and funding for program evaluation; and the difficulty and cost associated with collecting sufficient data for a rigorous study. Longitudinal data collection over the long term is particularly costly and challenging, as maintaining contact over time requires significant effort and participants may be unresponsive. As a result, many evaluations utilize a pre- and post-test model of assessment, which generally relies on self-reported data and does not capture behavior change that is more likely to occur over the longer term.[21] A number of useful resources are available to help simplify the program evaluation process, such as the National Endowment for Financial Education (NEFE) Evaluation Toolkit (see the article "Learning and Growing" for more information from NEFE), and many of these guides and web resources are designed to be practitioner-friendly and easy to use.[22]

In addition to the broader challenges discussed above, there are a number of challenges at the individual level. For example, motivating a person to change their behavior is extremely difficult. Knowing and doing are separate matters, and good financial behavior requires not only knowledge, but also discipline, future orientation, and self-control. Even highly knowledgeable and skilled individuals may have a difficult time controlling their spending and debt, despite knowing the "good" behaviors of financial management. There are some promising advancements in the field of behavioral economics that may help financial education providers better understand the link between knowledge and behavior (see the article "An Apple or a Donut" for more on behavioral economics). Other challenges at the individual level include language and cultural barriers. Federal Reserve Chairman Ben Bernanke has recognized the need for greater financial education in underserved communities and suggests strengthening efforts in these areas. "There needs to be a broader understanding in minority communities, which haven't had that much exposure [to financial education], about saving and building a credit record and being part of the mainstream economy."[23]

. . . this financial crisis provides the ultimate "teachable moment" for financial education, and we should continue our efforts to strengthen the field and reach many more individuals.

Moving the Field Forward

Despite the challenges, financial education practitioners continue to move the field forward through a variety of efforts. One example is the Financial Education Network in San Francisco, a group of local financial education providers, funders, and government agencies that is working collaboratively to share resources and improve service delivery and outreach at the local level. The Network meets on a regular basis to share information and develop a unified strategy for advancing financial education, which includes creating a local online directory of services and launching a city-wide financial education outreach event. Another example is the ongoing effort to increase access and awareness of financial education among immigrant populations. The non-profit Korean Churches for Community Development (KCCD) partnered with other community organizations and banks to help the FDIC develop an accurate and culturally sensitive Korean language version of the Money Smart program, and also recently completed a research study which found that many Korean Americans are not adequately prepared for retirement and continue to face linguistic and cultural barriers to asset building and retirement planning in the U.S.[24] In addition, financial education practitioners are finding innovative ways to incorporate technology into program delivery; these include offering downloadable podcasts on financial management topics, or developing video game-type applications for financial education, such as an interactive financial lesson for teens built into the popular online site "Second Life."

In addition to these innovations at the program level, progress in the area of outcomes evaluation and research is critical to advancing the field. The Treasury's Financial Literacy and Education Commission held a national research symposium last year and developed a list of national research priorities for the field, which include identifying: core principles of personal finance that every consumer needs to know; reliable and valid measures of the success for financial education; the most effective mix of financial education, decision framing, and regulation to improve financial well-being; and effective coping strategies and behaviors during times of financial crisis.[25] Rigorous data collection and analysis will improve our understanding of what works and, just as important, what doesn't. In addition, empirical evidence of the effectiveness of financial education will go a long way in attracting further financial and political support for the field.

Conclusion

There's no question that this recession is forcing all individuals to reconsider their financial situations and futures. Many consumers have reversed their spending trends and the recent increase in personal saving suggests a return to thriftiness. In many ways, this financial crisis provides the ultimate "teachable moment" for financial education, and we should continue our efforts to strengthen the field and reach many more individuals. At the same time, the origins of this crisis serve as a reminder that financial education is not a panacea. Financial education is a necessary, but not sufficient condition for consumer protection, which also requires thoughtful regulation and disclosure of information. Practitioners, policymakers, and researchers continue to search for the optimal balance of strategies, and greater collaboration across these areas will help ensure that all individuals and families can successfully navigate our complex financial marketplace. CI

An Apple or a Donut?

How Behavioral Economics Can Improve Our Understanding of Consumer Choices

By Carolina Reid

Generally, I wake up committed to the idea of eating healthy meals and I pack my gym bag for my afternoon workout. Then at the morning staff meeting I eat a donut, and at day's end I'm headed home on the train with my workout clothes still folded neatly in my bag. I would have gone to the gym, but Laura, the editor of *Community Investments* (and she can be tough!), was reminding me that this article was long overdue, and if I could just squeeze in one more hour of work . . .

Luckily, behavioral economists have developed a theory to explain why my actions are so at odds with my intentions: hyperbolic discounting. In more simple terms, I "undervalue" the future rewards of a better diet and exercise and "overvalue" the current gratification of a glazed old-fashioned. I'd rather take the smaller payoff now, rather than waiting for the larger payoff at a later time. While it's easy to scoff at a fancy name for what seems like a basic lack of willpower, hyperbolic discounting is in fact a very important economic idea that can help to predict financial behavior. Financial decisions are highly susceptible to hyperbolic discounting, since consumers often value money differently in the present than in the future.[1] In fact, hyperbolic discounting can help us to explain why so many consumers carry high credit card balances for items they bought "on sale," while not factoring in the cost of the interest payments. Or why homeowners took out high-priced, cash-out refinance loans that stripped them of the equity in their home. Or why most people say that they would like to improve their financial knowledge, yet nonprofits find it difficult to fill the seats in a free financial education class.

Understanding what drives these seemingly "poor" outcomes—as well as many others related to financial decision-making—is part of the growing field of behavioral economics. Behavioral economists focus on research that explains why people often make choices against their best interests, even when they know better. This research is increasingly coming to the attention of policy-makers interested in influencing consumer choices in the financial marketplace, and many of the principles of behavioral economics are being used to inform everything from retirement savings programs to credit card and mortgage loan disclosures.

So what is behavioral economics, and how is it different from traditional economic theory? Simply stated, traditional economic theory generally assumes that individuals make rational decisions based on the information they have (e.g. knowledge about a financial product) and their situation and resources (e.g. income). This individual—*homo economicus*—makes rational, unbiased decisions that maximize his well-being, systematically evaluating risks and accurately assessing both short- and long-term costs and benefits.[2] If consumers make a poor financial choice—for example, by taking out a loan they can't afford—this approach would lead us to believe that they merely didn't have enough information to make a good decision. The appropriate policy response in this case would be to provide disclosures or additional information to ensure that *homo economicus* can make a better loan choice given his financial situation.

While financial knowledge is certainly important, it is also clear that it is not sufficient to ensure that consumers make good financial decisions. This is where behavioral economics steps in. Rather than assuming that people exhibit the perfect rationality of *homo economicus,* behavioral economists rely on insights from psychology to understand why people often make choices that do not align with a rational assessment of the decision's consequences. This is not to say that people are "irrational," but rather that there are systematic and predictable ways that people behave differently from what we might expect.[3] In the area of financial decisions, insights into these behavior patterns can help to craft more effective and efficient policies to encourage savings or protect consumers from predatory loan products.[4]

Hyperbolic discounting—making different decisions based on present versus future benefits—is just one of those insights. In a recent study, Stephen Meier and Charles Sprenger found that individuals who tended to value the future more than the present were much more likely to choose to participate in a credit counseling session to learn more about their credit score. In contrast, those with a bias to the present were less likely to participate in the course, despite the fact that hyperbolic discounters tend to borrow more (to spend in the present) than their more patient counterparts.[5] This finding suggests that offering voluntary financial education courses may not reach those consumers who need them the most. Time horizons—such as the timing of financial information—may also influence

While financial knowledge is certainly important, it is also clear that it is not sufficient to ensure that consumers make good financial decisions. This is where behavioral economics steps in.

consumer behavior. In a study of credit card use, researchers found that consumers who were subjected to a penalty fee (e.g. for a late payment) were more likely to pay their credit card on time, but that this response diminished over time. As the experience of the penalty fee receded into the past, consumers tended to revert to their past behaviors.[6]

Another important insight from behavioral economics is default bias—what most of us might simply call laziness or inertia. Default bias suggests that people are much more likely to stick with the status quo than what we might expect given the benefits of switching to another option. In studies of retirement savings, for example, researchers have found that default bias plays a significant role in determining whether or not employees participate in a 401(K) plan. Until recently, the default option for most 401(K) plans was non-participation, meaning that employees had to actively choose to participate. Changing the default option to participation—with no other changes to the benefits—leads to significantly higher participation in the 401(K) plan.[7] Michael Barr, Assistant Secretary for Financial Institutions at the Treasury Department, has proposed that these findings be applied to loan products as well: lenders would be required to offer borrowers a standard mortgage option (e.g. a fixed rate, self-amortizing 30 year mortgage loan), and borrowers would have to actively 'opt-out' to receive a more risky product such as an adjustable rate or interest-only mortgage.[8]

Behavioral economists have also focused on how choices and information are framed—for example through advertising or disclosures—and are beginning to understand how even small changes may influence consumer decisions about financial products. Studying disclosure laws, Michael Collins found that a simple, negatively framed message can prevent borrowers from taking on a risky loan, not unlike the health warning on a pack of cigarettes. States that required borrowers to sign a disclosure that simply read "You Could Lose Your Home" before taking out a high-cost subprime loan significantly increased the likelihood that a borrower would reject the loan offer, compared to the less dramatic standard HOEPA disclosure.[9] In South Africa, a controlled experiment on loan offers found that those that contained a picture of an attractive woman increased loan uptake. In contrast, loan offers that displayed too many loan options decreased uptake, consistent with the hypothesis that presenting consumers with more options can overwhelm them and lead them to delay in making a decision.[10] The way prices are framed also matters. For example, "rent to own" stores promise low monthly payments, yet the interest rates are incredibly high, leading to very high product prices over time. More than 70 percent of consumers eventually buy the product they rent,[11] meaning that the sofa listed at $25 a month actually ends up costing $2,000. Requiring these companies to state the true cost of purchasing an item up front—imagine your reaction to a sign that read "Used Couch For Sale: $2,000"—would ensure that consumers are aware of the financial consequences of buying the rent-to-own product.[12]

Through this type of research, we're starting to understand the systematic and predictable ways that people exhibit irrational behavior, and these findings can inform the structure and delivery of financial education, as well as help to shape public policy. For example, Meier and Sprenger's research cited above suggests that we need to develop new strategies to ensure financial education courses are structured in a way that ensures attendance by people most likely to face difficulties planning for the future. Incentives that build on their desire to maximize present benefits, for example, could work to make the course a current priority. Framing can also be used creatively, such as "pre-approving" someone for a financial education class or credit counseling session, which may make the consumer feel as though they've been specially selected to participate (as opposed to a 'free' course open to anyone).[13] Linking a financial education course with a savings account opened 'on-site' (and a mandatory $20 contribution) may also help to overcome the inertia of having to go to the bank "tomorrow," and may make it more likely that the lessons learned stick. Financial education curriculum should also include lessons about these common pitfalls—awareness of our potential biases or how advertisers frame messages is an important tool that can help us be more informed about why we make the decisions we do.

In addition, these theories into financial decision-making can provide policymakers with a better understanding of how to develop programs and policies that will ensure that consumers don't unintentionally make poor financial choices. While some view policies such as "opt out" defaults, strategically framed disclosures, and "cooling off" time periods to be paternalistic, these approaches do not limit consumer choice in the same way as banning a product would do. Consumers would still be able to make the decision to take on a subprime mortgage, for example, but presumably they would only do so after conducting an informed analysis of the costs and benefits of this product choice. Richard Thaler, a leading behavioral economist, has developed an idea for a program called Save More Tomorrow (or SMarT), which gives employees the option of committing themselves now to increasing their savings rate later, each time they get a raise.[14] This program takes advantage of people's good intentions for the future, as well as ensuring that their take-home pay doesn't change (thus reducing the effect of loss aversion), since it is their raise that will go towards their saving. As Thaler points out, developing policies that keep in mind that we are all humans will do much to help households navigate today's complex financial world, and ultimately help them towards the goal of financial stability over the life course.[15]

As for me, I'll go to the gym tomorrow. CI

Learning and Growing:
Lessons Learned in Financial Education

By Ted Beck and Brent Neiser
National Endowment for Financial Education

The National Endowment for Financial Education® (NEFE®) is a private, nonprofit, nonpartisan and noncommercial foundation committed to increasing access to financial education and to empowering individuals to make positive and sound financial decisions. For more than 30 years, NEFE has provided funding, logistical support, and expertise for financial education programs and materials. In addition, NEFE funds research and development grants that advance innovative thinking and contribute to our understanding of financial behavior. Through these programs and research studies, NEFE has developed its own perspective on best practices, which are shared in this article by Ted Beck, President and CEO, and Brent Neiser, Director of Strategic Programs and Alliances. For more information on NEFE, visit their website at: www.nefe.org

Financial security is an important concern for many Americans, and promoting financial capability is a necessary part of strengthening the safety net for all Americans. Given the current economic climate, the mission of financial education has never been more critical. In this era of volatile financial markets, labor market uncertainty, rising debt, and insufficient savings, the ability to manage one's personal finances is becoming increasingly important. At NEFE, we believe that by building strong partnerships and working together toward the common goal of improving financial literacy for all Americans, we can reach individuals with the positive message that they have the ability to take charge of their financial well-being. We see this as more than financial education; rather, increasing an individual's financial capability involves expanding knowledge, awareness, positive behavior change and action throughout one's lifespan.

Doing so is far from easy, however, and often there is limited information on what works. In this article, we present some of the lessons learned from our financial education efforts, and also consider how to advance the field going forward.

One Size Does Not Fit All

One of the core lessons we have learned is that financial education programs need to be tailored to different market segments, and that no one program can meet the needs of all consumers. And while NEFE focuses largely on those who are "underserved" by the financial system, our definition of "underserved" is much more expansive in scope than many others focused on financial education. We define the underserved to be the vast majority of Americans—about 80 percent—without access to professional financial advice or sufficient investible assets to merit such service. This lack of professional financial advice makes this group of Americans particularly prone to poor decisions and financial instability. While NEFE strives to reach as many audiences as possible, particular emphasis is placed on those who operate outside of mainstream financial services and are most at-risk for experiencing significant financial difficulties. These include youth, low-income individuals and families, minority populations, and people facing special challenges or other life-changing events.

These underserved populations often have multiple barriers to financial stability. For example, they may lack the motivation or time to attend a financial education class, or they may have suffered a financial setback such as an unexpected medical expense or job loss. Many are unbanked due to a variety of reasons. Some may have a blemished ChexSystems record, or have had a negative banking experience in their past. Others may experience cultural barriers to banking, and need more time to learn about and feel comfortable with the products and processes associated with a mainstream savings or checking account. Language is often a substantial obstacle.

The intergenerational effects of poverty and the resulting lack of experience with financial institutions and savings products also can hamper financial capability and long-term asset building. Those who have been entrenched in poverty generally are focused on income rather than the longer-term acquisition and development of assets. This behavior is exacerbated in crisis situations. Long-term financial issues that need to be addressed often are masked by more immediate problems, such as not being able to pay for rent or utilities. When these crises surface, the natural response is to focus on getting through the crisis, as opposed to planning for the future. People in crisis may not be in a frame of mind to learn–they're just trying to get by.

Each person has a unique financial literacy context, and each person is at a different stage within their economic lifespan.

Family attitudes also play a huge role in money management across all demographics and income levels; no one is exempt from their influence. However, belief systems and unhealthy attitudes become more impactful and significant when money reserves are low. Negative thoughts surrounding finances hinder positive behavior change, especially when a person was raised in a family that didn't save or was particularly inflexible with its spending habits. In these cases, the biggest challenges are changing a person's attitude and approach to managing money, especially when the lessons presented run counter to a family's influence.

A one-size-fits-all approach to financial education simply misses many of these populations. Each person has a unique financial literacy context, and each person is at a different stage within their economic lifespan. They may be preparing for college, entering the workforce while trying to negotiate benefits packages, buying a home, or planning for retirement. There are differences in culture, language, age, experience, and asset levels. Programs need to be customized as much as possible across these basic individual factors, while keeping other factors in mind, such as the use of technology or incorporating community values. More importantly, financial educators need to move away from framing programs around middle class assumptions. It's all too easy to assume that every household is in a position of financial stability and is ready to save. A back-to-basics approach needs to be applied, covering topics such as establishing an emergency fund, negotiating with creditors, finding access to social services, and building job opportunities.

Collaborations with more than 100 organizations, including 100 Black Men of America, Inc., American Indian College Fund, I Have a Dream Foundation®, League of United Latin American Citizens, National Coalition of Asian Pacific Americans Community Development, and the United Negro College Fund, continue to help NEFE better reach various audiences to provide them with necessary tools and encouragement.

Learning is a Continuous Process

It's important to remember that just as one size does not fit all, one time does not help all. Educational resources must be provided throughout a person's economic lifetime. To truly touch and change the lives of people in financial need, we have to provide them with financial knowledge at different stages in their lives, from childhood through retirement.

Financial education is a continuous process; it's a life skill that one constantly develops. Education should be embedded at home and in schools, faith and community-based organizations, and workplaces. NEFE evaluates potential partners based on their ability to fill a financial education need in one's life or provide a continuum of financial literacy education. Having a student go through a financial education program in high school or providing an employee with financial education in the workplace is a start, but it is not enough. "Just-in-time" financial information must be available throughout each stage of life so individuals can acquire knowledge and change behavior during points in their lives when they are motivated to change or must make an important financial decision (also known as a teachable moment).

Reach People at Teachable Moments

Over the years, NEFE has found that the most effective financial education comes at teachable moments. Teachable moments occur when people are motivated by a life circumstance—for example, buying their first home or facing foreclosure—to educate themselves toward the better management of their personal finances. On their own, these events may not necessarily move someone to change behavior, but intervention added to an impending situation can help make the financial education seem more relevant and encourage people to make the link between education and adopting new and helpful financial behaviors. Yet educators must realize that these moments often take place in a very small window of time, and that "just in time" delivery of the message is critical. Partners in the decision making process are crucial to effective "just-in-time" and "just-in-place" delivery. For example, banks and mortgage brokers open the educational door to first-time home buyers, while medical practitioners can connect patients facing a long-term illness or disability with appropriate financial education.

Financial educational materials also are more effective when they are targeted to a specific stage of life. For example, the NEFE High School Financial Planning Program® (HSFPP) reaches young people at a time when they are developing financial habits that will shape their future. The program consists of a complete money management curriculum covering the financial planning process, careers, budgeting, saving and investing, credit, and insurance. So far, more than six million student guides have been sent out to an estimated 200,000 classrooms—all at no cost. This curriculum is correlated to educational standards in all 50 states and benchmarked against seven national educational standards, and adopts a competency-based format that takes students beyond passive learning to actively doing what the program teaches.

Recognize the Importance of Partnerships

In nearly every aspect of its work, NEFE forms partnerships and pursues collaborations with other entities, including nonprofit organizations and government, to provide financial education to members of the public. We believe that a partnership approach represents the most effective means of leveraging resources and expertise on a large-scale, while addressing the different educational needs of diverse segments of the public.

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NEFE collaborates with a variety of partners to provide financial education resources to populations in specific situations or facing particular challenges. For example, the American Red Cross joined NEFE and the American Institute of Certified Public Accountants in the development of a resource booklet to help survivors of natural and man-made disasters recover financially. Subsequently, this team developed a second booklet to address disaster preparedness. NEFE also worked with the Association for Enterprise Opportunity to create a resource to help underserved entrepreneurs organize their personal and business finances so they could make fledgling businesses successful. Recently, NEFE has worked with Volunteer Income Tax Assistance sites to capitalize on tax time as a teachable moment, which helps families plan for goals such as purchasing a car, establishing an emergency fund, preparing for retirement, reducing debt, or avoiding predatory lending. (For more on this topic, see the article "Tax Time as an Asset Building Opportunity")

Messaging Matters

Repetition works. Sending the same messages to the public over and over again, from different sources and through different channels, eventually can motivate people to change negative financial behavior into positive behavior. Fundamental messages include: how the financial choices individuals make today affect the attainment of their goals tomorrow; the value of saving; the importance of making sound investment decisions; the critical need to prepare financially for retirement; and the importance of financial education for the nation's youth. Whatever the messages, however, making them clear and relevant to the context of people's lives improves their success.

NEFE also builds content-specific research-based messaging for targeted audiences. Our 2007 Retirement Income Decumulation Think Tank explored the choices and decisions at-risk middle-income retirees must make while drawing down their limited resources. Participants from various fields representing financial planning professionals, academic institutions, think tanks, financial services industries, regulatory associations, and the federal government brainstormed issues and messages of con-

Consumers are more than capable of managing their money and making sound decisions, and we believe that they can do so as long as they have access to the proper tools and support.

siderable significance in retirement. The think tank team subsequently developed effective messages to help retirees avoid making irreversible decisions that have negative impacts on their nest egg, and to help them optimize what assets they do have. For example, one message states: *Aim to work at least until your full retirement age (66-67). This produces many benefits, as delaying receipt of Social Security results in a much larger monthly payment, and all Social Security retirement benefits are adjusted for inflation.* Another message warns: *Don't "cash out" your retirement 401(k) savings before age 59 . This will always cost you money, and there are better ways to pay yourself through your retirement years, including using a rollover or keeping money in your company plan.* In total, the initiative developed messages for eight important areas of financial decision making, including Work, Social Security, The House, Insurance Products, Defined Benefit Pensions, Defined Contribution Plans, Debt, and Fraud. View all of the messages at the consumer-centric Web site, www.decumulation.org.

Spendster.org is another NEFE site that focuses on changing spending behavior. The website allows people to share the purchases they now regret while they rate and discuss those of others. It also includes tools to calculate how costly items really are. The message comes across loud and clear: We often don't need the things we buy, and the money we spend can be saved and invested towards achieving future financial goals.

Focus on Evaluation and Behavior Change

Successful financial education ideally leads to new knowledge, increased skills, changed attitudes, modified behavior, and ultimately, improved financial well-being. It's critical that financial education programs include an evaluation component to determine if they are achieving these desired outcomes. NEFE developed an online Evaluation Toolkit as a resource to help evaluate the effectiveness of financial education programs. The Evaluation Toolkit, available online at www.nefe.org/eval, is designed to help financial educators to first understand evaluation concepts and then efficiently apply them to their educational programs so they can document the impact their programs have on participants.

Not only is it important to measure behavioral change, but it is critical to understand what influences behavioral change. NEFE funds research that enhances the understanding of financial behavior and perceived challenges to changing behavior. One study partially funded by NEFE and conducted by the University of Arizona and Arizona Pathways to Life Success for University Students (APLUS) explored the diverse social factors that influence the financial attitudes and behaviors of today's young adults. Those attitudes and behaviors can determine their financial success or failure as adults. The study found that parents have more influence over their children's financial knowledge, attitudes, and behaviors than work experience and high school financial education combined. Other current NEFE grants are researching which educational methods help particular groups of people learn best, and common response patterns to debt consolidation ads and offers. Our most recent symposium, titled "Financial Realities of Young Adults: Building a Financial Education Framework that is Relevant and Accessible," examined the unique characteristics and financial realities of today's young people, including learning whom they trust and how they get their information, as well as effective channels for targeting Americans ages 18-34 with attention-grabbing, educational messages that will help them make informed financial decisions.

A Call for More Involvement

The current economy creates an unprecedented teachable moment to promote healthy financial attitudes, behaviors, and habits among all Americans. There's always more room for increased research and funding, but we also need to focus on the importance of providing positive encouragement. Consumers are more than capable of managing their money and making sound decisions, and we believe that they can do so as long as they have access to the proper tools and support. We all have a unique opportunity to encourage savings and responsible fiscal management. Better yet, we have an opportunity to learn from each other's best practices as we reach out to empower all Americans to take control of their financial well-being. CI

Financial Education – Does It Work and How Do We Know?

Research Findings from a Study of Financial Education Among Soldiers

By Casey Bell, Dan Gorin, Jeanne Hogarth
Division of Consumer & Community Affairs, Federal Reserve Board[1]

Financial education has risen on the agendas and priority lists of a number of agencies and organizations, including the Federal Reserve Board, as evidenced by recent hearings on financial literacy in Congress and speeches by Federal Reserve Chairman Ben Bernanke.[2] The issue is also a "hot topic" among academics and researchers, and numerous programs have arisen to address financial education gaps, targeting a variety of topics from student loans and credit card debt to home buying and retirement planning.[3] Yet, despite the increased attention from policy makers and educators—both via the school system and community-based education efforts—we know that consumers continue to face financial difficulties. In addition, questions around the effectiveness of financial education still loom large.

In an effort to address these questions, the Federal Reserve Board conducted a research study focusing on the effectiveness of a financial education program for military personnel.[4] Beginning in 2003, we collaborated with Army Emergency Relief (AER), the U.S. Army post at Ft. Bliss in El Paso, Texas to provide financial education for young enlisted soldiers and to evaluate the impact of that education on the soldiers' financial management behaviors. Soldiers attending the Army's air defender advanced individualized training (AIT) at Ft. Bliss were offered a two-day financial education course taught by staff from San Diego City College; funding for the course was provided by AER.[5] At the end of the two-day course, soldiers completed a survey of financial behaviors that served as a baseline for the evaluation; most of the surveys were conducted from 2006 through 2008. A second group of soldiers at Ft. Bliss, who did not participate in the financial education course, served as a comparison group. Follow-up surveys were conducted in January 2008 and January 2009 to provide second data points for those who took the financial education course. Specifically, we explored the differences in behaviors between those who took the course and those who did not, focusing on six topics covered in the course: budgeting, credit, consumer awareness, car buying, insurance, and retirement savings using the Thrift Savings Plan (TSP), which is a 401(k)-type retirement savings and investment plan for federal employees and the military.

Who Is in the Study?

Soldiers in this study were in their early 20's, and predominantly male (86 percent). As might be expected when studying a population in their early 20's, 70 percent of the soldiers in our baseline survey were single; by the time of the follow-up surveys, 54 percent were still single. About 40 percent of the soldiers in this study had some post-secondary education.

Because the financial education course was delivered during the soldier's AIT (generally taken within the first year of military service), the majority of the soldiers (more than 90 percent) in the baseline survey had less than one year of military service. By the time of the first follow-up survey, about two-fifths (40 percent) had more than one year, but less than three years of service. Pay grade, or rank, is closely correlated with length of service. At the time of the baseline survey, 78 percent of the respondents were in the lowest two pay grades, but by the time of the first follow-up, only 45 percent were still in the lowest grades, while the other 54 percent were now in the next two higher pay grades.[6]

Did Financial Education Make a Difference?

To assess whether or not financial education made a difference, we identified 13 positive financial management behaviors (for example, tracking spending, having an emergency fund, comparison shopping, saving for retirement) and 15 negative behaviors (for example, paying overdraft fees, paying bills late, being called by a bill collector, losing security clearance). Overall, the research found that soldiers in the financial education group reported more of the positive behaviors and fewer of the negative behaviors than soldiers in the comparison group.

We believe it's important to continue to evaluate financial education programs and to improve our measures of financial capability.

We wanted to know more specifically which behaviors were influenced by the financial education program. In order to separate the effects of the financial education course from other influences on money management, we included independent variables measuring years in the military, pay grade, gender, education, race/ethnicity, marital status, pre-military experiences (awareness of family's finances, having a high school financial education course, and having a savings account in high school), and having a credit card (as a proxy for experience).

Soldiers who had the financial education course were more likely than the comparison group to report using an informal spending plan, suggesting they kept some sort of 'mental account' of how much they could afford to spend (as opposed to doing nothing). However, these soldiers were less likely to report using a formal, written budget, relative to the comparison group. Also, those who took the course were more likely to know the difference between discretionary and non-discretionary spending—in other words, they understood the difference between spending money on needs versus wants. When buying a car, those who took the financial education course had higher down payment-to-loan ratios than those in the comparison group.

Other variables that seemed to influence soldiers' financial management behaviors included previous experience (having a savings account in high school, being aware of parents' financial situation), education, marital status, number of years in the military (a proxy for experience), pay grade (a proxy for income), race/ethnicity, being male, and perceiving oneself as a good money manager.

Research Design Considerations

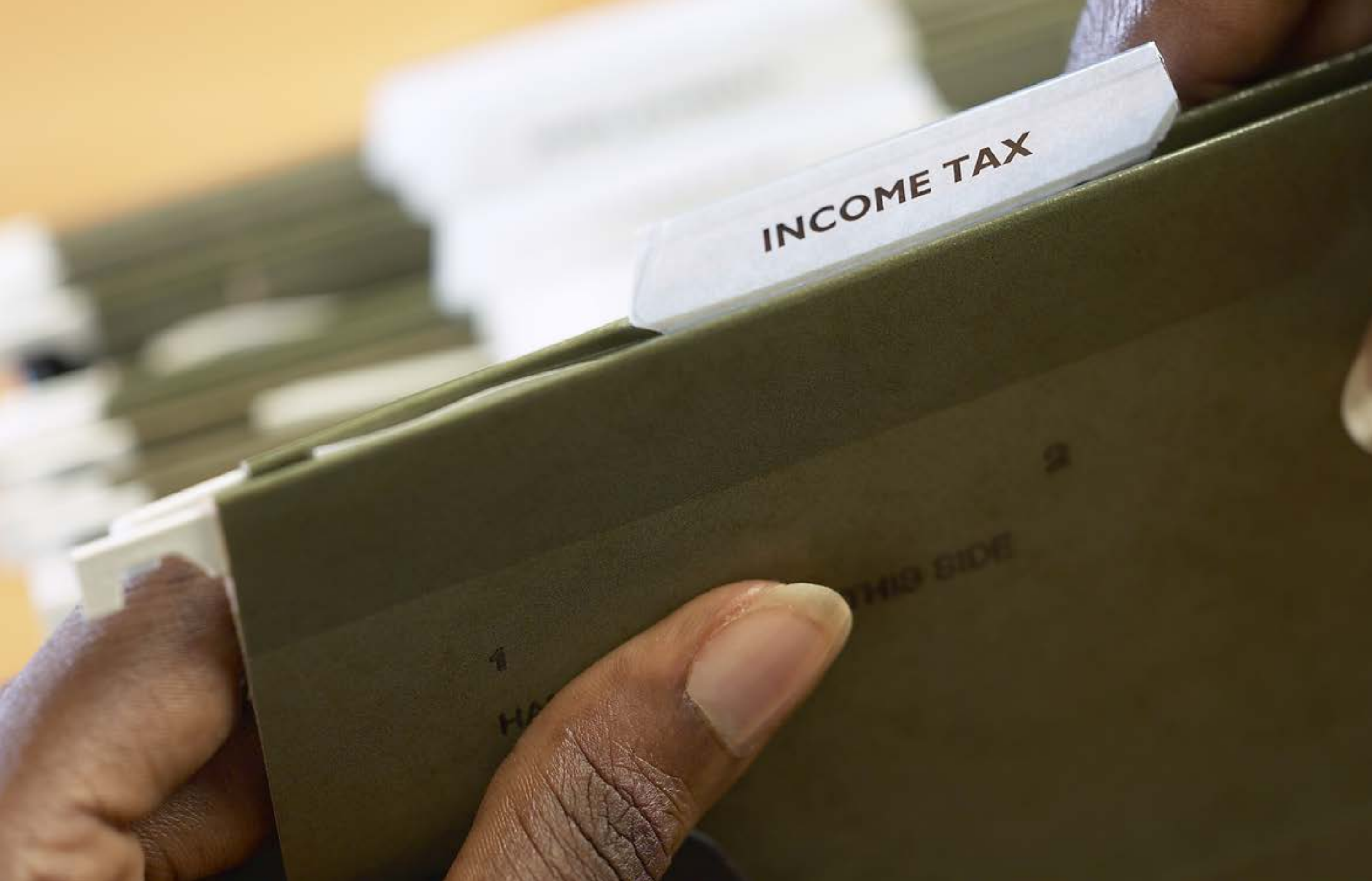
Measuring behavior change can be extremely challenging and we recognize several limitations to our study. For example, our measures occur at two points in time, but we have not captured what may be happening between these two points. By looking at the lapsed time between taking the course and the follow-up survey, we may be able to explore some of the effects of timing on behavior change.

Our study focused on behaviors that soldiers either did or did not report, such as budgeting, saving, or paying credit card bills. But we know that for some financial behaviors, people can be at different stages in the decision making process. We did not measure where soldiers were on the behavior continuum or whether they moved from one stage to another. For example, if a soldier in the class moved from being unaware of the retirement savings plan to thinking about signing up for the plan, or gathering information to make a decision, we could say the class had an effect; however, we did not measure these more subtle behavioral changes. Thus, we may have missed some of the impacts of the financial education program by focusing on actual behaviors rather than also including planned behaviors.

The class was delivered primarily as a lecture. Alternative formats, such as simulations, experiential events, activity-based learning, and case studies may increase the relevance as well as the retention of information. It may also be that the timing of this course was not optimum for learning. Most soldiers took this course on the weekends, rather than as part of their regular training in AIT. As most high school and college instructors know, it is hard to find time in the curriculum to squeeze in a financial education course. And when the course is an add-on to an already busy and tiring schedule, the content may not sink in very well.

Conclusion

The financial education program had some positive effects on soldiers' financial management behaviors over the longer term. We believe it's important to continue to evaluate financial education programs and to improve our measures of financial capability. We also believe that while education is necessary, it alone is not sufficient to establish financially secure families and households. Important complements include access to information, access to financial counseling and advising, and public policies that provide consumer protection. The Federal Reserve Board remains committed to further research and support for all of these elements in order to help families attain financial stability and security. CI



Tax Time as an Asset Building Opportunity

Assessing the Potential

By J. Michael Collins, University of Wisconsin-Madison

Tax time provides a unique opportunity for people to reflect on the past year's income and expenses, take advantage of tax incentives, and make financial plans for the future. For low-income families in the United States, tax time is also an important window for the delivery of asset building products and services. The Earned Income Tax Credit (EITC) and the Child Tax Credit (CTC) may produce significant tax refunds, in some cases more than 15 percent of annual income in a lump sum, thus providing a 'teachable moment' that can help to encourage saving and financial planning. Community-based free tax preparation programs, such as the Internal Revenue Service's (IRS) Volunteer Income Tax Assistance (VITA) sites, contribute to this mission and complete approximately 1 million tax filings per year.[1]

In the last decade many of these community-based tax programs have expanded beyond preparing taxes and now offer other services to tax clients, such as financial education.[2] A 2007 survey by the Center for Economic Progress (the Center) and the National Community Tax Coalition (NCTC) found that 64 percent of tax sites offered financial education or group training, more than any other non-tax service, and 45 percent offered credit counseling.[3] The agencies surveyed estimated that about 16 percent of tax clients in 2006 took part in some education service related to the tax preparation session (either on site or follow-up). The share of tax clients taking part in such services had doubled from the previous year. Financial education is provided as a means to help clients gain skills to manage their financial situation and make informed financial decisions in the future. Community-based tax programs have developed targeted methods to deliver financial education.[4] These approaches include offering printed educational materials during the tax preparation session or referring clients to training on specific financial topics outside of the tax session.

Nevertheless, providing education onsite is challenging, since clients are generally focused on their taxes and uninterested in prolonging their time at the tax program site. Providing education at a later time generally results in very low completion rates, even if incentives such as food or gifts are offered. There is still much to be learned about how to effectively deliver asset building services at tax time.

In 2007, the Center launched the Financial Opportunities Project (FOP), a comprehensive effort to identify, implement, and disseminate strategies for integrating financial services and asset-building opportunities with income tax preparation services at VITA sites. The goal of the FOP was to determine which approaches best promote asset-building opportunities to taxpayers. The Center developed the Asset Building Service Delivery System (ABSDS)—a process-based model for offering asset-building products and services to clients served by community-based programs. The components of the ABSDS include 1) strategic program planning around asset promotion, 2) simplicity in process design, 3) specialization of staff to promote assets, 4) specific and targeted promotional strategies, and 5) customer-focused processes. The model is grounded in research from past attempts at service promotion at tax sites and based on theories from behavioral finance regarding consumer decision making (see the article "An Apple or a Donut" for more on behavioral economics).

From the fall of 2008 through the end of the 2009 tax season, the Center oversaw the national launch of the ABSDS and awarded three programs a grant of $25,000 to apply a standardized model and general operating procedures for promoting asset-building strategies to community-based tax preparation services. The purpose of the grants was to assess the effectiveness and versatility of the operational models and programmatic guides of the ABSDS. To the extent programs adapted the model and tested new ideas, this season provided an opportunity to further refine the ABSDS. The following discussion provides an overview of the FOP findings and identifies recommendations for improved delivery of asset building services.

Take-Up of Asset Building Services at Tax Programs

For the purposes of this project, the term asset building products or services refers to any financial service, in addition to free tax assistance, that helps to positively address an individual's financial stability through debt reduction or asset maintenance and growth. Asset building products or services may include credit or debt management counseling, access to public benefits, opening bank accounts, U.S. Savings Bonds, CDs or other related products and services.

The goal of the FOP was that 15 percent of tax clients would take on an asset building service, an improvement from the 8-12 percent take-up rate achieved in past pilot studies by the Center and tests on the take-up of savings matches or Savings Bonds. Overall, take-up rates surpassed expectations (see Table 5.1). Almost 27 percent of clients enrolled in at least one service. Table 5.1 shows the total for all sites combined. Depositing a refund into a savings account was the most frequently used option, accounting for half of the total. Receiving a credit report was the next most frequently used asset building service. Direct deposit stored value debit cards were almost as prevalent, representing less than half the share using a savings account. Credit counseling and savings bonds were the next most commonly adopted asset building services. Although offered at only one site, assistance with utility bills was also more popular than may be expected.

Table 5.1

Take-Up by Service	
Put some of refund in savings	14.50%
Direct deposit card	6.30%
Credit report	6.60%
THAW utility assistance	5.50%
Buy a bond	4.90%
Credit counseling	4.80%
Apply for checking	4.50%
Apply for savings or financial institution account	3.10%
Small business counseling	2.90%
Open a CD	0.10%
Any service	**26.60%**

Source: Center FOP Surveys, 2009 (2008 TY)

Note: This table reflects responses to self-reported take-up of services as included in each site's survey; not all sites offered or asked about all services

Note that 6.3 percent of clients used a direct deposit pre-paid debit card. These cards offer a way to engage in electronic banking and allow clients to re-load the card when the refund is expended. Some cards offer checking and savings features as well as online/telephone account management. By comparison only 3.1 percent of tax clients enrolled in a savings account. About half (47 percent) of clients applying for the direct deposit card were otherwise unbanked, compared to about 17 percent of clients at the tax site overall who were unbanked. Clearly these products carry some attraction. One site manager shared that clients are excited about the card and its features, and in some ways the advent of pre-paid cell phones makes the concept of pre-paid debit cards easy for clients to understand.

Of course, many factors may work in concert to influence take-up rates. Table 5.2 shows a statistical analysis where all the listed variables are held constant. This analysis shows the marginal contribution of key factors that predict taking on these services. The first two columns describe taking any service at all, the second two any savings product and the third pair a savings bond. Estimates that are statistically significant are in bold. Having received a refund last year is significant for all three analyses. In all cases, having a larger refund than expected also has a statistically significant effect, boosting take-up rates. This is consistent with the notion of 'mental accounting' in behavioral finance, where people will use unexpected funds differently than expected income. Willingness to save as reported at intake is also an important indicator. Planning to pay bills with a refund has mixed effects, as does having a bank account and time in the season. Surprisingly income does not have much effect, and age only has effects for bond purchases, with older clients less likely to buy a bond. Also, no particular agency funded by the FOP shows any evidence of strongly higher or lower overall take-up rates controlling for other factors. Past experience with a bond has relatively strong effects.

Overall these results reinforce the need to target services to client type—and make it hard to generalize about any particular service always being popular (or not). Past experience with a refund, having a larger refund than expected and willingness to save all remain powerful indicators however.

Communicating the Savings Message

Communicating and reinforcing the message of savings is a key part of promoting asset building services for clients. Proper and thorough training of staff and volunteers increases the effectiveness of promotional strategies at the tax site. Clients, staff, and volunteers need support to easily understand what savings options exist and how to take advantage of them. Pilot program sites were instructed to educate staff and volunteers not only on product offerings, but on savings messages as well. Sites were encouraged to develop specific savings messages and product guides that could help program staff and volunteers be more effective and confident when working with clients, especially at the start of the season, when they are less familiar with product features. Figure 5.3 shows client responses to the exit survey question about how many times they heard the savings message. We suspect this is an underestimate of the actual number of times, but still provides a relative order or magnitude.

Table 5.2

Analysis of Effects	Any Service		Any Savings		Savings Bond	
	% Effect	Sig (z)	% Effect	Sig (z)	% Effect	Sig (z)
Rec'd Refund Last Year	**1.20%**	**2.05**	**3.20%**	**2.87**	**1.50%**	**1.69**
Refund more than Expected	**0.80%**	**4.78**	**4.10%**	**6.45**	**1.40%**	**3.46**
Willing to Save at Intake	**1.70%**	**5.03**	**10.00%**	**7.21**	**2.70%**	**3.5**
Planning to Pay Bills with Refund at Intake	**0.90%**	**4.39**	0.00%	0.03	**1.50%**	**3.3**
Have Bank Account	**-2.10%**	**-2.07**	5.70%	1.85	**1.50%**	**5.12**
March/April (vs. Jan/Feb)	**-1.20%**	**-4.19**	**-3.60%**	**-3.96**	-0.70%	-0.85
Income Level	**-0.20%**	**-4.4**	0.10%	0.35	**0.60%**	**4.27**
Age	-0.80%	-1.23	-0.30%	-0.34	**-1.30%**	**-4.38**
Agency 1	5.10%	0.18	2.50%	0.68	4.80%	1.42
Agency 2	**-2.10%**	**-2.53**	**-9.50%**	**-2.93**	4.40%	1.8
Any Past Bond Experience					**2.60%**	**3.03**

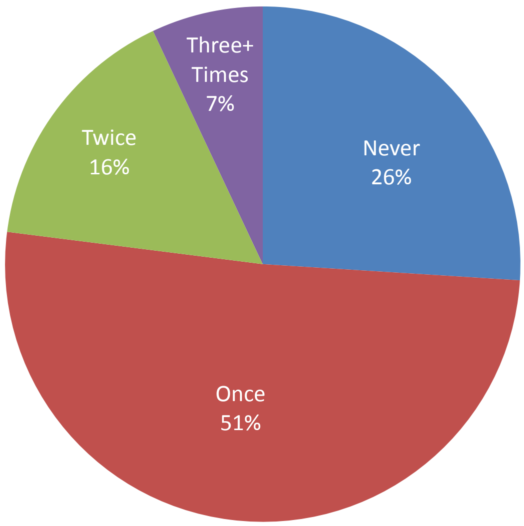
Source: Center FOP Surveys, 2009 (2008 TY)

Probit model with agency fixed effects (one agency as reference group) and robust std errors clustered at site level

n = 7108

Figure 5.3

How Many Times Did Someone at the Tax Site Talk to You About Saving Some of Your Refund?



Source: Center FOP Client Surveys, 2009 (2008 TY)

Table 5.4 shows the number of times clients heard the savings message, broken down by the following categories recorded in the intake form: whether the client received a refund last year; whether they're willing to save the refund; and whether they bought a bond in the past. If the ABSDS was implemented as planned, it would be expected that clients answering "yes" would be targeted for more savings messages. For each column, those answering "yes" show a four point to seven point greater report of being talked to about savings or buying a bond.

General and specific savings messages were developed for different client groups and sites were encouraged to use these messages, as well as develop their own. Sites were instructed to have standard, specific, written messages for all products and services targeted by each client group. It was recommended that tax preparation clients should hear about savings opportunities at least three times during their visit: (1) at intake; (2) during the waiting period; and (3) at quality review or the end of the tax session.

Recommendations for Future Tax Seasons

The goal of the FOP grant program and the ABSDS pilot was to "perfect the process" rather than to develop innovative or new financial products. The focus on process flows, staff/volunteer training and targeted messaging appears to have stronger effects than might otherwise be expected. Despite the successes of the model, there is potential to improve it for the next tax season, including the following recommendations:

Process

1. Pay close attention to the physical space and layout of the tax site. Space and workflow are closely linked. Sites need to have space conducive to promoting savings and other asset building services in group and individual settings.
2. Broaden the definition of asset building services to include credit counseling, debt management and utility assistance as programs that allow people to build net assets by reducing spending or outstanding debt.
3. Employ simple data collection with a few key predictors at intake and exit to make sure clients are offered the appropriate services.

Training

1. Make learning and using systems easy. Clients, staff and volunteers need support to easily understand what savings options exist and how to take advantage of them.
2. Incorporate training on asset building earlier in season, including more practice and role plays with 'mock tax clients.'
3. Train tax volunteers specifically on the asset building training delivery system and what they can do to support the model.

Table 5.4

Did anyone talk to you about saving part of your refund / buying a bond?						
	Refund last year		Willing to save refund		Bought a bond in the past	
	Yes	No	Yes	No	Yes	No
Never or once	76%	79%	75%	79%	78%	85%
Twice or more	24%	21%	25%	21%	22%	15%

Source: Center FOP Volunteer Survey, 2009 (2008 TY) n= 301

Onsite Promotion / Education

1. Develop messages that are simple and targeted to key audiences—especially based on prior experiences with a product or service. Use the four basic categories of clients: (1) unbanked, (2) new savers, (3) longer-term savers, and (4) non-savers who need counseling or other help (see Table 5.5 for greater detail).
2. Experiment with techniques to flag clients most likely to use each type of asset building service and build in redundant processes to make sure target clients hear the appropriate message more than one time.
3. Send out "early-warning" promotional materials before tax season. Work to heighten client expectations that there will be savings opportunities at the tax site. Provide simple information sheets at intake about the availability of products offered.
4. Offer more education on savings bonds and CDs, how they work, the risks and benefits, and other features for clients who lack prior experiences with them.
5. Embed and promote asset building messages into the entire tax preparation experience, from the initial outreach or appointment sign up, to intake, waiting times, tax preparation and quality review.
6. Implement team-based incentives to promote asset building services including posting reports of weekly achievement of goals for savings, education and other services.
7. Expand the development of scripts that intake, tax and asset specialists can use and adapt for each targeted client group.

Targeting and Triage: Four Basic Client Types

Table 5.5 presents a simplified attempt to target asset building services by client type. In many ways this table is a stylized illustration, but working within this framework may help further refine promotional strategies. Each is discussed in more detail below the table.

The 'unbanked' are clients who have had negative experiences with financial institutions and do not want bank accounts. Direct deposit of a refund onto a pre-paid debit card is ideal for these clients and may offer a stepping stone to further financial service offerings. Rather than try to convert the unbanked, the pre-paid card may be the best fit for these clients. To develop scripts, promotional materials and targeting, it may be valuable to examine the techniques used by mobile phone companies for

Table 5.5

Client Type	Goals	Recommended Product
Unbanked and "burned by banks in the past" *Look for: no bank accounts*	• Faster refund • Convenience • Avoid financial institutions altogether	Pre-paid Debit
Have Checking—Ready to Move into Some Savings *Look for: checking but no savings*	• Start to save for a rainy day	Basic savings account as complement to checking account
Saving for Future Generations *Look for: over age 30; kids or grandkids*	• Seeking longer-term savings • Self-constraints - harder to liquidate (but not impossible) • Better rate of return than savings	• Savings bond (more likely if client has past experience) • CD (more likely if client has past experience)
Struggling with Debt and Expenses *Look for: not willing to save*	• Catching up • Which bills to pay first	• Credit counseling • Benefits access; utility assistance • Budgeting education

Table 5.6

What Information or Services Would You Be Interested in Next Year	
Assistance with utility bills	14.4%
Food assistance or other benefits	9.9%
Buying a car	9.1%
Buying a house	8.3%
Home winterization	8.2%
Solving credit problems	6.9%
Help with legal problems	6.5%
Paying for college/job training	5.9%
Starting a small business	4.5%
Household budgeting	4.2%
Any of these services	**39.0%**

Source: Center FOP Intake Surveys, 2009 (2008TY), N=1,093

pre-paid cellular plans. Also, prior experience with buying or loading cards may also be a good predictor of take-up.

The 'banked but ready to move up' group may have a checking account (or pre-paid card), but are now ready to save in a short-term liquid account primarily as a precautionary fund. These clients are unwilling to tie up funds in a CD or Savings Bond but would like some separate account to store money with a modest rate of return (the objective is simply to set the money aside within a 6-18 month time horizon). For many of these clients, refund splitting may be an attractive option as some funds can be placed in existing checking accounts.

The 'saving for future generations' group has established some record of using basic financial products, but is ready to save over the longer term. Clients may express an interest in saving for education or the future of a child or grandchild. In reality, time horizons may be 2-5 years rather than a full generation, but regardless, this motivation may suggest demand for higher returns and more constraints on accessing the funds at least in the short run. For these clients, CDs and U.S. Savings Bonds may be the ideal option. Of course past experiences with these products is likely to boost take-up rates. In addition, current interest rates will also affect demand.

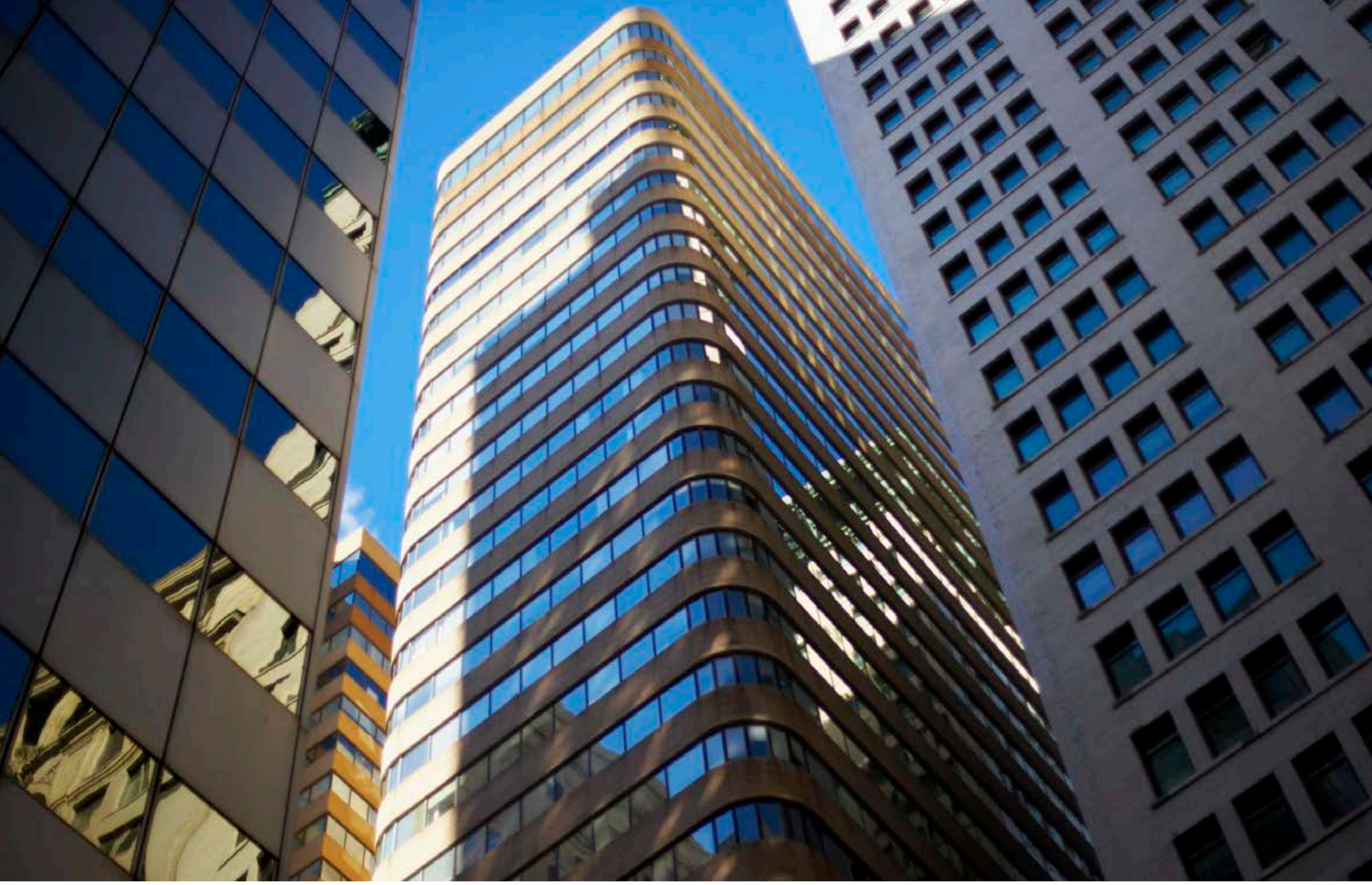
The 'struggling with debt and expenses' group includes individuals that are not in a position to save. Perhaps a direct deposit card could be a viable option, but in general, the strategy is to use the refund to pay off debt, develop a budget and take control of problems paying bills. These groups would benefit from benefits screening, credit counseling and access to support to develop and maintain a budget.

Expanding the Mix of "Asset Building" Services

One agency in the FOP asked a number of questions about what services clients would be interested in next year. These data (presented in Table 5.6) provide an indication of the types of services tax clients might be interested in receiving. Assistance with utility bills was the most frequently mentioned service at 14.4 percent, followed by 9.9 percent of clients expressing interest in accessing benefits. Buying a house and car were also mentioned with similar frequency. Credit and legal issues were also mentioned, as well as education/job training finance, small business help and budgeting.

Conclusions

The 2009 FOP shows that careful attention to processes can help tax clients take advantage of tax time as an asset building opportunity. More than a quarter of the clients at the pilot sites accessed valuable asset building services, getting much more than just a completed tax form. Tax programs can include simple messages and financial education to encourage savings and improve financial management skills, even without complicated financial products. CI



Banks and Financial Education

Integrating Practice, Products, and Partnerships

By Ammar Askari
M&I Marshall & Ilsley Bank

Introduction

A number of developments have begun to underscore the growing need for financial education. Surveys indicate that Americans have low levels of financial knowledge, as well as insufficient savings and high indebtedness. These disconcerting facts are especially salient in light of the current financial crisis, where plummeting home values, high unemployment, and weak economic growth have exacerbated the already weak balance sheet of many Americans. In light of this grim background, financial literacy has found itself in the spotlight. The topic continues to attract the attention of financial regulators, policymakers, and academics, and the demand for financial education is growing among community based organizations and their clients.

The need for financial and economic education is not new, however. For decades, government and nonprofit organizations have been trying to address what they see as a serious gap in the curricula of our K-12 school systems. Nationally representative organizations such as the Council for Economic Education (previously known as the National Council on Economic Education), Junior Achievement, the Jump$tart Coalition, and the National Endowment for Financial Education are among a growing group of supporters that have recognized the problem and are taking action to address it.

Financial institutions have also joined the effort and, in some cases, devoted significant resources to the field. They often provide financial support to existing nonprofit financial education programs, and some develop proprietary financial education programs and materials. But a few financial institutions have adopted financial education as a functional unit in their retail banking services.

This article provides an overview of bank-based financial education and describes some of the factors for success.

The Role of Banks in Financial Education

Banks are uniquely positioned to provide financial education, as they can bridge theoretical economic concepts, such as scarcity and opportunity costs, with practical "money-in-the-pocket" services, and supplement them with the necessary financial products. Access to low-cost financial products is particularly valuable for "unbanked" and "underbanked" clients (those that do not have bank accounts, or who have accounts but underutilize them); connecting financial education with financial products allows all individuals to become fully integrated in the traditional financial system, setting them on the path to wealth accumulation.

Financial education helps consumers by offering them the knowledge they need to make sound financial decisions and secure their economic futures. But banks can also benefit from financial education in a number of ways. At a time when competition in retail banking is fierce, targeted financial education programs can open new roads into untapped populations, such as the immigrant and underbanked markets. In addition, financial education programs can also create goodwill at the community level and strengthen relationships with local customers and community partners. In some cases, banks can also receive Community Reinvestment Act credit for providing financial education to low- and moderate-income individuals.

M & I Marshall & Ilsley Bank (M&I Bank), headquartered in Milwaukee, Wisconsin, has been an active supporter of financial education for many years, and in 2005 the bank launched the M&I Community Education Program (M&I CE)—a unique bank-based financial education program designed to organize the bank employees' volunteer efforts and, at the same time, respond to a widening gap between community needs and community resources in this area. Led by an experienced financial educator, the bank adopted a comprehensive approach to community education informed by research and experience. Going beyond just education, the program design includes specialized banking products for the unbanked, electronic reporting tools, alternative program delivery channels, and short- and long-term outcome measurement. M&I CE designed eight instructor-led financial education seminars, to be offered in both English and Spanish by bankers and community partners, where participants learn about personal finance using a hands-on approach in a workshop setting. Program materials are standardized, and every time a seminar is completed, instructors forward the survey results and evaluations to the program administrator for input and record keeping.

Incorporating Financial Products into Financial Education

Beyond an increase in financial acumen, the end goal of financial education is to produce a positive change in financial behavior. While there is strong evidence that financial education improves financial knowledge, the evidence linking financial education with improved financial behavior is scarce. It may be the case that an improvement in financial behavior is the result of a convergence of several factors related to financial education, such as lifecycle timing (so-called "teachable moments"), the availability of financial tools, or direct and easy access to financial products. For example, teaching someone to start a budget and regularly make deposits into a savings account is meaningless if the person is shut out of the banking system. Showing someone how to manage and rehabilitate credit is merely an academic exercise if the person is unable to open a new credit line. An effective financial education program should supplement the knowledge gained from a course with access to the tools and products necessary for achieving financial goals.

To this end, M&I CE supplemented its education program with specialized products designed to help those outside the financial mainstream transition into the traditional banking system with ease and clarity, and little cost. The financial education program is now complemented by the "Foundation Suite," a set of products especially designed to help bank the unbanked, build credit for individuals with no credit history, or rehabilitate credit for those with poor credit. The Suite includes a basic checking account that comes with a bonus incentive of $50, and is available to anyone that graduates from an approved financial education program; a thrift savings product which is a probationary savings account with a small minimum initial deposit of $25 and no maintenance fee for balances over $25; and a credit builder product, which is a reverse loan tied to a certificate of deposit with a maturity term identical to the term of the loan. This loan is designed for credit building and rehabilitation and also acts as a savings vehicle. Customers that have previously been shut out of the credit market can open this account, make regular loan payments to improve their credit scores, and receive the loan principal plus interest upon CD maturity.

Unique Financial Education Partnerships

While program design and financial product integration are key factors for a successful financial education program, effective delivery channels for reaching target populations are equally important. M&I continues to expand its delivery channels for financial education by partnering with community or government organizations with existing vocational or educational programs. This approach solves the intractable problem of poor attendance in voluntary attendance-based workshops. The community partnerships also extend the reach of financial education efforts; staff from partner organizations are trained in the curriculum and learn to integrate financial education into their existing programs on an ongoing basis. Below are a few examples of community partnerships in financial education.

Wisconsin Department of Correction Reentry Program

Beginning in 2008, the Wisconsin Department of Corrections (DOC) designed a new re-entry program called "A Bridge to Success." The program required ten modules, one of which was a financial literacy module based on the FDIC Money Smart curriculum. This presented a natural opportunity for collaboration—the M&I CE program was already using the FDIC curriculum as the basis for its financial education program, and the bank has been providing financial education to inmates and staff at several correctional institutions throughout the state of Wisconsin since 2006. Once the new DOC re-entry requirements were announced, M&I CE received many requests from correctional institutions to provide training directly to inmates. However, M&I CE did not have the capacity to meet the demand for services and began working with the DOC's Re-entry Program Administration to develop a more centralized approach.

The result was a financial education package designed by M&I CE that meets the full requirements of the DOC re-entry program, supplemented with train-the-trainer sessions for the DOC Re-entry Program staff. M&I CE redesigned its existing curriculum to cover all of the topics required by the re-entry program standards, and each seminar was supplemented with pre- and post-surveys, evaluation forms, handouts, certificates of completion, and electronic reporting forms. Since the summer of 2008, M&I CE has held five train-the-trainer sessions, reaching about 130 re-entry specialists. This partnership contributes to improved financial literacy in the community. Inmates who reenter the community after having been trained in the basics of personal finance have a greater likelihood of rehabilitating their financial situations and making wise financial decisions to improve their futures.

Ways to Work

Ways to Work is a Community Development Financial Institution (CDFI) based in Milwaukee, Wisconsin. Through its network of loan offices across the country, it provides small, short-term, low-interest loans to working poor families with challenging credit histories, and all loans are used to help individuals remain in or move forward in their jobs (the vast majority of loans are made for the purchase of modestly priced used vehicles). Individuals who borrow from Ways to Work have to meet certain conditions related to steady employment and have to attend counseling and financial education classes. M&I CE worked closely with Ways to Work to design a three-hour financial education seminar for the organization's clients, as well as a staff training curriculum. The program design process relied heavily on feedback from Ways to Work staff, and the final product was delivered in late 2008.

Program Evaluation and Outcome Measurement

Research has shown that rigorous evaluation demonstrating the effectiveness of financial education is scant, and any credible evidence depends largely on the specific content and context of an individual program. It is therefore important to continue to attempt to measure the effectiveness of financial education programs in order to identify a successful model and maximize scarce resources. M&I CE measures improvements in financial knowledge using a pre- and post-test method and in 2008 documented results for 4,646 seminar participants. On a 10-question multiple-choice test, participants averaged an increase of 2.60 points (from a mean score of 5.89 at pretest to 8.49 on post-test) which represents a 44 percent increase in the mean score. The improvement in the scores is statistically significant at both the 5 percent and 1 percent significance level for all seminars, both at the individual and aggregate level.

To measure long-term behavioral change, M&I CE utilizes special indicators that are attached to the bank accounts of customers who participated in financial education seminars. This will allow for tracking of financial behaviors over time, as well as comparing results for those customers that received financial education training and those that did not. The analysis is done over time using sample statistics at the aggregate level and does not present any privacy risk for the participants. Behavior change is a long term process, and sufficient time must pass before any conclusions about meaningful behavior change can be drawn. M&I CE is committed to the measurement effort and expects to have preliminary results in a few years.

Conclusion

Building a successful bank-based financial education program requires several important ingredients. First, the program priorities have to be clearly defined. The bank must decide what it hopes to accomplish through the program and focus on achieving that outcome. Second, a standardized, high-quality curriculum should be employed. This does not mean designing a new curriculum with a new website from scratch, as there are several good curricula available for free. The problem of financial education is no longer a problem of supply; consumers currently have many good choices for free and accessible financial education programs, both online and through various delivery channels. Third, delivery mechanisms must be appropriately designed, for example, consider whether the program will be instructor-led, delivered directly by bank employees, or dependent on an indirect delivery channel such as a third party community partner. Also, designing the program to tackle relevant topics at "teachable moments," such as homebuyer education for first-time homebuyers, or credit courses for individuals interested in getting a loan, is an effective strategy. Fourth, sound outcome measures should be incorporated into the program to assess effectiveness and enhance the credibility of the program. This is an important consideration for internal operations, in order to provide results to bank leadership and regulators, as well as external efforts to support community partners who could use the outcomes to enhance their programs and fundraising efforts. Fifth, effective and well thought-out community partnerships should be formed. These community partners are the channels through which a bank can effectively reach community members in a trusted environment. Finally, in addition to education, the bank has to be prepared to provide the tools needed to accomplish the educational goals. Specialized financial products and services are vital for helping the underserved become fully engaged in the financial mainstream.

If done properly, the rewards for having a well-designed and accessible bank-based financial education program are many.

If done properly, the rewards for having a well-designed and accessible bank-based financial education program are many. They include measurable benefits to the bank, such as increased sales and positive branding, as well as more difficult-to-measure benefits at the community level, such as wiser financial behavior and greater familiarity with financial products. CI

Sustaining Homeownership

The Experience of City-Based Affordable Homeownership Programs

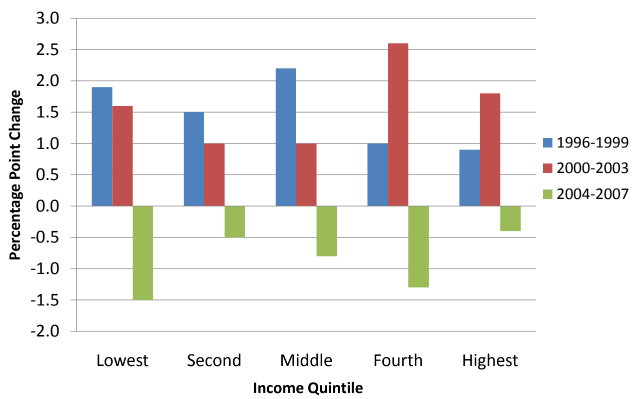
By Carolina Reid[1]

The recent surge in mortgage delinquencies and foreclosures has sparked a renewed debate over the government's role in promoting homeownership, particularly among low-income and minority borrowers. Increasingly, questions are emerging about the benefits of homeownership for lower-income households. Commentators on the crisis note that homeownership is not for everyone, and argue that efforts to expand homeownership opportunities for lower-income households are misguided at best. The most vocal of critics have argued that government programs designed to expand access to credit and homeownership, such as the Community Reinvestment Act (CRA) and the affordable housing goals established for Fannie Mae and Freddie Mac, helped to precipitate the current subprime meltdown.

What these critics fail to consider, however, is that affordable homeownership programs have long been able to help lower-income families overcome the financial barriers to owning a home, and have done so in a way that is both responsible and sustainable. It is a mistake to conflate efforts to expand access to homeownership with the subprime lending boom: indeed, the dramatic rise in subprime lending may be better viewed as the antithesis of these efforts. Rather than support affordable homeownership, the characteristics of "subprime" lending—including high interest rates, high debt-to-income and loan-to-value ratios, limited documentation, and the layering of exotic loan terms such as interest-only and negative amortization payment schedules—all served to make homeownership a risky proposition, not only for lower-income families, but for many middle- and upper-income families as well. Indeed, studies conducted by the Federal Reserve Board of Governors and the Federal Reserve Bank of San Francisco both found that subprime lending was not targeted

Figure 7.1

Change in Homeownership Rates Across Income



Source: Chris Herbert, Abt Associates

to lower-income families.[2] Moreover, contrary to public opinion, the expansion of subprime lending after 2004 did not serve to increase homeownership rates among lower-income households (See Figure 7.1). As the figure shows, most of the gains in the homeownership rate were realized before 2003, not during the height of subprime lending.

Rather than abandoning the goal of expanding access to homeownership, the recent crisis provides us with an opportunity to think critically about the housing needs of lower-income families. The goal should be to develop a spectrum of policies that can create a true housing ladder, from affordable rental units to homeownership opportunities that can help lower-income families build assets. The goal of homeownership should not be abandoned wholesale; research has shown that homeownership confers significant benefits to lower-income households and communities, especially when it is sustained over time.[3] The benefits are especially strong for young children, improving their educational outcomes and reducing their exposure to crime, which can yield significant return on investment over time. Home equity is also an important source of wealth and asset accumulation, particularly for minorities and those with lower incomes. Even research studies that have been less than sanguine about homeownership's benefits have found that low-income households who become and stay homeowners build significantly more wealth over time than those who remain renters.

So how can we build better programs to help low-income households both become and stay homeowners? In this article, we examine the performance of city-based affordable homeownership programs in five high-cost cities, Boston, Chicago, Los Angeles, New York, and San Francisco (See figure 7.2). These programs all serve low- and moderate-income households, often with lower credit scores, lower savings, and more irregular and/ or undocumented income than higher-income borrowers—in other words, they reach borrowers who would otherwise go to the subprime mortgage market. But in direct contrast to the high rates of foreclosure in the subprime market, the number of foreclosures in most of these programs can be counted on one hand, even in today's troubled economy. As such, these programs provide important insights into what program elements comprise "responsible lending" to lower-income borrowers. This article also demonstrates the complicated funding streams these programs rely on, and suggests that additional federal and state funding is needed to increase the scale of these programs.

The Performance of City-Based Homeownership Programs

Public policy has long sought to increase access to homeownership opportunities for low-income households and a variety of programs exist at the local, state and federal level to help remove financial barriers to homeownership. These programs take on many forms: some provide down-payment or closing-cost assistance, others help to expand access to credit (including CRA motivated lending by banks and government-backed affordable lending products), while still others support the construction of affordable units. Federal programs, such

Figure 7.2

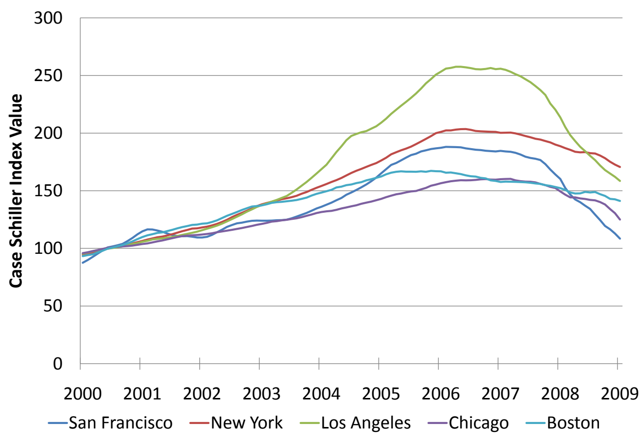
Geography	Total Households	Homeownership Rate	Median Value of Owner Occupied Units	2009 HUD Area Median Family Income (MFI)
Boston	229,787	38.5%	$425,700	$90,200
Chicago	1,022,916	49.9%	$286,800	$74,900
Los Angeles	1,284,430	39.7%	$633,800	$62,100
New York	3,030,752	33.6%	$538,800	$61,600
San Francisco	321,947	37.8%	$830,700	$96,800

Source: American Community Survey (2007) and HUD as the Community Development Block Grant program and HOME Investment Partnership grants, are also used by local governments to support locally developed affordable homeownership programs.

Expanding affordable homeownership has been a long-time goal for city officials in Boston, Chicago, Los Angeles, New York, and San Francisco. Each of these cities is characterized by a lack of affordable housing, a challenge that was heightened during the recent housing boom. At the height of the boom, only five percent of families in New York could afford to buy a median priced home; in Los Angeles, only two percent of families could do so.[4] Not surprisingly, all five cities also saw high rates of subprime lending during this time period, particularly in lower-income and minority neighborhoods. In both Los Angeles and Chicago, nearly one in four borrowers in 2005 received a higher priced loan. And as the housing market has collapsed (Figure 7.3), all five cities are struggling with the consequences of rising foreclosure rates and concentrations of foreclosed properties in many neighborhoods.

Figure 7.3

Change in House Prices in Case Study Cities 2000 – 2009



Source: Case Shiller House Price Index, 2000=100.

Despite the housing market challenges facing these cities, their portfolios of affordable homeownership loans are performing extremely well. In Boston, Homebuyer Assistance Programs have helped more than 4,800 low-income families purchase homes since 1995; only 62 have gone into foreclosure. The foreclosure rate on all buyers assisted since 1995 is 1.29 percent, less than a third of the foreclosure rate for Boston's housing market as a whole (3.95 percent). This low foreclosure rate was realized despite the fact that Boston's program serves a much lower-income market segment than the overall market. In Los Angeles, the city has seen only one foreclosure in its portfolio of 1,117 loans; San Francisco has seen no foreclosures among its 1,217 loans, although there has been one short sale and one pending notice of default. And in Chicago, there are less than ten foreclosures pending out of approximately 840 active loans. In New York, since 2004, the city's HomeFirst program has assisted 913 low-income families become homeowners; as of January 2009, only two were facing foreclosure. In addition, New York has also seen very few foreclosures among the properties it has developed as affordable units. The data show that out of 18,354 units, only 18 units have been foreclosed upon—a foreclosure rate of only 0.01 percent. The low foreclosure rates in these city programs are especially remarkable given the fact that lower-income borrowers are usually associated with higher rates of default than the general population.[5]

Program Features and Policy Implications

Why have these programs performed so well and seen so few foreclosures, despite high rates of default in the overall housing market? In large part, the success of affordable homeownership programs can be attributed to the checks and balances that are built into the programs themselves. In direct contrast to the lax underwriting standards that were prevalent during the subprime boom, city-sponsored affordable homeownership programs document participants' incomes, ensure that the household is able to make the monthly payments, and provide safe and straightforward loan products that build, rather than strip, equity.

Los Angeles's program is instructive. Responding to the high cost of housing in Los Angeles, the Housing Department offers three separate homebuyer purchase assistance programs, one targeted at very low-income households (less than 80 percent of area median income [AMI]), one targeted at moderate-income households (less than 120 percent of AMI), as well as one targeted to slightly higher-income households (up to 150 percent of AMI) that are nevertheless priced out of LA's housing market. The program provides a downpayment loan at zero percent interest[6], payable upon sale of the property, title change, or at the end of the 30-year loan term. The eligible loan amount is greatest for the lowest-income households.[7]

Yet the program also includes many features that help to ensure the sustainability of homeownership for these households. First, the program requires that borrowers complete at least eight hours of homebuyer education, and that they have a minimum FICO score of 620. These requirements ensure that the borrower understands and is able to take on a mortgage; if their FICO score is below 620, they are encouraged to undertake credit repair and/or get other debts under control first. Borrowers must also secure conventional financing for their home purchase: the first mortgage must be a 30 or 40 year fixed, fully amortized loan, and the maximum debt-to-income ratio is 38 percent.[8] Borrowers must contribute a minimum downpayment of three percent towards the purchase price, which can be reduced to one percent with additional hours of homebuyer education. Through these requirements, LA's program ensures that borrowers can afford their loan over the long-term. In San Francisco, the program also prohibits cash-out for more than 70 percent of the property's value minus the remaining loan amount, ensuring that borrowers don't put themselves in a position of negative equity after refinancing their home.

New York's HomeFirst Down Payment Assistance Program has similar requirements. The program provides qualified homebuyers with a forgivable loan for up to six percent of a home's purchase price, which can be applied toward the down payment or closing costs. Qualified buyers must complete a homebuyer education course, and have their own savings to contribute to the down payment or closing costs. The city also requires that residents live in the home purchased for at least 10 years. This feature demonstrates another important aspect of affordable homeownership programs: by fostering long-term homeownership, these programs also work to contribute to neighborhood stabilization and community building, not just individualized asset building.

Another important element in affordable homeownership programs is the post-purchase support offered to borrowers. In Los Angeles, borrowers who receive a purchase assistance loan can also qualify to receive an additional rehabilitation loan of up to $25,000. These loans have a three percent interest rate, and payments are deferred until the property is sold or the title is transferred. This type of low-cost loan can be very important to low-income households who may not otherwise be able to address problems like a broken water heater or a leaky roof, especially if the property has deferred maintenance issues. Many programs will also help borrowers who have a temporary loss of income and need help making their mortgage payments. In Chicago, for example, the city will work with borrowers in distress to ensure that a foreclosure filing doesn't result in a foreclosure sale; more than 75 percent of foreclosure filings among homeowners in the program were resolved through refinancing with the original lender.

All of these aspects of city lending programs contribute to the success of low-income homeowners. Yet the data also point to the small scale of these programs. Most of the programs help a few hundred families a year, and even so need to draw on multiple sources of funding to make that number possible. For example, in New York, the HomeFirst DownPayment Assistance program was funded through HUD's American Dream Downpayment Initiative.[9] However, these funds have decreased over time, limiting New York's ability to expand its program to more eligible families. Even at the program's height in 2008, only $4 million was allocated to the program, enough to help between 230 and 270 households become homeowners. Recognizing shortfalls in federal funding for affordable housing, Boston has developed multiple sources of funding to support its homeownership programs, including using inclusionary housing to boost funds. When market-rate developers elect to make cash-out payments in lieu of on-site affordable units, these funds are used to support homebuyers up to 120 percent of area median income. Boston has also developed the Leading the Way Fund, which is a one-time general revenue fund in support of affordable housing. In San Francisco, the Down Payment Assistance Loan Program is funded through a revolving loan fund that was established by a general obligation municipal bond of $15 million in 1996. San Francisco also has an inclusionary housing ordinance passed in 2006 that imposes a mandatory fifteen percent of affordable units to be constructed on all projects of five units or more. In Los Angeles, the program leverages other sources of borrower financing through the Mortgage Credit Certificate Program and the California Housing Finance Agency. This patchwork quilt of funding streams in all of the cities points to a clear need for more streamlined and permanent sources of financing for affordable housing.

Conclusion

The experiences of city-based affordable homeownership programs provide some key lessons for developing more efficient and equitable financing for lower-income homebuyers. Rather than being relegated to the subprime mortgage market, lower-income households need access to a true housing ladder, from rental units that allow them to build financial stability to affordable homeownership units for those ready to take on a mortgage. Building that ladder, however, will require that we bolster policies to support these transitions, including expanded funding at the federal and state level for affordable housing (on both the supply and demand side), better consumer protection in the area of mortgage products, and opportunities for lower-income households to build assets and savings that can help them to make a downpayment as well as weather unexpected income losses. Homebuyer education, both pre- and post-purchase, should also be expanded and improved, with greater attention paid to reaching potentially vulnerable populations such as non-English speaking households. Finally, policies that help lower-income households to enter homeownership must be linked with community development strategies to improve neighborhoods and increase access to good schools and job opportunities. This type of comprehensive housing strategy will help to ensure that lower-income households are able to realize the full potential of homeownership, improving outcomes for themselves and for the communities in which they live. CI

Artist rendering of new construction at Hunters View
Credit: Zendarski Studio. Architect: Paulett Taggart Architects.

San Francisco's New Model for Mixed-Income Housing: HOPE SF

By Naomi Cytron

Ambitious plans are afoot to revitalize the City of San Francisco's oldest and most deteriorated public housing sites. Through the city's new HOPE SF program, 2,500 units of distressed public housing will be rebuilt as components of new mixed-income developments. This is not your ordinary public housing rehabilitation plan, though; nearly every city agency is involved in an effort to integrate investments in housing with those in educational and supportive services for current and future residents.

Over the past decade, five public housing complexes in San Francisco were redeveloped using HOPE VI funding (see "The HOPE VI Program" sidebar), but the declining availability of federal funding for both maintaining and rebuilding public housing prompted the city's leadership to think more creatively about how to finance revitalization of the remaining portfolio of public housing units. HOPE SF, initiated by Mayor Gavin Newsom in 2006, was born out of that process. HOPE SF is distinguished by its guiding principles, which seek to reduce the reliance upon dwindling HOPE VI funds, and in essence tackle many of the critiques of HOPE VI head-on. Drafted by a taskforce of residents, advocates, and government representatives, the HOPE SF Principles hold that the redeveloped sites will provide one-for-one replacement of the existing public housing units, and will ultimately situate those units in economically diverse neighborhood contexts. HOPE SF's reconfigured financing structure, which draws on a cross-subsidy concept, enables the redevelopment of housing along a spectrum of affordability. Under the plan, sites will be redeveloped with higher densities of housing; the new mix of housing will include market rate housing units and low-income rental units in addition to the replacement public housing units. Instead of financing the redevelopment of public housing with a heavy reliance on federal subsidies, local support as well as proceeds from the sale of market rate units will provide the significant financing required to implement these projects. Reflecting the opportunity that city leaders saw to tackle not only deteriorated physical conditions at public housing sites, but social conditions as well, the principles also emphasize enhancements in local educational and workforce training opportunities as housing and other neighborhood amenities are rebuilt. In addition, the principles prioritize improved measures to engage residents in a variety of ways throughout the planning and implementation of redevelopment. Community building and environmental sustainability are other core emphases.

Physical Redevelopment

HOPE SF will eventually rebuild eight public housing sites around the city. The pilot site that will undergo transformation is Hunters View, a project that was built in 1956 on the site of former naval barracks. The San Francisco Housing Authority notes that Hunters View "displays many of the classic shortcomings of distressed public housing in the United States: poor site planning, indefensible open space, isolation from the surrounding community, and chronic underfunding of operations and maintenance."[3] Indeed, Hunters View is now far beyond its lifespan—in 2007, federal inspectors rated it one of the worst in the country, characterized by decrepit and dangerous conditions.[4] The city was rejected three times for HOPE VI funding to rebuild the project, and until HOPE SF, the Housing Authority had no capacity to address the deteriorated conditions at the site.

Through HOPE SF, the 22 acre site at Hunters View will be "rebuilt from the ground up," said Jack Gardner, president of the John Stewart Company, the lead developer for the site. Though the architectural plans are still schematic, the plans call for the 267 public housing units currently on-site—of which a little more than half are currently occupied— to be rebuilt among another 400-500 units of affordable and market rate rental and for-sale housing. This will effectively create a housing ladder in a mixed-income neighborhood, and will generate residential density that is more consistent with other neighborhoods in San Francisco. In addition to housing, the site plans include a number of community amenities, such as parks, open spaces, and sites for community-serving small businesses. Flexible spaces are also being built into the plans that can change uses over the years depending on residents' needs. Erin Carson of the San Francisco Redevelopment Agency noted that the programming in these spaces will ultimately take shape as residents have a chance to weigh in on their interests, which may include senior services, day care, afterschool programming, or other uses.

The physical plans are being designed with an eye toward creating a new sense of connection to the city at large. "Historically, public housing has been not just economically isolating, but physically isolating as well. The new site will be designed to help residents feel that they are part of a street, a neighborhood, and the city," said Gardner. "It will include fundamental design ele-

The HOPE VI Program

HOPE SF is modeled to some extent on the federal HOPE VI program, which aims to improve the living conditions within and surrounding troubled public housing developments. Since the early 1990s, HOPE VI has provided funds to demolish or rehabilitate distressed projects and rebuild them using new building configurations, design standards, and residential densities. A core element of the program is that it encourages the development of mixed-income communities in areas previously characterized by extreme concentrations of poverty; many HOPE VI sites now include affordable housing for households at a variety of income levels, and at some sites, market rate units have been developed alongside those that are deeply subsidized for low-income tenants. Additionally, in an effort to help reshape the social and economic opportunities for low-income residents, the program supports enhancements in supportive services and neighborhood amenities in addition to the "bricks and sticks" aspects of redevelopment.

Over $6 billion has been allocated through HOPE VI toward the revitalization of nearly 600 distressed complexes around the nation. Many sites have seen marked improvements across a range of quality-of life indicators, including health, education, employment and safety, and have acted as catalysts for a range of neighborhood investments.[1] However, the program has suffered from some political opposition—annual appropriations for the program were cut back significantly during the Bush Administration, with the 2008 budget for the program just under $98 million, down from a peak of $612 million in 1999[2]-- and the program has some widely cited flaws. Chief among them are that relocation programs for original tenants of public housing have not adequately supported residential transitions and returns to rebuilt units, that it has resulted in a net loss of units for low-income households, and that residents have not necessarily seen significant opportunities for socio-economic advancement. In addition, difficulties have also arisen due to inadequate resident engagement in the planning process for revitalization.

ments that the site currently lacks—streets that lead places, units that are positioned to offer views that orient residents to surroundings." The new infrastructure in the neighborhood will include a new street grid that connects with the city-wide grid, as well as stairways, paths and ramps that allow for easier pedestrian access around the neighborhood. In addition, public safety concerns will be addressed through improved positioning of buildings and open spaces, as well as enhanced lighting, security cameras, and emergency systems.

Supporting Transitions and Enhancing Opportunity

During typical redevelopment projects, those residing in public housing slated for demolition are relocated offsite for the duration of construction, and those who qualify are given the option to move back to the new site once it is complete. A unique aspect of HOPE SF is the commitment to house residents from public housing units onsite during the redevelopment process, and to help ensure that the maximum number of current residents can qualify for a new unit. A number of elements had to be coordinated to make this possible. First, a phased tear-down plan was developed; under this plan, units in a sector of Hunters View slated for the second phase of reconstruction were rehabbed in preparation for move-in by residents living in buildings slated for the first phase of demolition. Residents are moving into rehabbed units beginning this summer, and will then be able to move into brand new units once construction is complete. However, in order to qualify for onsite relocation and the right to a revitalized unit, residents have to be current on rent and not in violation of other lease provisions. Kaila Price of the Mayor's Office of Housing noted that in conducting assessments of current residents, they discovered that this requirement would effectively prohibit approximately 70 percent of current residents from accessing new units. "We realized that we were on the verge of creating a terrible policy situation," she said. In order to help those not in good standing on their lease, the Mayor's Office of Housing, in cooperation with the Human Services Agency and Communities of Opportunity, initiated a Rent Assistance Program. Through this program, residents can get connected to existing eviction prevention programs to catch up on rental payments and create plans for staying current, thereby ensuring that they qualify for a new unit. Price noted that the relocation plan, which was drafted with significant resident input and collaboration, is geared overall toward minimizing the disruptions in residents' lives and helping to retain continuity of community in the midst of large-scale neighborhood transformation.

While the relocation plan required the coordination of existing programs, other aspects of the community engagement and service provision plans necessitated the creation of supplemental programs. For instance, the development team initially aimed to involve residents in a master planning process for the neighborhood. But they discovered early on that on a number of levels, residents were not prepared to substantively participate in the process. "When families are worried about possibly being evicted for late payment of rent, or are struggling with violence or drugs or otherwise traumatizing conditions, questions about design are not yet relevant," said Gardner. On top of the challenges arising from dealing with difficult living conditions, another obstacle arose due to residents' inexperience with seemingly arcane neighborhood planning processes, meaning that many were unfamiliar with and frustrated by development jargon and the various roles played by the slew of agencies involved.

Current housing units at Hunters View
Photo courtesy of John Stewart Company

The Mayor's Office of Housing stepped in to create a number of programs to equip residents with the skills and knowledge to better participate in the planning process, and to ultimately help position residents to take advantage of the opportunities that redevelopment will offer. The HOPE SF Leadership Academy was established in collaboration with the San Francisco Housing Authority to deliver a curriculum on housing development and neighborhood revitalization to residents of all neighborhoods that will be eventually transformed under HOPE SF. Students of the Academy will be able to more effectively provide input on policy and program development, and will gain skills to serve as community leaders and liaisons. A Service Connection Program was also established to help stabilize troubled households. Through this program, "Service Connectors" have reached out to all families currently living at Hunters View to assess needs, and are working to develop support plans tailored to individual goals and interests. These plans can include a range of interventions, from basic crisis mitigation and case management to helping residents gain access to job training programs and tools that can help lower barriers to employment, including basic skills development and courses to complete a GED and get a driver's license. "We want to make sure that residents are as prepared as they can be, and are lined up

The Impact of the Crisis

The unique financing structure for Hunter's View, which incorporates cross-subsidies from the sale of market rate units as well as funding from a number of private and public sources, would have been complicated in normal circumstances. But the current economic crisis—the credit crunch, the collapse in Low Income Housing Tax Credit pricing, uncertainty in the housing market, and California's ongoing budget crisis – has generated significant challenges, noted Gardner. Due to pull-backs both from home buyers and lenders, for instance, adjustments were made to development plans to delay the construction of for-sale units, thereby allowing for recovery in the housing market. Meanwhile, the project has received support through federal Recovery Act funding and the state's Multifamily Housing and Infill Infrastructure Grant Programs, and it is anticipated that both infrastructure improvements and the development of replacement public housing and additional affordable housing units will continue on schedule.

for any and all services they need to be able to succeed as the communities are revitalized," said Price.

Educational and recreational opportunities for youth will also be reshaped through HOPE SF. The Mayor's Office is working with the San Francisco Unified School District to tackle physical planning of local schools as well as the other issues that need to be addressed to both improve student and school performance and make sure that students fare well during the redevelopment processes at all HOPE SF sites. Additionally, University of California at Berkeley's Center for Cities and Schools has been enlisted to make recommendations for enhancing Malcolm X Academy, the elementary school adjacent to Hunters View. "The aim is take a more comprehensive approach to neighborhood and community turnaround, starting with the local school," said Gardner. The development team also hopes to reconfigure the nearby Hunters Point Youth Park as a community and educational complex that would host a diverse set of recreational and supportive service programs.

Coordinating and Sustaining Momentum

The range of both physical and social service transformations occurring through HOPE SF entails the involvement of a panoply of city agencies—the Housing Authority, the Redevelopment Agency, the Department of Public Works, the Public Utilities Commission, the Department of Children, Youth and Families, SF Unified School District, as well as the Mayor's Offices of Housing, Community Investment, and Economic and Workforce Development, to name just a few. In addition, each site has its own development team with nonprofit partners. Needless to say, coordinating the activities of this many players is complicated. Critical here was the lead taken by the Mayor to achieve horizontal integration of a number of city agencies in working to revitalize the HOPE SF sites. In other words, rather than just viewing redevelopment of public housing as a siloed Housing Authority issue, the Mayor saw redevelopment as the responsibility of nearly every agency in the city. "The mayor upped the ante in shaping this as a collective initiative," said Carson. "It's complex and ambitious, but is a much-needed approach."

An interagency council has been established to convene several times a month to work on coordinating the service provision and human capital development programs for populations residing in neighborhoods where public housing is concentrated. "The coordination is making a huge difference in service delivery," said Price. "It's very exciting and promising, and gives me hope that these processes and programs will be sustainable through political and economic changes."

While continued cooperation will be an important ingredient for sustaining momentum and generating positive outcomes from the program, ongoing flexibility to adjust programs as needed will be an equally significant contributor to success. Price noted that while the city has drawn on national best practices in shaping the program, they are learning at every turn and are making continual adjustments to account for local political and economic conditions. "We are learning as we go along—and with the next three HOPE SF sites, we will be entering into a 20-year process with the program, so we'll have plenty of time to learn lessons and change the ways we are doing business," she said.

Conclusion

While still a work in progress, it is clear is that HOPE SF is taking a promising approach to changing the landscape of public housing in linking physical redevelopment with substantial investments in human capital development. The labors thus far point to a concerted effort to reduce the isolation and dearth of opportunity that have characterized public housing in recent years, and to build the abilities of residents to shape and take advantage of the possibilities that will emerge as redevelopment progresses. "The aim is to break negative cycles that have occurred over generations," said Gardner. "We hope to catalyze changes that will both stabilize residents in the near term and generate a profound transformation in their lives over the long term." CI

Reforms to Protect American Credit Card Holders

A Summary of the Credit Card Accountability, Responsibility, and Disclosure Act

President Obama signed the Credit Card Accountability, Responsibility, and Disclosure Act into law on May 22, 2009, noting that "With this new law, consumers will have the strong and reliable protections they deserve. We will continue to press for reform that is built on transparency, accountability, and mutual responsibility – values fundamental to the new foundation we seek to build for our economy." To help explain the changes to the regulations, the White House issued a fact sheet that outlined the major provisions in the Credit CARD Act of 2009.[1] This fact sheet is reprinted below.

Principles for Long-term Credit Card Reform

First, there have to be strong and reliable protections for consumers. Second, all the forms and statements that credit card companies send out have to have plain language that is in plain sight. Third, we have to make sure that people can shop for a credit card that meets their needs without fear of being taken advantage of. Finally, we need more accountability in the system, so that we can hold those responsible who do engage in deceptive practices that hurt families and consumers.

Key Elements of the Credit CARD Act of 2009

Bans Unfair Rate Increases

- Financial institutions will no longer raise rates unfairly, and consumers will have confidence that the interest rates on their existing balances will not be hiked.
- Bans Retroactive Rate Increases: Bans rate increases on existing balances due to "any time, any reason" or "universal default" and severely restricts retroactive rate increases due to late payment.
- First Year Protection: Contract terms must be clearly spelled out and stable for the entirety of the first year. Firms may continue to offer promotional rates with new accounts or during the life of an account, but these rates must be clearly disclosed and last at least 6 months.

Bans Unfair Fee Traps

- Ends Late Fee Traps: Institutions will have to give card holders a reasonable time to pay the monthly bill – at least 21 calendar days from time of mailing. The act also ends late fee traps such as weekend deadlines, due dates that change each month, and deadlines that fall in the middle of the day.

- Enforces Fair Interest Calculation: Credit card companies will be required to apply excess payments to the highest interest balance first, as consumers expect them to do. The act also ends the confusing and unfair practice by which issuers use the balance in a previous month to calculate interest charges on the current month, so called "double-cycle" billing.
- Requires Opt-In to Over-Limit Fees: Consumers will find it easier to avoid over-limit fees because institutions will have to obtain a consumer's permission to process transactions that would place the account over the limit.
- Restrains Unfair Sub-Prime Fees: Fees on subprime, low-limit credit cards will be substantially restricted.
- Limits Fees on Gift and Stored Value Cards: The act enhances disclosure on fees for gift and stored value cards and restricts inactivity fees unless the card has been inactive for at least 12 months.

Plain Sight /Plain Language Disclosures

Credit card contract terms will be disclosed in language that consumers can see and understand so they can avoid unnecessary costs and manage their finances.

- Plain Language in Plain Sight: Creditors will give consumers clear disclosures of account terms before consumers open an account, and clear statements of the activity on consumers' accounts afterwards. For example, pre-opening disclosures will highlight fees consumers may be charged and periodic statements will conspicuously display fees they have paid in the current month and the year to date as well as the reasons for those fees. These disclosures will help consumers make informed choices about using the right financial products and managing their own financial needs. Model disclosures will be updated regularly based on reviews of the market, empirical research, and testing with consumers to ensure that disclosures remain clear, useful, and relevant.
- Real Information about the Financial Consequences of Decisions: Issuers will be required to show the consequences to consumers of their credit decisions.

Issuers will need to display on periodic statements how long it would take to pay off the existing balance—and the total interest cost—if the consumer paid only the minimum due.

Issuers will also have to display the payment amount and total interest cost to pay off the existing balance in 36 months.

Accountability

The act will help ensure accountability from both credit card issuers and regulators who are responsible for preventing unfair practices and enforcing protections.

- **Public posting of credit card contracts:** Today credit card contracts are usually available only in hard copy and not in plain language. Now issuers will be required to make contracts available on the Internet in a usable format. Regulators and consumer advocates will be better able to monitor changes in credit card terms and evaluate whether current disclosures and protections are adequate.
- **Holds regulators accountable to enforce the law:** Regulators will be required to report annually to the Congress on their enforcement of credit card protections
- **Holds regulators accountable to keep protections current:**
  - Regulators will be required to request public input on trends in the credit card market and potential consumer protection issues on a biennial basis to determine what new regulations or disclosures might be needed.
  - Regulators will be required either to update the applicable rules, or to publish findings if they deem further regulation unnecessary.
- **Increases penalties:** Card issuers that violate these new restrictions will face significantly higher penalties than under current law, which should make violations less likely in the first place.

Cleans Up Credit Card Practices For Young People at Universities

The act contains new protections for college students and young adults, including a requirement that card issuers and universities disclose agreements with respect to the marketing or distribution of credit cards to students. CI

DOCTOR CRA

by John Olson

Dear Dr. CRA:

My community partners have been asking more frequently about what my bank is doing to promote financial education in our community. It's becoming a more prominent issue and quality financial education has become especially important in light of the financial crisis. I want to increase financial education activity in my community, but will I get CRA credit for it?

Signed,
Ready to Step Up

Dear Ready,

Let's take a look at what's in the CRA Questions and Answers document for our answer. The regulation mentions ways in which financial education activities may be considered under the Lending, Service, or Investment Tests for large institutions. For Intermediate Small Institutions, the sections on community development investment and service activities may be considered under the Community Development Test.

Lending Test

For the Lending Test, we look to question .22(a)–1:, which asks whether there are "types of lending activities that help meet the credit needs of an institution's assessment area(s) and that may warrant favorable consideration as activities that are responsive to the needs of the institution's assessment area(s)?" One of these types of lending that warrants favorable consideration is "providing loan programs that include a financial education component about how to avoid lending activities that may be abusive or otherwise unsuitable."

Investment Test

For the Investment Test, we look to question .12(t)–4, which lists examples of qualified community development investments. One of the examples listed is contribution to "not-for-profit organizations serving low- and moderate-income housing or other community development needs, such as counseling for credit, homeownership, home maintenance, and other financial literacy programs."

Service Test

For the Service Test, we look to question .12(i)–3:, which lists examples of community development services. A couple of the examples include references to financial education:

- Providing credit counseling, homebuyer and home-maintenance counseling, financial planning or other financial services education to promote community development and affordable housing, including credit counseling to assist low- or moderate-income borrowers in avoiding foreclosure on their homes;
- Establishing school savings programs or developing or teaching financial education or literacy curricula for low- or moderate-income individuals.

As you can see, there are several ways to get involved in financial education as you prepare your CRA program, but there are a few things to keep in mind:

- Remember that the definition of community development focuses on low- and moderate-income individuals, so you'll want to focus on these populations as you develop your own program or select community partners.
- In order to have your financial education activities considered as "responsive" lending activities, which don't have the same income restrictions as the community development activities, you'll want to make sure that you're pairing your lending with education that equips borrowers with information that will help them avoid abusive lending practices.

And, as always, if you're not sure about how your program will be considered in your CRA exam, don't be afraid to consult your supervisor while you're developing your program!

RESEARCH BRIEFS

Telenovela with a Financial Message

Most financial education lessons are written in English for an audience that's familiar with American culture. As a result, many of these programs may not appeal to immigrants who have limited English language skills or are unfamiliar with local customs. Yet many of these individuals could benefit from learning the basics of financial management and the American financial system. How can we bridge the cultural gap in financial education? One innovative approach is the *Nuestro Barrio* "telenovela," a Spanish language television program that delivers financial education through the engaging and culturally relevant soap opera format. It may be entertaining, but is this telenovela an effective means for delivering financial education to Latino immigrants?

Using data gathered from survey participants in the Raleigh/Durham area, Spader, Ratcliffe, Montoya, and Skillern analyze the effect of *Nuestro Barrio* in the context of a well-known theory of behavior change. They find that the show effectively raised viewer awareness about the benefits of bank account use and positively changed viewers' attitudes toward banks. However, viewers demonstrated small but statistically insignificant gains in financial knowledge. Still, the authors suggest that because it attracts a wide audience with its entertaining format, *Nuestro Barrio* may be an important tool for reaching households that might not otherwise seek financial education.

Thus, the telenovela may have limited impact as a standalone tool for financial education, but it could be successful as part of a broader strategy for delivering financial education to Latino immigrants. Ongoing efforts should continue to seek innovative ways to deliver culturally relevant content with wide appeal.

Spader, Jonathan, Janneke Ratcliffe, Jorge Montoya, and Peter Skillern. 2009. "The Bold and The Bankable: How the Nuestro Barrio Telenovela Reaches Latino Immigrants with Financial Education." *Journal of Consumer Affairs,* Volume 43, Issue 1.

The Impact of the EITC on Neighborhood Economic Development

The Earned Income Tax Credit (EITC) is a refundable tax credit for low- and moderate-income workers that helps offset payroll and income taxes, allowing these individuals to keep more of the money they earn. Research has shown that the EITC provides numerous benefits at the individual and family level, such as reductions in poverty and greater labor force participation and retention among low-income workers. But how do these effects at the individual level affect the community at large? In what specific ways, and to what extent, do "people-based" policies like the EITC affect the "places" in which low-income individuals live?

To answer these questions, Spencer analyzes the effect of the EITC in Los Angeles during the late 1990's and finds that the policy ends up being a de facto investment in poor neighborhoods, as low-income workers tend to live in close proximity to one another. Using data from the Internal Revenue Service and the U.S. Census, Spencer finds that the program channeled about $495 million per year into Los Angeles' poor neighborhoods in 1997 and 1998. This injection of EITC dollars works out to roughly $2 million per square mile in the poor areas of the county, in contrast to just $850,000 per square mile for other parts of the county. Thus, even though the EITC increases income at the individual level, the program also channels significant financial resources to poor neighborhoods. Spencer also finds that the increase in financial capital resulting from the EITC is associated with an increase in the local retail job base in poor neighborhoods in Los Angeles. These findings suggest that the EITC does have an effect on the municipal-level economic base, reaching those neighborhoods that are most in need of economic development.

The significance of the EITC as a vehicle for investment in poor neighborhoods may lead policymakers and researchers to further explore the relationship between people-based antipoverty policies and place.

Spencer, James. 2007. "Neighborhood Economic Development Effects of the Earned Income Tax Credit in Los Angeles." *Urban Affairs Review,* Volume 42, Number 6.

Payday Loans and Credit Card Debt

Many Americans struggle to make ends meet and their paychecks never seem to go far enough. Individuals looking for an increase in cash flow have few options–most turn to credit cards or payday loans. Both options provide instant liquidity, but payday loans are generally a much higher cost option. Can consumers recognize these cost differences and choose the lowest-cost credit option?

Agarwal, Skiba, and Tobacman find that consumers aren't very effective at choosing the lower-cost credit option. Using a unique data set that merges loan records from a large payday lender with transaction and credit histories from a financial institution, they find that many individuals had a credit card yet still chose to take out payday loans. Two thirds of the matched sample had at least $1,000 of available credit on their existing credit cards when they took their first payday loans (the typical payday loan is $300). These individuals are choosing the higher cost payday loans, despite having access to lower cost funds from their existing credit cards. The researchers also examine the effectiveness of credit scores in predicting payday loan defaults, looking specifically at FICO scores and Teletrack scores, which emphasize information from subprime lenders (car title lenders, rent-to-own stores, and payday lenders). They find that Teletrack scores are eight times as powerful for predicting payday loan default compared to FICO scores. Using the two scores together further increases the ability to predict payday loan default: conditional on the Teletrack scores, higher FICO scores predict significantly higher repayment rates. The authors argue that credit card companies may also want to consider a customer's use of payday lending and his or her Teletrack scores in their own risk models: taking out a payday loan predicts nearly a doubling in the probability of serious credit card delinquency over the next year.

Consumers need to be made aware of the true costs of their credit options in order to address to this "liquidity puzzle." Also, lenders could use existing credit score information to better assess the repayment ability of borrowers when extending lines of credit.

Agarwal, Sumit, Paige Marta Skiba, and Jeremy Tobacman. 2009. "Payday Loans and Credit Cards: New Liquidity and Credit Scoring Puzzles?" *NBER Working Paper,* No. w14659.

Factors Affecting Exits from Homeownership

Policy efforts aimed at boosting homeownership for underrepresented populations have been in effect for over a decade, yet homeownership rates for minority and low-income households remain below those of white and high-income households. Differences in income and access to credit contribute to different rates of "entering" homeownership, and most policies are designed to make the purchase more affordable at the front end. But, households also "exit" homeownership at different rates, which affects the ownership gap between groups. Do populations that experience low homeownership rates also experience high homeownership exit rates?

Using data from the Panel Study of Income Dynamics for the periods 1970-1997 and 1999–2005, Turner and Smith find that low-income homeowners consistently have higher homeownership exit rates than high-income households. For the years prior to 1997, a good part of this differential can be attributed to family situation, such as divorce, but the gap persists after 1997, even though it cannot be fully explained by other observable characteristics, such as employment or wealth. Hispanic households have significantly higher exit rates relative to non-Hispanic households pre-1997, but the difference in exit rates is no longer significant post-1997: the authors conclude that low homeownership rates post-1997 are due to low entry rates, not high exit rates. In contrast, black households are not more likely to exit homeownership pre-1997, but a racial gap in sustainability appears to arise after that. 42 percent of black homeowners in 1999 exit homeownership by 2005, whereas only 26 percent of non-black homeowners exit homeownership during this period.

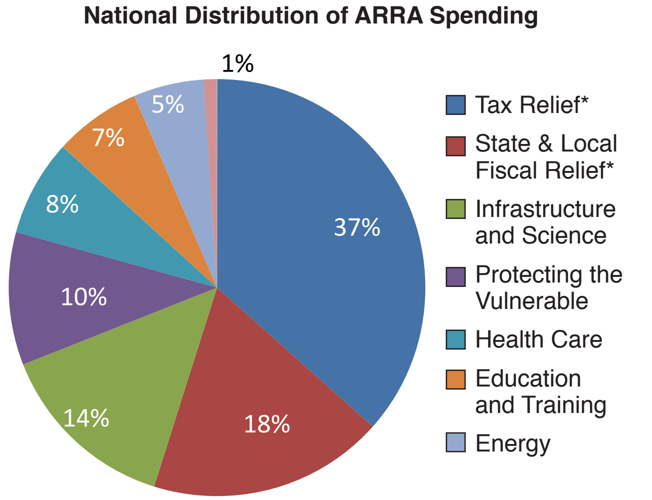
This study suggests that homeownership has not been a sustainable experience for black and low-income households relative to other groups. Programs that help underrepresented groups acquire a home are helping to close the ownership gap, but policymakers should also focus on sustaining homeownership over the long term.

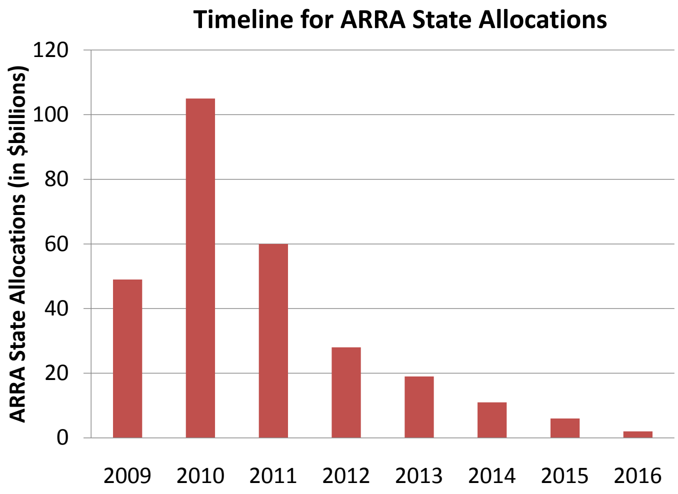
Turner, Tracy M. and Marc T. Smith. 2009. "Exits from Homeownership: The Effects of Race, Ethnicity and Income." *Journal of Regional Science,* Vol. 49, No. 1, 2009, pp. 1–32.

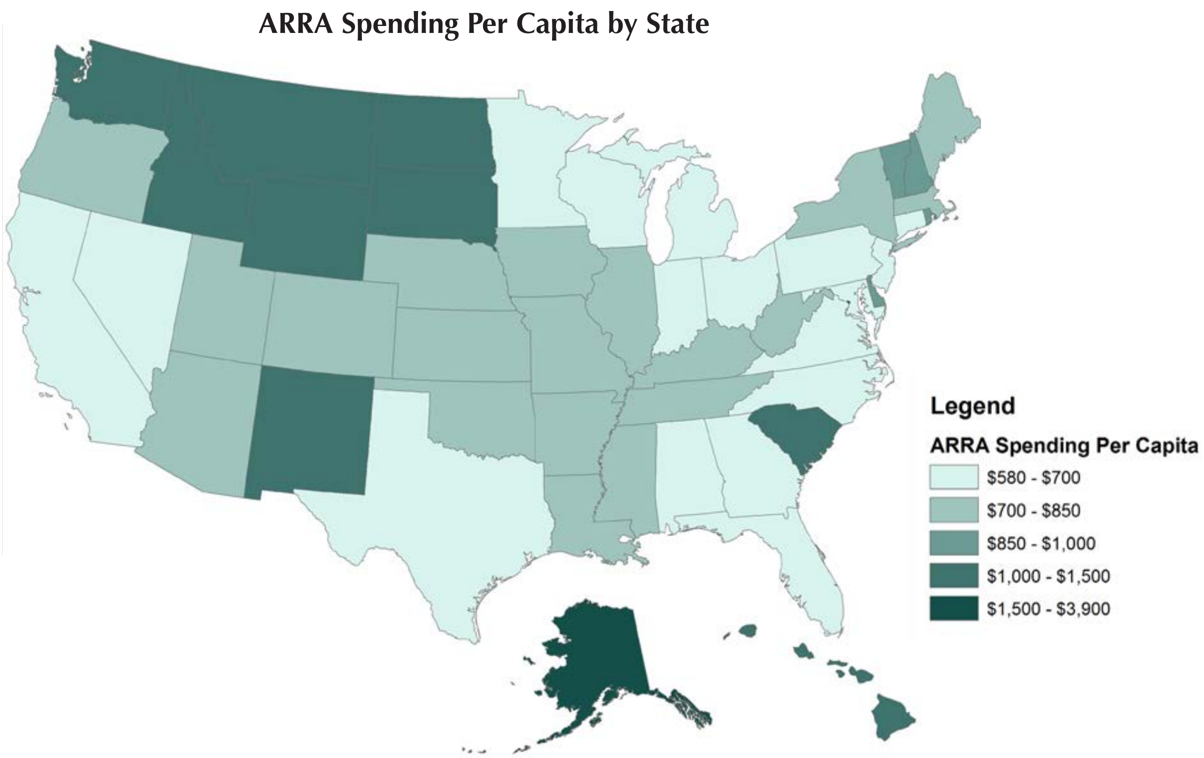
DATA SNAPSHOT

The American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (ARRA) is estimated to cost about $787 billion over the next several years, of which about $280 billion will be administered through states and localities.



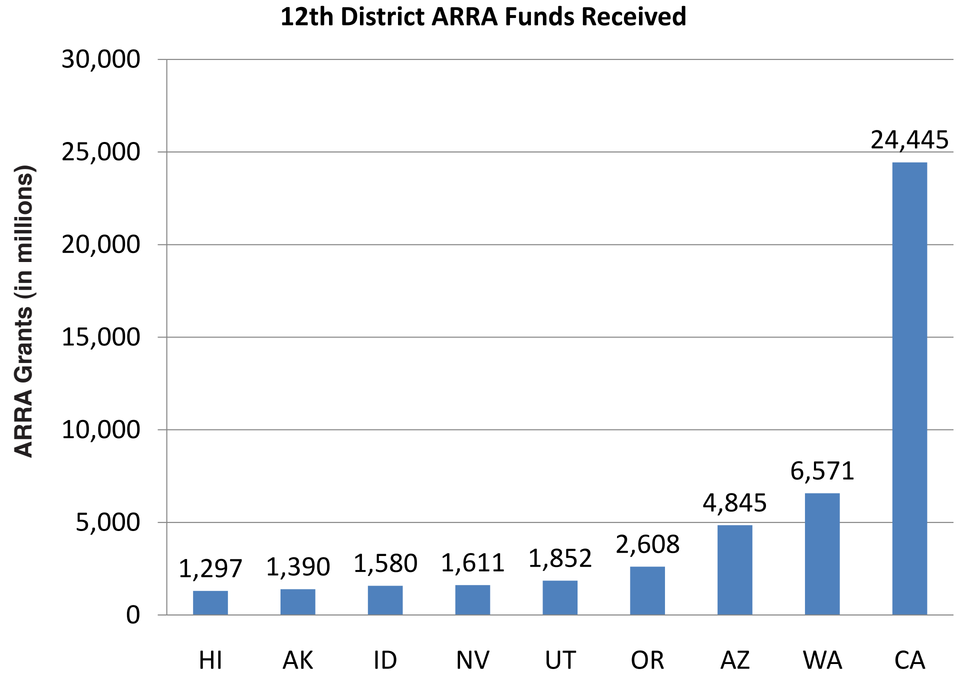


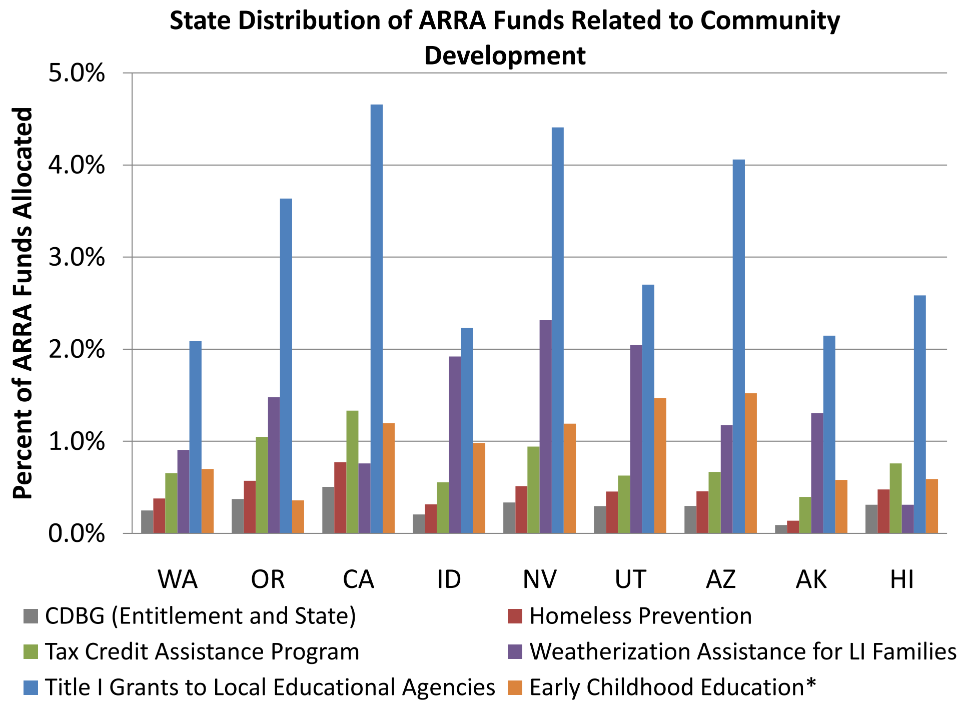


** Tax Relief - includes $15 B for Infrastructure and Science, $61 B for Protecting the Vulnerable, $25 B for Education and Training and $22 B for Energy, so total funds are $126 B for Infrastructure and Science, $142 B for Protecting the Vulnerable, $78 B for Education and Training, and $65 B for Energy.*

***State and Local Fiscal Relief - Prevents state and local cuts to health and education programs and state and local tax increases.*

Data as of July 8, 2009. Downloaded from www.recovery.gov.





Early Childhood Education includes - Head Start, Early Head Start, and Child Care and Development Block Grant. Data as of July 8, 2009. Downloaded from www.recovery.gov.

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Financial Education for a Stable Financial Future

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Financial Education: Does It Work and How Do We Know?

1. The analysis and conclusions set forth in this presentation represent the work of the authors and do not indicate concurrence of the Federal Reserve Board, the Federal Reserve Banks, or their staff. Mention or display of a trademark, proprietary product, or firm in the presentation by the author does not constitute an endorsement or criticism by the Federal Reserve System and does not imply approval to the exclusion of other suitable products or firms.
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5. The full research study is available at http://www.kansascityfed.org/carc2009/papers.cfm
6. AIT generally takes place immediately after basic training; depending on the course of instruction, it can last between 6 to 12 weeks. After AIT, the soldiers are posted to their first official duty station. During the course of this study, most air defenders stayed at Ft. Bliss or were deployed to Korea or Southwest Asia.
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Sustaining Homeownership

1. Special thanks to the staff of the housing departments in the four cities studied, including Patricio Zambrano-Barragán, Lisa Danzig and Elizabeth Gaumer of New York City; Evelyn Friedman, Kevin McColl, Tony Lopez and Ron Farrar of Boston; Seth Reimer of Chicago; Myrna Melgar and Doug Shoemaker of San Francisco; and Doug Swoger, Yolanda Chavez, Brittanya Murillo, and Mirna Urbina, of Los Angeles.
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7. The amount of subsidy for LAHD's Low-Income Purchase Assistance Programs has changed over the years. In the beginning of the decade, the total amount of purchase assistance and rehab was $35,000 plus a forgivable third which was 10% of the soft second total. Then in 2001, the amount of purchase assistance was increased to $60,000 and an additional $15,000 was available for rehab and the forgivable third was done away with. In 2005 the amount of purchase assistance was increased to $90,000 and the amount available for rehab was increased to $25,000.
8. In some cases, this can be extended up to 50% with documented compensating circumstances.
9. Before ADDI funds were released, HPD used funds from its CDBG program to fund a more limited downpayment of $10,000 to eligible borrowers.

San Francisco's New Model for Mixed-Income Housing: HOPE SF

1. For a more complete review of studies examining the impact of HOPE VI, please see "A Decade of HOPE VI: Research Findings and Policy Challenges" (Washington : Urban Institute, 2004). Also, see Wood, David (2007) "Public Housing: Information on the Financing, Oversight, and Effects of the HOPE VI Program" (Washington, DC: Government Accountability Office)
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Reforms to Protect American Credit Card Holders

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New Community Development Working Papers

Peer-to-Peer Lending and Community Development Finance

Ian Galloway, Federal Reserve Bank of San Francisco

Peer-to-peer (P2P) lending platforms facilitate debt transactions by directly connecting borrowers and lenders on the internet. In the summer of 2008 the Center for Community Development Investments assembled a working group of community development leaders, investors, and Prosper Marketplace, the largest P2P platform in the world, to discuss the potential community development implications of the innovation. This working paper documents this discussion and explores P2P lending in greater detail. Part I offers background on P2P and the state of the P2P lending industry; Part II outlines the potential community development finance implications of P2P; and Part III discusses the working group and next steps necessary to successfully marry P2P technology and community development finance.

Bank Accounts and Youth Financial Knowledge: Connecting Experience and Education

Laura Choi, Federal Reserve Bank of San Francisco

Studies have shown that "experiential learning" can result in significant knowledge gains in a number of subject areas, but how does "learning by doing" fit into the context of financial education? This new working paper explores this topic and analyzes data from the 2008 Jump$tart survey of high school seniors to examine the relationship between bank account ownership and student knowledge of personal finance. The paper finds that even after controlling for key socioeconomic and demographic variables, such as race and parental education, students with bank accounts scored significantly higher on the test of financial literacy, relative to their unbanked peers. The results are informative for financial education delivery, particularly the importance of providing interactive opportunities for the application and practice of skills and knowledge.

The Untold Cost of Subprime Lending: Foreclosures among Communities of Color in California

Carolina Reid and Elizabeth Laderman, Federal Reserve Bank of San Francisco

Using a unique data set that merges Home Mortgage Disclosure Act data with loan performance data from Lender Processing Services Inc., this paper explores the relationship between race, subprime lending, and foreclosure in California. The paper finds that communities of color have been disproportionately affected by the foreclosure crisis, and that these disparities stem from a series of complicated and interrelated factors. The paper also shows that African Americans and Latinos in California had access to very different mortgage markets, and that mortgage market channels played an important role in the likelihood of receiving a higher-priced loan. Once we control for the probability of obtaining a higher-priced loan, the differences in foreclosure rates among minorities and whites shrink considerably. This paper provides compelling evidence for the need to revisit consumer protection regulations and fair lending laws to ensure that minority borrowers aren't unfairly being steered into different mortgage market channels.

Available online at www.frbsf.org/publications/community/wpapers/

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