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Delivery of Financial Literacy Programs[1]

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The majority of Americans have inadequate knowledge about concepts related to personal finance and basic economics. Nationwide, high school students and adults scored, on average, a failing grade for their understanding of basic economics (National Council on Economic Education, 1997). Financial literacy tests administered to high school seniors revealed that a majority failed to comprehend basic financial subjects involving banking products, credit cards, taxes, savings and investments (Mandell, 1998). In addition, financial illiteracy among lower-income consumers has been shown to be a serious issue (Jacob, Hudson, & Bush, 2000). Given that a high proportion of lower-income consumers are unbanked, there is added concern that these consumers are inadequately prepared (i.e., lack of experience and information about personal finance and consumer education concepts) to make informed financial decisions (Hogarth and O'Donnell, 1997).

The ability of consumers to make sound financial decisions has never been more challenged. Changes in technology, affecting both the type and delivery of financial services, have substantially contributed to the complexity associated with making appropriate financial decisions. Financial services also have become more varied in their makeup and sophistication, making it increasingly difficult for consumers to make astute choices among financial services.

Educators, community leaders and policy makers face the challenge of bringing financial literacy and consumer education effectively to their constituencies. While most would agree that improved financial literacy is needed, identifying attributes that make an education program beneficial to consumers is less certain. For example, would seminars be a more effective way to share information or would informational brochures and materials suffice? Should financial literacy programs be targeted to all consumers or should they be targeted primarily to students, lower-income individuals or other uniquely selected consumers? Should different programs be created for each consumer group targeted? Or, would one program fit all? Who should provide or offer these programs? Finally, what resources are available to implement these financial literacy programs?

In conjunction with its new financial literacy initiative, *Money$mart*, the Federal Reserve Bank of Chicago conducted three focus groups to address these questions and to evaluate how financial literacy programs might be most effectively delivered to consumers.[2] Participants of focus groups were drawn from local community development organizations, consumer advocacy organizations and agencies, and financial institutions. The majority of participants were directly involved with providing financial literacy and consumer education programs to adult consumers. The focus groups were a practical way to gain broader insights about the issues and to determine the future direction of larger-scale quantitative research aimed at enhancing financial literacy outreach initiatives. The qualitative evidence provided information for a pragmatic approach to delivery of financial literacy programs to adults.

Financial Literacy Topics and Targeted Consumers

Identifying the appropriate subject areas and audiences are crucial first steps to initiating a financial literacy program. In principle, most consumers could benefit from information on all topics. However, some consumer groups were identified as having more pressing needs for specific financial education. According to focus group participants, topics related to budgeting, personal finance, and record keeping were viewed to be more important to

lower-income individuals and students. Elderly and widowed consumers who unexpectedly faced the management of household finances were identified as needing education on checking accounts and keeping records. "Re-banked" consumers, or individuals who had checking accounts in the past, misused them, and had to close their accounts, and are trying to re-enter the banking mainstream, were also identified as potential beneficiaries of these types of programs.

Closely linked to budgeting and managing personal finances is the need to educate consumers about the advantages and benefits of saving. According to many of the focus group participants, clients simply were not in the habit of saving money. Instilling a "culture of saving," beginning with children at an early age, was viewed as a critical need. This suggests that financial educators should teach not only "how to save" or "ways to save," but also "why to save."

Individuals who use alternative financial services (e.g., check-cashing outlets) tend to have lower income, are less educated, live in lower-income urban areas, and tend to be members of minority groups (Rhine, Toussaint-Comeau, Hogarth, & Greene, 2000). Providing consumer education programs to this constituency may help ensure comprehension of the relative costs of financial services purchased from different sources. Several anecdotal stories from participants corroborated the need to help educate these consumers about making cost-effective financial decisions.

Difficulty with the use of mainstream financial institutions by culturally diverse clients was a recurring theme during the focus group sessions. According to several participants, many of their ethnically/racially diverse clients were reluctant to engage in financial relationships with banks. This observation is consistent with research that finds consumers who are immigrants or members of a minority group have a greater reluctance to use formal financial institutions because of negative historical experiences and/or perceptions. Immigrants and minorities are more likely to have nontraditional borrowing and lending habits such as relying on family and friends (i.e., informal markets) to meet their financing needs (Rhine & Toussaint-Comeau, 1999). The influence of culture on an individual's willingness to seek mainstream financial services is yet to be fully understood. However, opportunities exist to help teach such consumers about the different financial services offered. For example, individuals can be taught that a checking account can be a useful tool to manage personal finances more effectively, while a savings account can provide a cushion against unforeseen events. By having a deposit relationship with a financial institution, the consumer has greater access to credit for the purpose of purchasing a home or other durable items. More importantly, this relationship sets into motion at least 20 consumer protection laws and regulations aimed an ensuring that individuals are safeguarded from unfair, discriminatory, or predatory lending practices.

Availability of home mortgage loan counseling and information about different loan products were viewed as critical by some focus group participants, especially for older and lower-income clients who may be more vulnerable to deceptive lending practices and predatory lending schemes. This is consistent with documented reports about individuals who enter credit agreements such as home equity loans, refinancing or reverse mortgages[3] and then find themselves faced with unexpected financial difficulties (Berry & Darwish, 2000).

In essence, consumers may not be fully aware of or understand the extent of these home-related credit transactions.

Proposed Delivery Methods

There are several ways to conduct financial literacy initiatives. Consumer educators and community organizations can convene information seminars, distribute pamphlets, use multimedia such as radio, television and newspapers, and post information on the Internet. Important insights were gained from the focus group

participants about the most effective ways in which these various methods of communication could bring financial literacy and economic education to adult consumers. The next section highlights the merits and potential drawbacks of using these different types of delivery systems.

Information Seminars

Information seminars can be an especially good way of promoting financial literacy among the adult population. It is important that seminars be held in an environment that is culturally and linguistically comfortable to the attendees. Presenters who are culturally or ethnically/racially similar to the audience will be able to connect better with the participants. For many adults, attending a formal seminar would be an intimidating experience. Convening seminars in an informal atmosphere may be preferred and better attended. In general, individuals might feel less intimidated when attending seminars at familiar locations, such as community centers, churches, places of employment, day-care centers, schools, community colleges, recreation centers, and local business establishments. Information sessions held at financial institutions (e.g., banks and credit unions) might be more effective and reach a wider audience if cultural elements were imbued in the seminar environment.

The day and time that these seminars are offered may not be a trivial matter. Working adults, for example, may be available only in the evenings or on weekends. Concurrently offering baby-sitting services could encourage family participation in evening or weekend seminars. Recognizing the heavy time constraints of working adults, educators and community leaders could offer the same seminar on varying days and times to broaden the opportunities for participation. There are instances when consumers may not choose to participate in a group setting. Adults looking for financial advice about how to resolve sensitive financial issues may be willing only to have a private conversation with a counselor.

To promote attendance at seminars, it is important to advertise extensively to the targeted audience. For example, one focus group participant commented that a recent seminar on "Wealth Building" was extremely successful with more than 2,500 people in attendance. The overwhelming public response was attributed to the extensive advertising campaign which made heavy use of local radio stations and newspaper advertising well in advance of the event. Including information about the benefits consumers could expect from attending this seminar (e.g., increasing personal wealth, removing a negative credit history, or saving money while shopping for credit) increased the success of this advertising campaign. Another enticement aimed at increasing consumer attendance might include offering a gift or free service (e.g., credit counseling, a free credit report, etc.).

Information Pamphlets/Booklets

Distributing pamphlets is a quick way to disseminate information to a large audience. However, pamphlets are most effective when presented as part of a seminar, with readers having the information explained by the financial educator. It is important that the written educational materials be attractive, engaging, and easy to follow. The information should be impartial to particular products, services, or institutions and should be truly educational in nature. It should be available in multiple languages, reflecting the ethnic makeup of the community where the materials are distributed.

Newspaper/Radio/Television/Video

Most people own a television set and a radio regardless of their socioeconomic status, and some have access to VCRs and tape players as well. Disseminating information through short videos and

audiotapes, therefore, may be effective in educating consumers. In addition, educational articles in newspapers, neighborhood newsletters, magazines or journals are apt to reach the isolated or elderly audience who may have greater mobility constraints. Ethnic newspapers, radio, and television programs can be desirable venues for reaching specifically targeted ethnic audiences. However, these media are generally expensive delivery mechanisms.

Web Pages/Internet

The Internet can be an efficient and cost-effective way for organizations to make information about personal finances available to consumers. Information offered through a Web site will not be useful to consumers who do not have access to the Internet, so it is important that consumer educators identify local resources and encourage consumers to use Web resources. Many local libraries, for example, offer free Internet access

Conclusions

This article makes several suggestions for implementing financial literacy programs, from outlining important financial literacy and consumer education topics to discussing the logistics of using various methods of outreach activities. Offering these various programs can be expensive in terms of time, human resources and actual expenses. Opportunities exist for community-based organizations, consumer counseling organizations, educational institutions, and government agencies to establish partnerships with financial institutions to leverage the resources needed to bring effective educational programs to adult consumers.[4] At the same time, financial institutions can take important steps toward earning Community and Reinvestment Act (CRA) credit through their educational service initiatives and partnerships.[5] Educators, community organizations, and financial institutions are encouraged to engage in such partnerships.

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Endnotes

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[2]The focus groups were organized and facilitated by the authors and other employees of the Consumer and Community Affairs (CCA) Division and the Corporate Communication Department of the Federal Reserve Bank of Chicago on March 23, 2001. The Community Affairs Directors in CCA identified over 20 community leaders who participated in these focus group meetings.

[3]In a *reverse mortgage*, a house-rich but potentially cash-poor homeowner extracts the equity from the home through a reverse loan made with a lender. The lender makes payments to the homeowner, thereby reversing the traditional payment pattern of mortgage loans.

[4]A resource guide listing financial literacy programs and initiatives nationwide and partnership opportunities is available to educators, community leaders, and others in the Consumer and Economic Development Research and Information Center (CEDRIC), a Web site of the Federal Reserve Bank of Chicago, Chicago, IL, www.chicagofed.org/cedric/index.cfm.

[5]The Community and Reinvestment Act of 1977 encourages financial institutions to help meet the credit needs of their local communities, including low- and moderate-income neighborhoods, consistent with the institutions' safe and sound banking practices.

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