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Can Lower Income Households Increase Savings with Financial-Management Education?

By John P. Caskey, Professor of Economics, Swarthmore College

Recently, there has been a striking increase in discussions of the importance of financial literacy, especially for lower income households, and in efforts to promote such literacy. * This article briefly reviews the reasons for this interest and current knowledge about the ability of financial-management education to increase savings and reduce debt burdens of lower income households.

Why the Concern?

Numerous people working in financial services, in government, and in nonprofit organizations have emphasized the need for many lower income households to build their savings. According to the 1998 Survey of Consumer Finances, almost 30 percent of families with incomes under $10,000 had no financial assets, not even a bank account (Table 1). Even among the 70 percent with financial assets, median holdings totaled only $1100. About two-thirds of these low-income families were not home owners. In the case of families with 1998 incomes between $10,000 and $25,000, about 10 percent had no financial assets. Among those with assets, median holdings totaled less than $5000. Almost half of the families with incomes between $10,000 and $25,000 were not home owners.

In addition to the low levels of asset ownership among many lower income households, a substantial number of these households carry relatively heavy debt burdens. The 1998 Survey of Consumer Finances found, for example, that 32 percent of families with incomes under $10,000 devoted more than 40 percent of their incomes to debt service (Table 2). For families with incomes

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Financial Empowerment in a Post-High School World: Delaware Teens Introduced to Personal-Finance Program

By Rossana Mancini, Public Affairs Representative, Federal Reserve Bank of Philadelphia

Some Delaware teens will soon have the ammunition they'll need to survive the onslaught of personal-finance challenges awaiting them when they graduate, thanks to the newest addition to Newark High School's curriculum.

Survival in the 21st Century Financial World will be offered to 11th- and 12th-grade students in two classes every other day beginning in the fall semester of 2001 at Newark High School in Newark, Delaware. The course will introduce students to the fundamentals of sound money-management skills and basic financial-planning concepts. Newark High is offering this course in partnership with the Fed-

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Message from the Community Affairs Officer

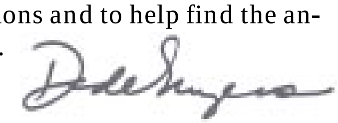
The predatory lending discussions of the last year or two have focused a great deal of attention on financial literacy. What is it? Where do you get it? How effective is it?

While the definition of financial literacy depends on who is asking, the Community and Consumer Affairs (C&CA) Department would define it as the ability to understand not only the basic rules of saving and investing but also understanding credit and using it wisely.

This department has discovered that an inordinate amount of information is available; in fact, it is almost too much to comprehend. Just try typing the words "financial literacy" or "financial education" into your Internet search engine. Because C&CA staff members are often asked for suggestions for materials, we've created a "short" list of available curricula and assorted supporting materials, much of it free of cost. Depending on the audience or the topic, the Philadelphia Fed can help.

In addition, we have devoted this entire issue to a wide range of financial-literacy efforts under way in the Third District. Most community developers are familiar with home-ownership education and counseling, which is a specific type of financial education. But they may not know that a lot of other organizations (nonprofits, financial institutions, schools, and churches) are providing a soup-to-nuts curriculum. In many instances, the incentive for students is financial — funds for higher education, a small business, or home ownership. By taking these courses, students earn matching funds from another source. Even when there is no direct payoff, providers are finding an ample supply of interested students.

But the final question is how effective is this education? John Caskey of Swarthmore College summarizes the available research on this question, and Peter Zorn of Freddie Mac provides great information from his research on home-ownership counseling. Both indicate a positive result, but a need for further research. At the Fed, we consider it our job to continue asking these questions and to help find the answers.



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between $10,000 and $25,000, almost 20 percent did so. Moreover, the combination of heavy debt-service burdens and low incomes led to substantially higher-than-average levels of delinquency on payment obligations for families with income under $25,000.

The low levels of savings and the heavy debt burdens of many lower income households create a number of problems. In conversations with researchers, lower income individuals who live without savings commonly speak of the extreme personal stress this creates. They have no financial margin of safety to protect them against unexpected expenses or interruptions in their incomes, so they know that they may face a personal financial crisis at any time. In addition, past difficulties in meeting payments and

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** For the purposes of this article, lower income households encompass both low- and moderate-income households, or households with incomes below 80 percent of area median income.*

Table 1

Source: 1998 Survey of Consumer Finances

	Percentage with no financial assets	Median value financial assets among those with holdings	Percentage that do not own their own home
All families	7.1	$22,400	33.8
Families with incomes under $10,000	29.4	$1,100	65.5
Families with incomes of $10,000 - $25,000	10.1	$4,800	48.3

heavy debt burdens classify many of them as high-risk borrowers, limiting their access to credit and increasing the price of any loans they can obtain. Finally, a lack of savings limits their ability to purchase goods requiring large lump-sum expenditures or to buy homes. Acquiring equity in a house is a common means of building wealth, but households unable to build savings and meet payment obligations regularly cannot, in many cases, start this process.

Why Focus on Personal Financial Management?

These observations have led many people and organizations to promote financial education as a way to help lower income households build savings and develop good credit records. Everyone recognizes that it is far more difficult for lower income households to save and meet payment obligations than it is for middle- and high-income households. But absent policies that would raise the incomes of lower income households, education on budgeting may be the best alternative to help these households obtain the benefits that flow from savings and clean credit records.

Advocates and practitioners of financial-management efforts argue that education can help through a number of channels. Education can provide information that enables these households to achieve savings, address past credit problems, and avoid costly mistakes. For example, a course might include a comparison of relative prices of a group of goods and services on which lower income households may commonly save money. It could also include information on understanding credit reports and on addressing past credit-service problems.

Financial-management education frequently emphasizes that some savings can be built by making only small sacrifices. In a typical budget-education course, for example, clients write down all of their household expenditures over the course of a month or longer. This practice forces clients to summarize their households' expenditures over the course of a month in various categories, providing both clients and counselors with a concise portrait of how the households allocate their incomes. Without this exercise, most people have little idea of the fraction of their incomes that goes to such purchases as gasoline, newspapers, and outside meals. They lack this information because such expenditures are made in small daily or weekly increments, and it is easy to overlook their cumulative share of a monthly or annual budget.

Counselors argue that the information frequently reveals expenditure cuts, such as bringing a homemade lunch to work rather than eating out, that might be relatively painless, yet result in significant cost savings over time.

Financial-management education can also teach behavioral habits that people can use to help themselves adhere to personal spending limits and savings plans. Such habits might include withdrawing only a fixed amount of cash at the beginning of each week to pay for recurrent minor expenses. They could also include immediately depositing a part of each paycheck in a savings account that is not used for transaction purposes (the "pay yourself first" rule) or using automatic payroll deductions to fund retirement plans and other savings goals.

Financial-management education frequently emphasizes that some savings can be built by making only small sacrifices.

Existing Studies Suggest That Financial-Management Education Can Be Effective

Although there is much anecdotal evidence supporting the notion that consumer education helps people build savings, only a small number of formal empirical studies

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exist. Most of these are "before-and-after" studies. In such studies, the researcher asks clients to provide information on a wide range of personal financial characteristics before taking the course and after completing it. Any change in the characteristics, such as an increase in savings rates, is attributed to the course.

Over the past decade, there have been at least three such studies. These studies looked for changes in "good" budgeting behavior, such as maintaining a written spending plan, saving money for emergencies, or paying bills on time. Two of the studies, one by Gladys Shelton and Octavia Hill and one by Sharon DeVaney and others, found a statistically significant increase in such behavior after participants completed a financial-management course. The third study, by Julia Marlowe and others, had only 19 participants. With such a small sample, the results were not statistically significant.

The results of the first two studies suggest that financial-management education may be effective, but the studies have some shortcomings. For one, neither study quantified the degree to which participants increased their savings or reduced their debt. In addition, in both cases, researchers administered tests on the impact of the course shortly after participants completed the courses; consequently, we do not know whether the educational initiatives had a lasting impact.

Most important, the problem with such before-and-after studies is that we do not know how the financial characteristics of the clients would have changed over the same period even without the course. The financial situation of class participants might well change even without the course because of self-selection and motivational issues. Self-selection means that people who sign up for the course are those who are ready to address their financial problems. Moreover, those who complete the course demonstrate a high level of motivation.

Thus, it is possible that course participants improve their financial situation because they recognize the need to do so and have the motivation to act, not because of anything they learn in the course. If so, a before-and-after study would greatly overestimate the impact of the educational effort.

A recent study by Mark Schreiner and numerous others on the effectiveness of individual development accounts (IDAs) addresses some, but not all, of these problems. IDAs encourage selected lower income households to save by offering a match for personal savings that households use for a specified set of approved purposes. The researchers studied the implementation and impact of IDA programs, all of which required some general financial education, at a variety of sites. In many cases, IDA participants could help determine how quickly they completed these required hours of education.

Controlling for differences in match rates across the programs, length of participation in the IDA programs, and other factors, the re-

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IDAs: The National Picture

By Keith Rolland, Community Development Advisor, Community and Consumer Affairs Department, Federal Reserve Bank of Philadelphia

The use of individual development accounts (IDAs) as a strategy to enable working-poor families to build assets has grown steadily around the country in less than a decade.

Working-poor families use IDAs to save for certain goals, such as buying a first house, starting a small business, or pursuing post-secondary education. Their savings are matched from private and public sources. All IDA account-holders undergo training in budgeting and financial management as well as in the field pertaining to their goal. An estimated 10,000 people are saving in IDA programs in 250 communities. IDAs bring together people from different fields — community development, welfare policy, and social work — and different institutions — banks, foundations, and state and federal government agencies.

Several developments underlie the growth in IDAs. One is a shift in strategy for alleviating poverty from providing income to building assets. Another is a federal welfare-policy directive that requires public-assistance recipients to work. Foundations and state and federal policymakers have expressed interest in the notion that IDAs could help the working poor become economically self-sufficient.

Participating in an IDA can lead account-holders to undergo a profound change of habit. They can begin to set important life goals, plan, and save. Mary Dupont, consulting director for research and development for IDA marketing services at the Corporation for Enterprise Development (CFED), commented that IDAs require "a major commitment and enormous sacrifice and self-discipline in a self-indulgent society that has one of the lowest savings rates in the world." When account-holders have succeeded, everyone involved has been impressed.

A cornerstone of IDA programs is financial-literacy education.

IDAs were developed after Michael Sherraden, professor at Washington University in St. Louis, pointed out in *Assets and the Poor: A New American Welfare Policy*, published in 1991, that a critical element of poverty is a lack of assets. Soon after, CFED, based in Washington, D.C., began doing research on IDAs. In 1997, CFED conducted a demonstration of IDA programs managed by 13 nonprofit organizations around the country. Participants accumulated about $900 per year with an average match rate of 2:1 in the demonstration, which was funded by Ford and other foundations and Citibank, N.A.

Financial institutions, motivated by the Community Reinvestment Act, typically hold the accounts for IDA savings, and legislation recently introduced in Congress would give institutions an even larger role. The Savings for Working Families Act of 2001 would give financial institutions dollar-for-dollar tax credits for matching funds that they provide, up to $500 per account-holder per year. Institutions would also receive a one-time $100-per-account tax credit for financial education, marketing, and administration. The legislation reflects IDA proponents' desire for changes in economic and social policies for the working poor.

Because of its experimental nature and short history, the IDA field faces several issues:

- IDA proponents talk about moving "to scale" so that millions of Americans can benefit from IDAs. However, IDA programs are complex and difficult to administer and must be streamlined before foundations and government agencies will increase funding to make them widely available.
- IDA accounts need to be cost-effective. Many programs spend two or three dollars for every dollar of matched funds. While this is high, it is precisely the programs that spend extensive time with account-holders that have high rates of success both in saving and in meeting goals. Furthermore, leaders in the field agree that in the future, matches to account-holders' savings will probably be made at a ratio of one-to-one rather than two-to-one or higher as exists in some programs.

Dupont observed that the field is increasingly being driven and

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shaped by funders, policymakers, and financial institutions to form broad-based regional or statewide collaboratives involving the public, private, and nonprofit sectors.

A cornerstone of IDA programs is financial-literacy education. Nonprofit organizations offering IDA programs provide general budgeting and money-management training and tend to work with other community organizations that have experience in one of the three typical goal areas of buying a house, starting a microbusiness, and pursuing post high-school education.

Lisa Mensah, deputy director of economic development for the Ford Foundation, said that “the money-management training is a powerful component that changes minds.” Janet Thompson, vice president and corporate CRA director for Citibank, N.A., said that the education “can have a great impact on goal-setting and, as people save, their goal becomes a reality.” Bob Friedman, chairman and general counsel of CFED, said that “the first hours of education in IDA programs have enormous impact,” but that more research needs to be conducted on what works best and why.

Citibank has obtained more than $1.3 million in funding from the Federal Home Loan Bank (FHLB) of San Francisco for IDA account-holders in several states who were saving to buy houses. Citibank applied for the FHLB’s First Home Club program, which provides $3 in grant assistance for every $1 in buyer contributions. Citibank also provided $1 million to the YWCA of the USA to replicate the IDA and financial-education programs of the YWCA of New Castle County, Delaware.

CFED’s Friedman said that a challenge for banks is finding ways to hold IDA accounts so that the accounts are profitable or at least break even. Noting that IDAs are held by working individuals who are willing to save and are learning financial skills, he said that this is an upwardly mobile market and that the accounts may lead to long-term opportunities for loans and other products.

Peter Tufano, professor of finance at Harvard Business School, has been doing research through the nonprofit D2D Fund, Inc. on a streamlined type of IDA account that could be offered not only by financial institutions but also by mutual funds and other financial-services providers. He said that data from a sample of banks indicated that the true cost of maintaining IDA accounts was about $50 to $70 per account per year. IDA program costs must be reduced if IDAs are to be made widely available, he said. His research seeks to build on the 401(k) system, using direct deposit of paychecks and enabling IDA account-holders to choose among several low-risk investment alternatives, such as money-market mutual funds and bond and equity index funds. He expects to announce an operational system this fall at a few pilot sites.

In another development, the United Way of America has begun helping local United Ways to support area IDA programs. Bob Zdenek, vice president for community building with the United Way of America, said that 100 local United Ways were active in developing and / or implementing IDA programs, up from about a dozen 18 months ago. Local United Ways have access to corporations and high-net-wealth individuals, significant donation sources to which IDA programs have not had much access, Zdenek said. The local United Ways can also provide administrative and management support that will reduce the cost of IDA programs, he added.

CFED is facilitating a task force of practitioners and funders that is identifying best practices of IDA programs and is establishing quality standards and a certification system for IDA programs. CFED convenes an annual conference, publishes a newsletter on IDAs, coordinates a web-based IDA network, and provides training for new programs.

Mensah said that the Ford Foundation had taken a new emphasis on building assets in its poverty-alleviation work worldwide. The challenge for IDAs in the U.S., she said, is “how to go from a wonderful experience to a permanent system.”

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IDAs Advance in Pennsylvania; Programs Launched in New Jersey and Delaware

By Keith Rolland, Community Development Advisor, Community and Consumer Affairs Department, Federal Reserve Bank of Philadelphia

The Commonwealth of Pennsylvania has one of the nation's oldest and largest individual development account (IDA) programs, and new IDA programs are being developed in New Jersey and Delaware.

Pennsylvania's family savings account (FSA) program became operational in 1997 as an initiative of Governor Tom Ridge. The Pennsylvania program allows a broad range of goals. Besides the traditional IDA goals of buying a house, starting a microbusiness, and pursuing post-secondary education, Pennsylvania's approved activities include major housing rehabilitation, retirement, and day care or purchase of a car or computer if related to an FSA goal.

Pennsylvania provides a match of $.50 for each $1 saved. The maximum match is $300 per year for two years. Savers obtain the match only at the end of the savings period when they have attained their goal. Savers must attend a minimum of four financial-literacy workshops and must save at least $40 per month. The maximum eligible income is $17,180 for one person, $23,220 for a two-person household, and $29,260 for a three-person household.

Eighteen nonprofit organizations are participating in FSA; each must enroll at least 100 savers.

Pennsylvania has allocated $6.4 million for FSA since inception of the program. In 2001-2002 alone, $4.5 million will be available for FSA. This consists of a $1.5 million state appropriation, $2 million in federal Temporary Assistance to Needy Families (TANF) funds, and $1 million in a federal Assets for Independence Act (AFIA) demonstration program.

Women's Opportunities Resource Center (WORC) held a home-ownership workshop in June for participants in Pennsylvania's family savings account (FSA) program and others seeking to buy a house. Shown here after the workshop are Gloria Stancils, housing and insurance counselor, ACORN Housing Corporation; Nyeta Allen and Scarlett Wyant, FSA participants; and Sibongile Sithole, manager of WORC's IDA program.

IDAs [are] an extremely powerful tool that teaches self-reliance and control over one's assets.

As a result of Pennsylvania's participation in AFIA, FSA participants who are saving for one of four approved goals – to buy a house, pursue post-high school education, start a microbusiness, or undertake major housing rehabilitation – receive an additional dollar-for-dollar match from federal funds.

As of the end of March 2001, 1274 FSA participants had saved $887,000. Of that amount, 129 individuals had saved $136,000 and achieved their savings goal.

Fred Abrams, division chief in the Pennsylvania Department of Community and Economic Development, said: "Many of the individuals in the program have never had savings or checking accounts. They're learning a lifetime habit of saving while becoming taxpayers and contributing to the economy. In addition, their families see the benefit of developing assets and future savings for a purpose, rather than short-term benefits."

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Abrams said that it is clear that the more successful programs are spending substantial time and effort to support savers. The case-management services are provided by nonprofit organizations. He noted that nonprofits are adding IDAs to existing programs to serve their clients and that Pennsylvania's program is not a stand-alone program but supplements already existing activities.

Building assets gives people a sense of security. They have a different orientation, with a plan and a goal for the future.

Banks, he said, provide savings accounts in the FSA program and often waive fees on the accounts. They also provide speakers for financial-literacy classes. Two banks have made grants to nonprofit organizations operating FSA programs in conjunction with the state's Neighborhood Assistance Program and thereby helped those nonprofits with their FSA program expenses.

Lynne Cutler, president of the Women's Opportunities Resource Center (WORC) in Philadelphia, the largest FSA site in terms of participants and dollars saved, said she found that IDAs were "an extremely powerful tool that teaches self-reliance and control over one's assets." She said IDAs also had a profound effect on nonprofit agencies that had a mindset of giving and now expect personal responsibility from their clients. The pattern is that nonprofit organizations work with other nonprofits to enable account-holders to meet very different goals. WORC provides technical assistance to the nonprofit organizations in Pennsylvania that participate in FSA.

Cutler said she learned that IDA programs require more counseling and hands-on involvement than she imagined in order to help savers weather adversity and succeed in their goals. She has also learned that account-holders want to save for retirement and substantial home improvements as well as for the traditional IDA goals; some goals may require either more or less time to achieve than the one- or two-year terms of an IDA account; and the people who succeed have a clear goal and action plan. She also thought that the maximum income level for eligibility in the state's IDA program should be raised.

She said that there is a pressing need for a simpler electronic system so that nonprofits can become aware of important changes in an IDA holder's account and can intervene in a timely way. At present, WORC re-inputs client data after it receives monthly reports from participating banks.

Ana G. Rodriguez de Sanchez, chief operating officer with WORC and past director of IDA programs in New Jersey, said that IDA-related education empowered people to make good financial decisions. The children of IDA account-holders will learn from their parents' example and "the next generation will make intelligent financial decisions as well," she said. IDA participants also learn to leverage other programs and resources and experience a big growth in self-esteem, she added.

WORC designed a seven-class financial-literacy curriculum. The curriculum is the basis of a course that will soon be provided through Partners for Distance Learning in Harrisburg to enable people who live in rural areas or who are disabled to get web-based information.

In northeastern Pennsylvania, the Commission on Economic Opportunity (CEO) has operated an IDA program in Luzerne County since 1997. Of 139 people who enrolled in FSAs, CEO has 94 active accounts with savings totaling $50,794. Of this amount, 32 people who saved $25,519 have completed the program and achieved their goals. Most of the 32 people have used the accounts to pay off debts or to pursue home ownership. (Funds can be used for credit repair, if necessary, to achieve one of the FSA goals.)

Kathy O'Neill, director of planning at CEO, said: "It is a wonderful program. Many of the people in the program were just living day-to-day. Building assets gives people a sense of security. They have a different orientation, with a plan and a goal for the future. That impacts people profoundly."

New Jersey

Meanwhile, in New Jersey, the

Tri-County Community Action Agency has enrolled 93 individuals in an IDA program since 1998. Of the 93, 40 met their goals with a three-to-one match from Tri-County. In January 2001, Tri-County added 100 participants with funding from the Cumberland County Empowerment Zone. All of Tri-County's IDA participants must attend a financial-literacy program monthly for one year. Frederick Arthur, assistant director of economic development at Tri-County, said that individual counseling was a key ingredient in the success of Tri-County's IDA participants.

A recently announced state of New Jersey IDA program will use $2 million in federal TANF money to fund an IDA program for current or former TANF recipients and other low-income adults who have one or more dependent children. Of those funds, 80 percent will be spent for matches, with $1 in matched funds provided for every $1 saved, while 20 percent will be provided to nonprofits for administration and financial-literacy education. The state plans to fund eight to 10 community-based organizations; requests for proposals will be issued late this year.

The program will be administered by the New Jersey Department of Community Affairs (DCA). DCA is also establishing a pool of funds that can be used for non-TANF recipients as well as for IDA administration, training, and technical assistance. A three-day training program for nonprofit organizations on developing IDA programs and identifying clients will be held this fall. Co-sponsors include DCA and the Housing and Community Development Network of New Jersey.

Delaware

In Delaware, the YWCA of New Castle County has operated an IDA program since 1998. Of about 100 people who enrolled, 46 are still active. Sixteen individuals met their goal, including 13 who bought houses, and obtained up to $1000 in matches that were funded by Delaware banks. Ginny Martino, director of the Department for Economic Advancement at the YWCA of New Castle County, said that it was clear that individual support was necessary to keep participants focused on their long-term

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Bankers' Thoughts on IDAs

Patricia Parrish, assistant vice president of PNC Bank, N.A., which holds accounts for many of the FSA programs, said that the FSA program was a good one and that IDA participants underwent a "big mind-set change in which they were no longer living only in the present but also were planning for the future." The accounts were marginally unprofitable, she said, adding that "the object was not profit, but to provide the opportunity for FSA families to develop new habits of wealth-building."

Parrish said it was critical that the capacity of nonprofit organizations to work one-to-one with their IDA clients be increased. She observed that the most successful IDA programs were those in which neighborhood organizations had already been working with individuals or families for one or two years before the agencies added IDA programs. Parrish thought that nonprofit organizations should meet with and counsel IDA account-holders monthly to ensure that they stay on track to meet their goals.

Parrish said that the income maximum for FSA participation was too low and should be raised. Some individuals in the program have such low incomes that if they pursue a goal such as home ownership, they may not have enough income to cover unexpected repairs, she said. Also, IDA account-holders sometimes use IDA accounts as transaction accounts, triggering high fees, she added. Parrish said that she would also like more nonprofit organizations to participate in the FSA program.

Robert Dobie, senior vice president of First Republic Bank, said that First Republic's involvement in WORC's IDA program had been very beneficial for the bank. First Republic, which has been involved in the program since 1999, has opened about 20 accounts, of which 12 are open at present, with balances totaling $4105.

First Republic has made four microbusiness loans totaling about $18,000 as a result of its involvement in the program, Dobie said. These include a $5000 equipment loan to a woman who had been on public assistance two years prior and who started a court-reporting business out of her house; a $5000 equipment and working-capital loan to a business in which a mother and her daughter make children's clothes; and a $4000 loan for the purchase of a computer, car repair, and equipment for a woman who leads karaoke events at facilities for older people.

In another collateral benefit to First Republic's IDA program, the court reporter who received a loan shared her positive experience with several other court reporters who have since opened accounts at the bank, Dobie recalled.

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goals. She said she had learned that before participants open accounts, it's important to do an in-depth analysis of their financial capacity and desire to pursue IDA-related goals.

A collaborative effort of public, private, and nonprofit sectors in Delaware is currently developing a statewide IDA program. Four banks – Bankers Trust (Delaware), Citibank Delaware, Discover Bank, and JPMorgan Chase & Co. – have committed $200,000 for matching funds and operating expenses. The Delaware State Housing Authority committed $300,000 for residents of Kent and Sussex counties who are participating in a federal program that seeks tenant self-sufficiency. The $500,000 is the basis for an application that has been made under the federal AFIA program, which would provide an additional $500,000 for matches on a one-to-one basis. The First State Community Loan Fund (FSCLF) will administer the program and coordinate the IDA programs of nonprofits around the state. Eligible savings goals will be buying a house, starting a microbusiness, and pursuing post-secondary education.

Roger Pryor, vice president with Discover Bank, said that he was pleased that Delaware's program will be a statewide one and that FSCLF can choose the best applicants from around the state. He added that since FSCLF is a community development financial institution, bank grants or investments in FSCLF will automatically count for CRA purposes.

Individual support was necessary to keep participants focused on their long-term goal.

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searchers found that participants who completed more hours of financial education, up to a limit, had higher IDA contribution levels. Specifically, they found that a participant who completed six hours of education would contribute about $6 more per month than one who completed just one hour. A participant who completed 12 hours would contribute about $9 more per month than one who completed just one hour. Participants who completed more than 12 hours either reduced their contributions relative to those completing 12 or increased them only slightly.

These results are noteworthy, since they specifically and quantitatively address the savings of lower income households, but they are far from definitive. It could well be, for example, that participants who are most motivated to contribute to IDAs are also most motivated to complete financial-education courses more quickly. If so, the results could mistakenly attribute the effects of this motivation to the financial education.

To correct for self-selection and motivational issues, researchers commonly look for reliable comparison or control groups. For example, it could be that 200 people sign up for a financial-literacy course but there is only room for 100. As

Table 2

Source: 1998 Survey of Consumer Finances

	Percentage devoting more than 40% of income to debt services	Percentage with payments more than 60 days past due
All families	12.7	8.1
Families with incomes under $10,000	32.0	15.1
Families with incomes of $10,000 - $25,000	19.9	12.3

long as a random process determines which 100 are permitted to enroll, researchers can estimate the impact of the course. To do so, they compare the change in the financial characteristics of the 100 course enrollees to the change in the characteristics of the control group (the 100 people who applied but were not selected for the course).

Unfortunately, very few such studies have been conducted in the field of consumer education. Using a large data set from Freddie Mac, a recent study by Abdighani Hirad and Peter Zorn found that the 90-day delinquency rate among lower income home buyers who participated in home-ownership counseling courses was 19 percent lower than that of similar individuals who did not participate in such courses. Moreover, the researchers argued that this does not reflect motivation or self-selection, since somewhat arbitrary rules determined who received the counseling and who did not. Similarly, a group of researchers reported in a National Bureau of Economic Research working paper that employees of firms that offered frequent retirement-education seminars had higher average levels of contributions to their 401(k) plans than did employees of firms without such seminars. If we assume that the employees at the two types of firms have the same initial inclination to save through a 401(k) plan, the employees of the firms without the frequent seminars serve as a reliable comparison group.

These two studies use comparison groups to obtain results that strongly suggest that financial counseling can change people's behavior, but they do not directly assess the extent to which financial-management education can increase savings of lower income households.

A third study, by Douglas Bernheim and others, has closer bearing on this. The researchers used data from a 1995 telephone survey of 2000 nationally representative households headed by individuals between the ages of 30 and 49 to study the effect of high-school financial-education courses on adult savings rates and wealth accumulation. The survey collected information on a wide range of socioeconomic characteristics of the households and asked the participants to identify the state in which they attended high school. The researchers matched the identified state to a list of 14 states that had mandated, at the time the survey participants were in high school, that all students take a course covering topics in personal finance. Controlling for a variety of other relevant factors, the researchers found that individuals who went to high school in states with mandated personal-finance courses reported statistically significant higher rates of savings and higher levels of asset accumulation than did individuals who went to high school in other states. This result is encouraging, but, as with any such study, we must be cautious about drawing strong conclusions until additional research can test its validity.

Need for More Research

As a group, these studies clearly suggest that financial-management education may well be able to help lower income households build savings. But they also emphasize the need for more research on this topic before we can have much confidence in such a conclusion. In particular, there is a pressing need for research that, using well-designed control groups, permits us to identify specifically the effect of education about budgeting on the savings of lower income households. None of the studies discussed above meet this criterion.

Such research should attempt to answer a variety of important questions. Can financial-manage-

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Employees of firms that offered frequent retirement-education seminars had higher average levels of contributions to their 401(k) plans than did employees of firms without such seminars.

First Union and PNC Offer Money-Management Seminars

By Keith Rolland, Community Development Advisor, Community and Consumer Affairs Department, Federal Reserve Bank of Philadelphia

Money-management seminars are the main type of general financial-literacy education conducted by First Union National Bank and PNC Bank, N.A. Both banks have long supported home-ownership education programs, which include guidelines on budgeting and money management. PNC has developed a new savings and investment seminar and a high-school curriculum, and its budgeting seminar is a key part of its development banking program.

The banks' efforts share some common features. Both banks concentrate their financial-literacy efforts on low- and moderate-income census tracts in which they have branches, and both use their own curricula to provide seminars to nonprofit organizations and schools.

First Union officials explained that the primary purpose of the bank's financial-literacy program is moving people along the continuum from not having any relationship with a bank or being underserved to having an entry-level banking relationship that grows into a fuller one over time.

First Union's "Gearing Up for Personal Financial Security" is a three-part program:

- A basic-banking seminar that gives instruction on using a checking account is accompanied by a video in English or Spanish on using an ATM;
- A budgeting and money-management seminar is often conducted in partnership with nonprofit organizations, especially as part of home-ownership programs; and
- A savings and investing seminar provides an overview of the financial-planning process, insurance, and taxes. The two-class seminar is typically attended by middle-aged individuals who are planning for retirement.

In 2000, First Union conducted 168 financial-literacy seminars in Pennsylvania, New Jersey, and Delaware that were attended by 6401 individuals. Some had an audience of 200, and others had fewer than a dozen attendees. First Union and its predecessor banks have conducted savings seminars for more than 10 years.

PNC launched its development banking initiative in January 2000 to serve low- and moderate-income census tracts. "Primary Access-Budgeting" is one of the financial-education classes offered through development banking. Classes are marketed through development banking branches in Philadelphia and Camden, New Jersey, and through nonprofit organizations.

PNC has included budgeting and savings classes as part of a comprehensive 10-session home-ownership curriculum that is being used in the bank's new Homebuyers' Club program. Building on its experience with The Partnership CDC in Philadelphia, the bank plans to establish 10 home-buyer clubs in Pennsylvania, New Jersey, and Delaware by the fall of 2001.

Both banks organize seminars for schools upon request. Last year, PNC developed a curriculum for high-school juniors and seniors that consists of six 45-minute classes on checking accounts, savings, investments, credit, job interviews and résumés, and financial aid. The curriculum has been offered at Camden High School and will be offered at two other Camden high schools this fall, after which it will be introduced throughout PNC's marketplace.

Many banks have found that one of the most difficult aspects of financial-literacy education is attracting a sizable audience. In fact, there is no strong incentive to motivate people to attend financial-literacy programs except the desire to enter the financial mainstream and improve one's situation. Home-ownership programs are in a different category, since those participants are seeking to buy houses, usually for the first time.

At both banks, community-development specialists identify opportunities and venues, then develop appropriate presentations. They may enlist bank volunteers to lead seminars, or they may instruct nonprofit staff who then conduct the seminars. Classes are presented in English and Spanish and are typically held on weekday evenings or on Saturdays.

Opportunities for financial-literacy education surface in different ways. Marilyn Hedge, a First Union community-development of-

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Freddie Mac Research: Counseling Reduces Home-Loan Delinquencies

By Keith Rolland, Community Development Advisor, Community and Consumer Affairs Department, Federal Reserve Bank of Philadelphia

A recent research study has provided the first empirical evidence that pre-purchase homeownership education and counseling (HEC) can significantly reduce the delinquency rates of borrowers.

The findings, by Peter M. Zorn, director of financial strategy and policy analysis at Freddie Mac, were presented at a workshop hosted by the Federal Reserve Bank of Philadelphia in June and attended by about 50 individuals from nonprofit and other organizations and financial institutions. The findings were based on data from nearly 40,000 mortgages originated from 1993 to 1998 under Freddie Mac's Affordable Gold program.

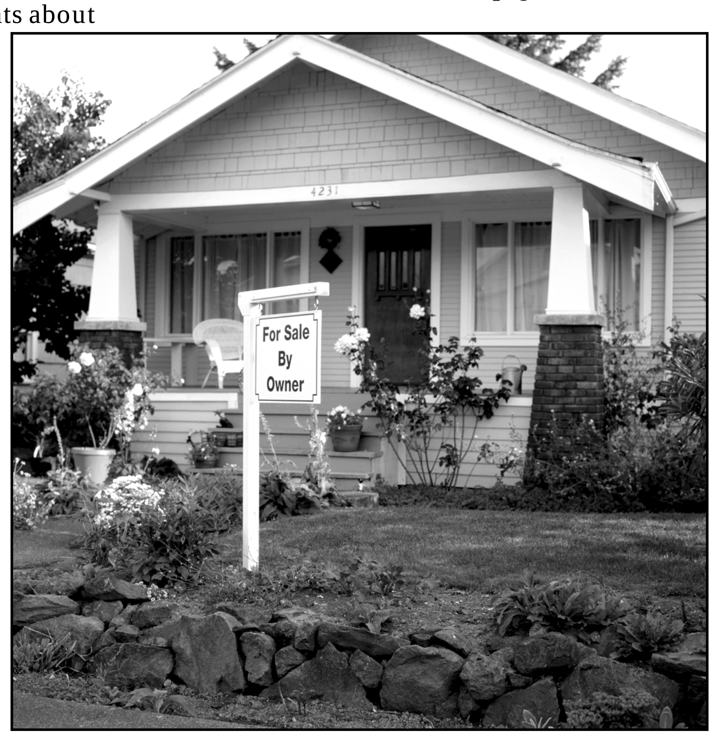
Zorn reported that borrowers who received individual counseling had a 34 percent reduction in 90-day delinquency rates, while borrowers who received classroom and home-study counseling had reductions of 26 percent and 21 percent, respectively, in their 90-day delinquency rates. Telephone counseling had no statistically significant impact on borrower delinquency.

Zorn had mixed results in determining whether the reported reductions in delinquency rates came from the counseling itself or the assignment or selection of borrowers in the HEC programs. However, Zorn's research did confirm the specific impact of classroom counseling on reducing 90-day delinquencies.

Counseling is provided by a variety of sources, such as government agencies, lenders, mortgage insurers, and nonprofit organizations, but the study did not find any statistical evidence that one of the sectors was more effective in reducing credit risk.

Zorn said the study demonstrates that pre-purchase HEC can increase the success of affordable-lending programs and that counseling can play a crucial role in expanding affordable home-ownership opportunities. He added that the findings raise the possibility that counseling will have a larger impact if it is limited to individual and classroom formats and perhaps home study.

Zorn had several caveats about the data in the Freddie Mac study. He said that the fact that some borrowers were assigned to HEC or self-selected HEC may account for some of its benefits. Also, data on mortgages made after the 1993-98 period may demonstrate a larger positive impact of HEC because greater consistency in counseling efforts and course content may have improved counseling's effectiveness. In addition, the data do not shed any light on the risk-mitigating effectiveness of post-purchase counseling or course content.



Another speaker at the June meeting, Alan Mallach, a planner and consultant, presented a summary of research that has been done to date on the effectiveness of homeownership counseling. In a discussion paper published by the Community and Consumer Affairs Department earlier this year, Mallach said that the link between homeownership education and counseling and loan performance remains to be clearly established.

Panelists who led the discussion at the meeting were George McCarthy, program officer at the Ford Foundation; Sean Closkey, executive director at St. Joseph's Carpenter Society; and Susan Wachter, professor of real estate and finance

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Freddie Mac Research: Counseling Reduces Home-Loan Delinquencies

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at the University of Pennsylvania's Wharton School. The panelists

Borrowers who received individual counseling had a 34 percent reduction in 90-day delinquency rates.

raised several points: further research is needed on the impact of HEC on riskier loans than those typically insured by Fannie Mae and Freddie Mac; large databases, such as those held by some banks, are needed for future HEC research; and the performance in a recessionary climate of low-down-payment mortgages underwritten with credit scoring is unknown.

Zorn explained that many benefits are attributed to HEC, but prior to his study, there had been no convincing empirical evidence that counseling mitigates credit risk. The benefits include reaching consumers in nontraditional markets, building trust in the mortgage-lending process, providing lenders with mortgage-ready applicants, and helping families get into houses they can afford.

Zorn said that HEC began about 30 years ago, primarily in response to a high incidence of foreclosures on HUD-insured houses. In the 1990s, the demand for HEC increased significantly because Fannie Mae, Freddie Mac, and others expanded their affordable-housing programs.

The Affordable Gold program was designed to facilitate home ownership for borrowers who earn 100 percent or less of area median income. Starting in 1993, Freddie Mac required that each Affordable Gold loan it purchased have at least one qualifying borrower who received pre-purchase home-ownership counseling.

Of the nearly 40,000 loans used in Zorn's research, 3 percent were exempt from the HEC requirement because of a perceived lower risk due to such factors as at least one co-borrower had previously owned a house and the loan-to-value ratio of the mortgage was 95 percent or less.

The Community and Consumer Affairs Department plans to host future discussions on areas of research concerning HEC.

Peter Zorn's report is available at www.freddiemac.com/corporate/reports. Alan Mallach's report is available at www.phil.frb.org/publicaffairs/pubs/pubindex.html.

First Union and PNC Offer Money-Management Seminars

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ficer who covers central Pennsylvania, said that she has found that outreach to nonprofit organizations often generates a demand for seminars. Similarly, Shirlyn Swann, a PNC community consultant who covers Philadelphia, Bucks, Chester, Delaware, and Montgomery counties, said that she has often identified financial-literacy needs among the bank's nonprofit customers and has organized budgeting seminars for the nonprofit organizations' employees or clients.

First Union officials explained that the bank's community-development officers reach out to community organizations — and sometimes the organizations reach out to the bank — to work together to educate consumers. The bank often works with community-based organizations and agencies to conduct credit or home-ownership counseling or job-development programs.

First Union has learned that targeted audiences are often most responsive to financial education, so it focuses on housing agencies, Section 8 rental groups, low- to moderate-income clients, high-school and college students, immigrant groups, senior citizens, women and small-business owners, first-time home buyers, people with credit problems, and new employees, the officials said. The bank has also learned that community organizations or attendees may be wary of literacy initiatives directly tied to sales, so it avoids emphasizing its products.

Both banks maintain an informal, relaxed tone in their financial-literacy seminars and use language and terms appropriate for the audience. They take into account that attendees may have had negative or no experience with banks. First Union's Hedge said that she has learned to customize presentations based on what the host organization is interested in and what the need is. If most members in a group have credit problems, she will develop a seminar on credit in partnership with credit bureaus. She added that it is important to respond to participants' questions and concerns during the seminars. She often uses large-print presentation materials in programs for older people.

Both banks concentrate their financial-literacy efforts in low- and moderate-income census tracts in which they have branches.

Both banks said that they believe that providing financial-literacy education in high schools and middle schools is very important. Marge Bonomo, vice president with PNC's development banking, said that it is essential that people be taught financial literacy "when they are young and before they misuse credit cards." She added that parents who are intimidated by banks may be brought into the financial mainstream by their children. First Union's Hedge recalled that students in a Berks County middle school requested a financial-literacy program and that more than 200 students, teachers, and staff members attended.

At present, neither bank measures the effectiveness of financial-education programs in terms of customer relationships established or accounts opened. First Union uses attendance and evaluation sheets and asks nonprofit organizations to inform the bank about seminar results. PNC also uses evaluation forms to track participants' satisfaction.

For further information, contact Renee Murdock, Vice President and Community Development Manager for Pennsylvania and Delaware, First Union National Bank, 1339 Chestnut Street, PA 1252, Philadelphia, PA 19107, 215-973-2324; web site: www.firstunion.com; and Marge Bonomo, Vice President, PNC Development Banking, 1950 East Route 70, Cherry Hill, NJ 08003, 856-489-2724; fax: 856-849-2731; web site: www.pnc.com.

Note: Other banks may be successful or creative in conducting financial-literacy education and want to share that experience. For possible future coverage on this subject, they are invited to contact Keith Rolland, Community Development Advisor, at (215) 574-6569.

Financial Empowerment in a Post-High School World: Delaware Teens Introduced to Personal-Finance Program

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eral Reserve Bank of Philadelphia, the University of Delaware's Center for Economic Education and Entrepreneurship (CEEE), and the Delaware Bankers Association (DBA).

Last fall, the Federal Reserve Bank of Philadelphia's Public Affairs staff approached CEEE with the idea of launching a financial-literacy pilot at one Delaware high school.

"There are a lot of good programs already in place for adults. The problem is that by the time many of those adults seek help, they're already in deep financial trouble," said Bob McCarthy, manager of the Fed's Public Affairs Department. "Our goal was to find a young audience — and get to them before it's too late. With this in mind, we decided to target high-school students one and two years away from graduation when many of them will face the inevitable reality of having to make financial decisions that steer the course of their lives forever. It's an incredibly important time."

According to McCarthy, the Fed has always been successful at forging partnerships to leverage its efforts. Its own long-standing work-

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Financial Empowerment in a Post-High School World: Delaware Teens Introduced to Personal-Finance Program

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The advisory group that designed a course on money-management and financial-planning concepts for students at Newark High School in Delaware is shown after a June meeting. Seated from left to right are Barbara Emery, program coordinator; Frank J. Hagen, principal, Newark High School; and Bonnie Meszaros, associate director, University of Delaware Center for Economic Education and Entrepreneurship (CEEE). Standing are Helen McArdle-Stewart, vice president, JPMorgan Chase & Co., and chairperson of the Delaware Council for Economic Education and of the Delaware Bankers Association's Community Relations Committee; Rossana Mancini, public affairs representative, Federal Reserve Bank of Philadelphia; and Jim O'Neill, director, CEEE.

ing relationship with CEEE is what helped to bring about the program at Newark High School.

"For us to have gone out and done this on our own wouldn't have made any sense. We wanted to complement efforts, not supplant them," McCarthy said. "We bring financial expertise and a high public profile. The CEEE has educational expertise and knowledge about the educational environment in Delaware; they know the major players. We viewed this partnership as a prime opportunity to successfully spearhead our financial-literacy pilot." McCarthy said the department wanted to keep its efforts focused at first so it could keep the pilot manageable and see how well it works. Homing in on one school allows for a much more measurable result.

Since the Federal Reserve Bank can't provide support in the form of hard dollars, the CEEE approached the Delaware Bankers Association for help in funding the new program at Newark High School. DBA, impressed with the proposal, agreed to partner with the Fed and CEEE and provide financial support.

According to DBA's educational director, Denise Waters, DBA had been approached by numerous organizations launching worthwhile programs, but DBA liked this one best because it believed that this program could have the greatest impact with high-school students. Most existing economic-education programs in Delaware are geared to elementary-school children. Waters also said that the prospect of getting involved in the early stage of a project that could become the standard for statewide financial-literacy training was very appealing.

Hugh D. Leahy, Jr., president-elect of DBA and senior vice president at Wilmington Trust, said that the program is invaluable. "This is a tremendous opportunity for us, as bankers, to help young people learn about handling their finances, and it's absolutely the right thing to do. It's also a great chance to get to kids before it's too late. We see a lack of financial education everywhere, and the basic concepts are covered well in this course. What they'll learn here will be with them forever in every facet of their lives. They're also more likely to be bank customers in the long run," he said.

The partners formed an advisory group and then met regularly for several months late last year to chart a plan of action. The group included a social-studies teacher from Newark High, school representatives from the Fed and DBA, the school's principal, a parent with children at the school, and the director, associate director, and program director from CEEE.

The group's first few brainstorming sessions generated the main ideas for a curriculum. When a direction was established, CEEE's program director, Barbara Emery, began to develop the curriculum. Within several weeks, CEEE had developed the state's first financial-literacy curriculum for high-school students.

A sampling of courses offered in the *Survival in the 21st Century Financial World* curriculum includes establishing and using credit wisely; using credit cards responsibly; borrowing money; saving and investing; avoiding frauds and scams; and understanding the Equal Credit Opportunity Act. An instructor in the business department will teach the course. Teaching materials will come from the National Council on Economic Education, the Fed, CEEE, and other sources.

During the fall, the Fed will continue to provide in-kind services for CEEE and Newark High School, such as hosting meetings for teachers, helping to get materials for the course printed, and providing speakers and assistance, as needed, in curriculum development.

A key feature in promoting the pilot to CEEE was the Fed's emphasis on measuring effectiveness. According to one of its program coordinators, the Fed's concern is not only getting the program started but also evaluating it once it's under way. Students will be tested on their basic financial-literacy knowledge before and after the course to gauge how much they have learned. The school will also keep parents informed about the course through the school's regular newsletters and parent-teacher meetings.

Principal Frank Hagen believes the program can't be successful without the full support of parents. He also plans to provide information beneficial to parents by occasionally featuring personal-finance-management topics during the school's already established Dessert and Learn series, which consists of information-exchange sessions for parents, teachers, and administrators.

"Our Dessert and Learn series is a perfect venue for educating parents about personal-finance management — something so many people would appreciate and really take advantage of," said Hagen. "These really are interesting courses, and they're relevant to everyone. So many of our high-school students are graduating ill-prepared to deal with common financial realities. This is something we need to do."

Jim O'Neill, director of CEEE, is convinced that achieving financial literacy is an important goal in and of itself. But ultimately, the importance goes beyond financial literacy for its own sake.

A key feature in promoting the pilot to CEEE was the Fed's emphasis on measuring effectiveness.

"Financial literacy reinforces what we're [CEEE] trying to do — which is to help people become financially literate for the greater goal of gaining a more profound knowledge about their economic system," he said. "When people can manage their personal finances, they contribute to a growing, dynamic economy."

To find out more about the program, call Rossana Mancini, Public Affairs Representative at the Federal Reserve Bank of Philadelphia, at (215) 574-3810 or send e-mail to: rossana.mancini@phil.frb.org.

Community Profiles

Community Profiles for Lenders Are Now Available on Our Web Site: www.phil.frb.org/cca/capubs/profiles.html

New:

Allentown-Bethlehem-Easton MSA
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Coming Soon:

Scranton-Wilkes-Barre-Hazleton MSA
Bradford, Susquehanna, and Wayne Counties, PA
Williamsport MSA

Community Profiles for Lenders are available for other areas of the Third District as well. You'll find them in the same spot: www.phil.frb.org/cca/capubs/profiles.html.

Can Lower Income Households Increase Savings with Financial-Management Education?

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ment education be a *cost-effective* way to raise savings, reduce debt burdens, and clean the credit records of lower income households? Does the effectiveness of financial-management education depend on the instructional approach used? Can computer instruction or home-study materials be as effective as one-on-one counseling? Is financial-management education most effective when it is offered to young people, adults, or people at "teachable moments," such as when they are buying a house? I hope that within the next few years we will have the research necessary to answer these questions with some confidence.

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Financial-Literacy Programs Target Students

By Sarah A. Burke, Senior Editor and Publications Manager, Public Affairs Department, Federal Reserve Bank of Philadelphia

The statistics are astounding, even scary. Although American teenagers, as a group, spend more than $155 billion a year, many of them lack even the most basic understanding of finances and credit — and the wise use of both. According to numbers compiled by the Jump$tart Coalition for Personal Financial Literacy, out of 1509 graduating high-school seniors:

- Only 49 percent knew that if their income doubled from $12,000 to $24,000, taxes would at least double;
- Only 32 percent knew they may have to pay income tax on savings account interest; and
- 62 percent thought that they would have no liability if someone stole their credit card and ran up a $1000 bill.

To help raise awareness about financial matters, several national and local groups have developed financial-literacy programs, many of them aimed at high-school students or younger. The Jump$tart Coalition for Personal Financial Literacy is an umbrella organization that provides guidelines to other groups such as the National Endowment for Financial Education (NEFE) to support the cause of financial literacy.

NEFE has developed the High School Financial Planning Program® (HSFPP). Although this particular program is aimed at high-school students, Elizabeth Schiever, director of HSFPP, said that NEFE also provides the program to middle-school students and young adults. In short, Schiever stated, "If our NEFE High School Financial Planning Program can be of help, we provide."

What the Colorado-based foundation "provides" is a program with materials that "allow instructors flexibility in presenting the information in their classes." Program materials are available without charge to public and private high schools throughout the country. NEFE's revised curriculum consists of six units that cover basic financial planning concepts. Those concepts are then related to everyday life in terms teenagers can understand.

HSFPP, which NEFE sponsors in conjunction with the Cooperative State Research Education and Extension Service – U.S. Department of Agriculture, has reached more than 2 million students in 15,700 schools since its inception in 1984.

The Jump$tart Coalition for Personal Financial Literacy is a national nonprofit organization that works in partnership with other organizations to promote the teaching of personal financial management to grade-school and high-school students. Jump$tart's objective is "to encourage curriculum enrichment to ensure that basic personal financial management skills are attained during the K-12 educational experience." Although Jump$tart, with headquarters in Washington, D.C., has no curriculum of its own, it offers guidelines that other groups can use as a framework for developing a curriculum.

Locally, both Pennsylvania and New Jersey have affiliates under the national Jump$tart program. According to Mike Wishnow, a member of the Pennsylvania Jump$tart Coalition's steering committee, the statewide group has three primary goals:

- To raise public awareness of the need for financial-literacy training;
- To coordinate training between teachers and financial-literacy providers; and
- To change state standards to require financial-literacy training in schools.

To achieve these goals, Pennsylvania Jump$tart makes available financial-education materials at no

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Financial-Literacy Programs Target Students ...continued from page 19

cost to parents, teachers, and community organizations. Interested parties can find these materials on the national organization's web site at www.jumpstart.org. In addition, the organization offers outservice training for teachers.

Wishnow likes the fact that Jump$tart is truly a coalition. It brings together a number of organizations and individuals to promote financial literacy for kids in the Commonwealth.

On the other side of the river, the New Jersey Coalition for Financial Education recently became a financial-literacy affiliate of Jump$tart. The Garden State group's objectives are similar to those of its Pennsylvania counterpart.

Bill Horahan, chairman of the New Jersey Coalition for Financial Education, stated that his organization "aggressively supports" Jump$tart's goals. Support takes the form of anything from a one-hour presentation to a high-school class to a semester-long program available through the Rutgers Cooperative Extension Service.

Horahan, who has chaired the umbrella organization since its inception three years ago, added that New Jersey Jump$tart has a "register of speakers who are eager to make presentations to schools and organizations on just about any financial matter." In addition, he cites pamphlets and brochures from the Philadelphia Fed as helpful in the group's efforts to disseminate financial literacy. The New Jersey Education Association (NJEA) has also been very helpful, Horahan stated. NJEA makes available the room in which the coalition holds its meetings.

Still, to Horahan, "the most encouraging factor remains the tremendous amount of materials and individuals devoted to financial education."

As is the case with other types of financial education, measuring results is often the most difficult part of the process.

Pennsylvania Jump$tart's Wishnow explained that national Jump$tart conducts a survey every three years. Unfortunately, the sample for Pennsylvania in the last survey was too small to be statistically significant. But, Wishnow noted, the next survey will have more state-specific information from which his group should be able to draw meaningful conclusions.

Bill Horahan pointed out that it's difficult to measure results because the effects of financial education won't show up until later, "when the student attempts to buy a house, start a business, or otherwise participate in a process that demands an acceptable credit rating."

But the New Jersey Coalition has hopes on the legislative front. New Jersey's Department of Education is currently reviewing core curriculum standards. Horahan's group has representatives on the review team, and they're encouraging the inclusion of instruction on basic financial matters. That way, school test results would provide some measure of the effectiveness of financial education.

Finally, NEFE's research, conducted in 1997-98, showed that the organization's high-school program made a "significant, positive difference in the personal financial knowledge of teens." According to the survey, the program also helped change teens' spending behavior and bolstered their confidence in their ability to manage money. For example, after participating in the HSFPP, 29 percent of teens started saving, and 15 percent started saving more. Also, three months after completing a financial curriculum, 37 percent evidenced improved skills for tracking spending, and 38 percent had improved their knowledge of investments.

Such encouraging statistics demonstrate that financial literacy may well pay off in the end.

For more information about these programs, contact Elizabeth Schiever, NEFE, at 303-224-3510; Mike Wishnow, Pennsylvania Jump$tart, at 717-787-1854; or Bill Horahan, New Jersey Coalition for Financial Education/ Jump$tart, at 609-292-3420. The Federal Reserve System is also represented on both national Jump$tart and NEFE. The System's representative is Rose Pianalto: Rose.Pianalto@bog.frb.org.

Program materials are available free of charge to public and private high schools throughout the country.

Nonprofits Pursue Different Financial-Literacy Strategies

By Keith Rolland, Community Development Advisor, Community and Consumer Affairs Department, Federal Reserve Bank of Philadelphia

Nonprofit organizations in New Jersey and Delaware are conducting financial-literacy education through such innovative methods as cable television and the Internet.

New Jersey Citizen Action (NJCA), which opened a financial-education center in Newark, New Jersey, about two years ago, offers classes at the center on basic banking, budgeting, credit, predatory lending, home improvements, car purchases, investments, taxes, and other subjects. Training is available for residents who want to bank on-line and pay bills using the Internet. NJCA also provides workshops on-site for community organizations, social-service agencies, and job-training centers throughout New Jersey. It plans to open a financial-education center in Camden by the end of 2001.

It gives classes in English and Spanish to a wide range of audiences, including people making a transition from public assistance to employment, single-parent heads of household, older people, and residents of shelters and recently incarcerated individuals. NJCA has given customized-education classes as part of home-buyer education programs in three municipalities, started a mentoring program for prospective home owners, and begun an outreach program to stimulate interest among low- and moderate-income women in home ownership. NJCA has six employees and administrative staff working on its financial-education programs. Its financial-literacy program is funded by banks, other corporations, and foundations.

Housing and Economic Opportunities, Inc. (HEO) is offering a 13-class seminar in which participants learn to budget and set financial goals. Peter Gilmartin, executive director of HEO who is also a Roman Catholic deacon, said he started the course after he found that many people who came to HEO wanting to buy a house needed in-depth assistance in credit repair and financial planning. Individual counseling was too expensive, he said, so he began to use a biblically based program entitled *Financial Peace.*

The seminar is taught to a group of eight to 12 couples who, during the course of the seminar, pay down their debts and save for a down payment on a house and for emergency repairs. The seminar, which was offered in the fall of 2000, will probably be offered again this fall. Most of the registrants who attended last fall were low and moderate income, and the fee was adjusted on a sliding scale that ranged from $95 to $299. After completing the course, income-eligible buyers can obtain first-time buyer assistance from Camden County and from the Federal Home Loan Bank of New York's First Home Club.

At a Rutgers Cooperative Extension Money 2000 ™ conference held last year, the audience listens attentively to a keynote address by Jonathan Clements, Wall Street Journal *columnist, on "Seizing Control of Your Financial Life in Seven Easy Steps." Rutgers Cooperative Extension holds semi-annual Money 2000 ™ personal-finance conferences, has a home-study course on investing, and provides other financial-education services.*

Rutgers Cooperative Extension (RCE) staff members provide extensive information on personal finance and investing through classes, home-study courses, semi-annual personal-finance conferences, and publications. RCE's High School Financial Planning Program®, developed by the National Endowment for Financial Education, prepares teachers to give classes on setting financial goals, planning for a career, and using credit. As part of this program, RCE recently developed a 10-class series on predatory-lending practices. This series, which can also be used by community educators, will soon be available on RCE's web site.

RCE has also developed *Investing for Your Future,* a home-study

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Nonprofits Pursue Different Financial-Literacy Strategies

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course that is also available on its web site. And, since 1996, RCE has conducted a *Money 2000* ™ program that encourages personal savings and debt-reduction goals among participants. Nearly 2000 individuals have participated. RCE recently developed a five-week program on women's finances and will hold a conference on *Financial Strategies for Your Future* on October 27 in New Brunswick, New Jersey. Banks can work with RCE by providing guest speakers at RCE events, serving on RCE's advisory committee, and providing grants.

Meanwhile, in Delaware, the Delaware Community Reinvestment Action Council, Inc. (DCRAC) has conducted consumer financial education through cable television and seminars. Since 1999, DCRAC has produced a monthly cable TV program on such subjects as managing money, buying a house, and starting a business. The program, which had been available only in New Castle County, was aired statewide starting in July 2001.

Rashmi Rangan, executive director of DCRAC, said that DCRAC has found that cable TV is a good way to reach low- and moderate-income residents. She said that the program generates a large number of calls from residents seeking more information.

DCRAC also conducts seminars twice a month on credit, budgeting, basic banking, investments, and other subjects. The seminars are conducted on Saturdays at alternating sites around Delaware.

Also in Delaware, the YWCA of New Castle County conducts *Money Works*, consisting of five two-hour sessions on personal money management, budgeting, and credit. Other programs available at the YWCA are a home-ownership course; a 10-week employment-counseling and job-development program; and a program designed to help participants start a small business.

Ginny Marino, director of the Department for Economic Advancement at the YWCA of New Castle County, said that consumer financial-literacy programs should maintain a balance between classes and one-to-one counseling. Participants learn at different paces, and some are reluctant to discuss their personal finances in a group setting, she said.

In another Delaware program, the University of Delaware Cooperative Extension (UDES) presents evening and lunchtime workshops on budgeting, credit, and savings. It has also started money-management workshops for individuals who have filed for bankruptcy. UDES is also working with the Delaware Treasurer's Office, which has started a money school that is providing financial information and education to state workers and others.

Maria Pippidis, extension educator in family and consumer sciences with UDES, is active in instructing high-school teachers on financial subjects and is coordinator for a new Delaware Jump$tart Coalition for Personal Financial Literacy. She is also on a national 4-H committee that is developing handbooks for seventh-, eighth- and ninth-graders on budgeting, savings, credit, comparison shopping, and other subjects. The handbooks will be part of a self-paced 4-H program that will be piloted in Delaware this fall.

Opportunities for bank involvement include instructing teachers once or twice a year on new financial products and services and providing financial literacy software for young people, Ms. Pippidis said.

In another effort, the Salisbury Neighborhood Housing Services, Inc. (SNHS) in Maryland is developing a curriculum for a five-week 10-hour financial literacy program. Classes will cover budgeting, financial planning, money management, savings, banking, credit, consumer rights and responsibilities, taxes, insurance, and investments. SNHS, which will target groups of high-school students and adults, expects to reach at least 100 people a year.

SNHS is developing the curriculum under a pilot-program grant from the Neighborhood Reinvest-

RCE recently developed a five-week program on women's finances and will hold a conference on *Financial Strategies for Your Future* on October 27 in New Brunswick, New Jersey.

ment Corporation. SNHS previously developed a curriculum on predatory lending that is incorporated in its home-buyer education course.

For further information, contact Grace Corpuz, Director, Financial Education Center, New Jersey Citizen Action, 973-643-8800; fax: 973-643-8100; e-mail: financialed@njcitizenaction.org; web site: www.njcitizenaction.org; Peter Gilmartin, Executive Director, Housing and Economic Opportunities, Inc.; 856-858-0303; fax: 856-858-0163; e-mail: peter@njhousing.net; web site: www.njhousing.net; Barbara O'Neill, Interim Extension Specialist in Financial Resource Management, Rutgers Cooperative Extension, 973-579-0985; fax: 973-579-0996; web site: www.rce.rutgers.edu/money2000; Rashmi Rangan, Executive Director, DCRAC; 302-654-5024; fax: 302-654-5046; e-mail: rashmi@bellatlantic.net; web site: www.dcrac.org; Ginny Marino, Director, Department for Economic Advancement, YWCA of New Castle County, 302-658-7161; fax: 302-658-7547; e-mail: ginnym@diamondnet.org; Maria Pippidis, Extension Educator, Family and Consumer Sciences, University of Delaware Cooperative Extension, 302-831-8965; fax: 302-831-8934; e-mail: pippidis@udel.edu; web site: http://ag.udel.edu/ncc.

[UDES] has also started money-management workshops for individuals who have filed for bankruptcy.

Note: Nonprofit organizations in Pennsylvania that have been particularly innovative or successful in their financial-literacy education programs are invited to contact Keith Rolland, Community Development Advisor, at 215-574-6569, for future coverage on this subject.

Calendar of Events

"Smart Growth and Community Development: Working Together Smartly"
A conference co-sponsored by Local Initiatives Support Corporation (LISC), National Neighborhood Coalition, and the Federal Reserve Bank of Richmond, and with support from the Federal Reserve Banks of Atlanta and Philadelphia
Thursday, September 13, 2001, 8:00 a.m. to 5:00 p.m.
Washington, DC
For information, contact Bonnie Falls at (804) 697-8114, or send e-mail to bonnie.falls@rich.frb.org

"Invest in the Future: Approaches to Financing Quality Child Care in New Jersey"
A conference co-sponsored by the New Jersey Community Loan Fund and the Federal Reserve Banks of New York and Philadelphia
Tuesday, October 2, 2001, 8:30 a.m. to 12:15 p.m
Holiday Inn Center Point, Jamesburg, New Jersey.
For information, contact Don James at 215-574-6568 or donald.james@phil.frb.org.

Innovative Partnerships for Home Improvement Programs
This topic will be discussed in half-day sessions sponsored by the Federal Reserve Bank of Philadelphia
Monday, October 29, 2001, 1 p.m. to 4 p.m., Holiday Inn, Grantville, PA
Tuesday, October 30, 2001 9 a.m. to 12 noon, Holiday Inn, Cherry Hill, NJ
For information, contact Vera Bowders at 215-574-6570 or vera.bowders@phil.frb.org.

New Markets Tax Credits Conference
Federal Reserve Bank of Philadelphia
November 27, 2001 - Grantville, PA
December 6, 2001 - Philadelphia
For information, call Carol Floyd at (215) 574-6458, or send e-mail to Philadelphia-Community-Affairs@phil.frb.org.

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