



# OCC ADVISORY LETTER

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Comptroller of the Currency  
Administrator of National Banks

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Subject: Financial Literacy

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**TO:** Chief Executive Officers and Compliance Officers of All National Banks, Department and Division Heads, and All Examining Personnel

## **PURPOSE AND SUMMARY**

This advisory highlights the range of financial literacy activities in which banks have participated that have been effective in enhancing consumer financial skills and extending the reach of banks' products and services to underserved or unbanked markets.

While most individuals continue to enjoy the benefits of the longest period of sustained economic growth in the United States, a sizable portion of the U.S. population remains on the fringes of the banking system. According to the 1998 Survey of Consumer Finances published by the Federal Reserve Board, 10 percent of U.S. households do not have a depository account with a financial institution. Additionally, the number of check-cashing stores continues to rise, while the national savings rate has fallen to the lowest level in recent history. Concerns regarding abusive lending practices also indicate a need for consumer education. However, financial literacy programs afford a means to address these circumstances by providing individuals with a better understanding of bank products and services that meet their needs. Understanding the range of available financial products and services enables consumers of all income levels to make better-informed choices in the financial marketplace.

The Office of the Comptroller of the Currency (OCC) encourages bank participation in financial literacy initiatives. Involvement in these programs helps banks develop new customers while enhancing their visibility in the communities they serve. Bank participation in financial literacy programs also may receive positive consideration under the Community Reinvestment Act.

The advisory is accompanied by a resource directory available on the OCC Web site at <http://www.occ.gov/topics/community-affairs/resource-directories/financial-literacy/index-financial-literacy.html> that provides information about programs and initiatives that illustrate the categories of financial literacy activities described herein.

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## STRATEGIES AND APPROACHES

There are numerous ways for banks to participate in efforts to better inform individuals of the workings of the financial marketplace and the benefits and disadvantages of particular financial products. Individually, or working with community organizations and governmental agencies, banks help develop financial literacy programs, provide employees to serve as educators and trainers, and participate in programs aimed at elementary and secondary schools. Banks also support financial literacy organizations through volunteer staff assistance, loans, and contributions.

It is sometimes difficult to distinguish between financial literacy and marketing efforts by banks to solicit new customers. Fundamentally, this advisory is organized around the elements of financial literacy programs that educate individuals about their financial services options. However, many banks have found that literacy programs are an integral part of attracting new customers.

The advisory highlights several broad categories of financial literacy activities that help potential bank customers participate in the U.S. financial system and help banks strengthen their communities. Banks may be involved in these programs either through their own efforts or through joint initiatives with not-for-profit and governmental organizations.

- *Basic financial services and asset-building programs* provide a working knowledge of financial products, financial planning, and an overview of the U. S. banking system.
- *Credit management and repair programs* enable individuals to correct and learn from previous financial mistakes.
- *Homeownership counseling* prepares individuals for what is often the largest single investment in a lifetime.
- Education aimed at *recognizing and avoiding abusive lending practices* can protect individuals at risk of obtaining inappropriate loan products.
- *Small business and microenterprise technical assistance* provides entrepreneurs with practical business knowledge.

## **BASIC FINANCIAL SERVICES AND ASSET BUILDING**

Introducing individuals to basic financial services, such as checking and savings accounts, helps them accumulate wealth, keep transaction costs down, and secure access to credit. Nonbank institutions, such as check-cashing outlets, are clearly meeting some of the current needs of the unbanked. However, banks can educate individuals that depository institutions may be better able to serve their broader needs by providing access to savings instruments, relatively inexpensive transaction services, secure banking transactions, consumer protections, and safeguards against theft.

Building assets allows households a greater opportunity to become participants in a growing economy and to develop a cushion for downturns. The development of assets, large or small, is the first step in the process of introducing a household into the financial mainstream, increasing financial stability, encouraging better consumer habits, and eventually increasing a household's stake in the health and wealth of a community. Asset development through saving and investing enables individuals and families to plan for the future and set long-term goals. Assets are a source of future income and can leverage the accumulation of additional assets such as a retirement fund, a home, a college education, or a small business. Many organizations provide programs for, and information about, building assets, and banks can market many of these products to individuals in need of asset-building products.

### *School Age Programs*

Studies released by the National Bureau of Economic Research (NBER) and the National Endowment for Financial Education (NEFE) have shown that personal finance education improves students' saving and spending habits and money management skills. The 1997 NBER study found that exposure to financial services education in school increases asset accumulation once these students reach adulthood. In other words, those who are taught to save as teenagers will save more during adulthood. The 1998 NEFE study was designed to measure the effectiveness of the NEFE's curriculum. It found that three months after completing the curriculum, a significant number of the high school students surveyed had begun to track their expenses, set aside money for future purchases, discuss money management with family members, and understand the cost of buying on credit. Many banks, in cooperation with local school districts and community organizations, have developed grade-appropriate teaching materials and curricula. Bank officers also serve as advisory board members to local chapters of national financial education organizations. As there is no single curriculum for personal finance, schools use a variety of approaches suited to elementary and secondary schools.

Bank-sponsored programs at the elementary school level include school savings programs that award prizes to students who open savings accounts. Some programs are structured like clubs, and may be called young investor clubs, in which membership entitles the student to a newsletter and other benefits. Interest is paid on savings, and each child receives a quarterly statement. These clubs, originally designed for the children of bank customers, have now become a tool for outreach to local schools.

Some banks provide on-site educational sessions by sending bankers into elementary school classrooms to open accounts for children and to discuss how the accounts work and how interest is

calculated. Topics progress in complexity as the students get older. Special bank products that encourage students to establish good money management habits include the classroom savings account. With this account, students jointly raise money for their class during the school year. Along with a faculty advisor, classmates decide before the end of the school year if they want to distribute the money among themselves, use it for a trip, or donate the money. Banks have also established on-line programs that teach young children the fundamentals of saving and banking. For example, programs may use characters and stories to introduce these concepts combined with on-line games and calculators that enable students to determine how long it would take to save enough money to purchase particular items.

High school curricula include life skills (like balancing a checkbook) and school-to-career programs that emphasize careers in the financial services industry. These programs may include field trips, guest speakers, investment clubs, Individual Development Account (IDA) programs, and stock market simulation games. The success of these programs is measured in a greater number of young adults with improved credit, savings, and budgeting skills. Nearly half of the high school students who participated in the NEFE's financial planning programs started saving or began saving more.

Other secondary school programs include on-site banks and peer loan groups. School-based bank branches range from full-service offices that serve the entire community, to mini-banks that provide services to students only. Bank staff members teach the students how to be tellers and how to use computers to record transactions. Staff members responsible for various banking functions, including marketing and security, may discuss their areas of expertise and help the students understand how to make a branch run successfully. As part of their curriculum, the students may work on projects such as marketing plans for the branch.

Peer-lending programs have been developed that teach students how credit decisions are made and how they can further their chances of gaining credit. Bank loan officers advise the student-run loan committees, but allow the students to make the credit decision for their peers. The loan fund is typically held in an account at the bank and is capitalized with fundraisers. Loans to students are made for school-related expenses such as athletic equipment, club materials and supplies, graduation fees, and class events.

Bank involvement in school-age programs not only provides education, but also promotes name recognition for the bank. In addition, when students participating in these programs come from unbanked households, they may share their knowledge of products and services promoted by the bank with family members who have a need for them.

### *Adult Basic Financial Services*

Since people have varying backgrounds and financial concerns, educational programs that are tailored to the needs and interests of specific groups help ensure that financial services education reaches the desired audience. Some banks have found that the best way to increase consumer knowledge is not necessarily by providing literature or seminars at branches, but by having bank officers or employees make in-person presentations to groups such as local community or religious organizations. These presentations are designed to educate potential customers on basic financial services and may cover such topics as deposit and checking products, credit products and restoration, check cashing, and first-time homeownership.

The makeup of the target audience may require that educational presentations and materials be prepared in a variety of languages, and that bank employees have the language skills to communicate with these potential customers. In addition, banks have realized that immigrants from a number of countries may not be familiar with financial institutions and may need to develop a level of trust in banks, if they did not use banking services in their country of origin.

In response to these needs, banks have also developed on-the-job financial literacy seminars with the full support of employers who have a substantial number of immigrants on their payroll. The seminars cover topics including financial services at U.S. banks, the importance of good credit, the home purchase process, managing a checkbook, and retirement planning. Employers benefit from these workshops because they want to see a financially secure workforce that results in less employee turnover. Banks benefit by reaching a target market that may not have established banking relationships. Presentations or seminars that bank employees lead provide an opportunity to cross-sell bank services, by promoting not only deposit products, but also lifeline checking accounts and introductory credit products such as credit builder loans and secured credit cards.

Participants in basic financial services programs learn whether having a bank account or using a check casher is in their best interest, and how to choose the financial institution that will best meet their needs. They learn how to open and maintain savings or checking accounts, how to use automated teller machines (ATMs), and how to benefit from the electronic payment of funds, including Social Security, federal retirement benefits, and welfare. Banks are attracting check-cashing customers with lower check-cashing fees, savings clubs, direct deposit products, and alternative products, known as access, basic banking, and lifeline checking accounts. These entry-level products and services, as well as more user-friendly facilities and employees who speak the languages of these potential customers, are all designed to bring the unbanked into bank branches. The long-term goal is to transition individuals who operate in the cash economy and customers with alternative accounts into traditional banking customers who use a variety of banking services, including credit products.

#### *Individual Development Account*

The IDA is a matched savings account, similar to a 401(k) that can be used for a specifically defined purpose, such as purchasing a home, seeking post-secondary education, or capitalizing a small business. Individuals make regular savings deposits in their IDAs that are then matched by funds from the sponsoring bank, foundation, other charitable organization, or local government agency that seeks to promote a specific wealth-building initiative. Income eligibility requirements vary, but generally limit participation to low- and moderate-income households.

IDA programs often include counseling and training for program participants. For example, to support a homeownership IDA, some banks provide pre-purchase homeownership counseling to program participants while the IDA is growing. This counseling may include household budgeting, financial record keeping, and developing long-term economic plans. Banks benefit from offering the IDA by attracting new customers who are candidates for using a range of deposit, credit, and investment products and services as their savings grow.

The IDA provides an incentive and the institutional support necessary for individuals to save and acquire productive assets. Banks usually partner with local community groups to offer an IDA product, with the bulk of the program administration and implementation being the responsibility of the community group sponsor. Banks should ensure that the community groups have the internal capacity and expertise to administer an IDA program. Operational management of the accounts is handled by the bank as an extension of the bank's normal business activities.

### *Retirement and Financial Security*

Planning for retirement will remain an important concern for U.S. consumers as life expectancy continues to rise. Many individuals who do not have pension plans through their employers may need to supplement Social Security with other retirement benefits. Through supporting outreach such as public education campaigns, banks have helped educate adults of all ages on the benefits of participating in an individual retirement account (IRA), and of investing in stocks, bonds, mutual funds, and insurance. Banks also work with community organizations to deliver financial seminars that focus on financial security and planning for retirement.

## **CREDIT MANAGEMENT AND CREDIT REPAIR**

Good credit is an essential tool for economic viability in our society. Unfortunately, many prospective borrowers have a limited credit history, no credit history, or derogatory credit. While many lenders now have programs that acknowledge a lack of, or limited, credit history by using utility bills and rent receipts as a credit history substitute, derogatory credit presents a problem for many individuals that is difficult to overcome. Promises of quick "credit repair" are often unfounded. In many cases, potential borrowers may have to wait for specified time periods for derogatory items to be removed from their credit reports. However, a number of organizations provide credit counseling and structure repayment arrangements enabling individuals to develop a path for reestablishing good credit. Even with derogatory items on a credit report, lenders may look more favorably on loan applications from borrowers who have repaid their debts.

Debt management plans administered by these organizations help put individuals on a budget that requires a certain percentage of their income go to living expenses, with the remainder to pay down debts. Programs such as these enable individuals to take responsibility for past credit problems through learning the lessons of sound money management. This may allow individuals with previously impaired credit to qualify for mortgages faster than would otherwise be possible, if they can show reduced non-mortgage debt.

In order to educate individuals who have serious credit difficulties, banks provide assistance to organizations that offer consumer credit education programs. Many retail banks also support educational programs by providing staff and materials for credit-training classes. Individuals who complete any of these educational programs are potential bank customers.

## **HOMEOWNERSHIP COUNSELING**

Buying a home is often the largest single investment in a lifetime. Banks providing mortgage financing to first-time purchasers have learned that educated borrowers are more likely to avoid delinquencies and foreclosures. In fact, some mortgage insurers allow borrowers who have been

counseled to become eligible for lower-cost mortgage insurance premiums. Prospective homebuyers need to know how much to save for the down payment and closing costs, how to manage their credit history so that they can eventually qualify for a loan, and the benefits of having a home inspection report. Likewise, prospective homeowners may need training in home maintenance and budgeting, and may require counseling if they have encountered previous credit problems.

Homeownership counseling can be beneficial to traditional, first-time homebuyers, as well as borrowers who apply for affordable mortgage products. In fact, many lenders require completion of homeownership counseling with a certified housing counselor in order to qualify for a low down payment mortgage. Additionally, banks that sell loans to the national secondary market entities know that these institutions have developed a strong interest in the value of pre-purchase homeownership counseling both to minimize default risk and to reach their affordable housing goals. Banks may also use pre-purchase homeownership counseling to introduce prospective customers to nontraditional mortgage products that they provide under special purpose credit programs. Banks can also use the opportunity at homeownership counseling seminars to cross-sell other retail financial products.

Banks generally participate in homeownership education either through working with a counseling agency (a nonprofit or public agency that provides the training), or through establishing their own proprietary counseling programs. There are a number of nationally recognized counseling curricula now in use. Also, the Department of Housing and Urban Development certifies housing counseling agencies and provides them with technical assistance and financial support. Through outreach with real estate agents and through public education, the counseling agencies often identify potential homeowners, who are then referred to a participating bank.

Formal partnerships between banks and counseling agencies take a number of forms, with the bank usually providing some type of financial assistance to support the educational program. Banks also provide staff to lead classes. Counseling may be provided as part of a particular homeownership incentive program sponsored by a nonprofit organization, a public agency, or a bank, and may include down payment or closing cost assistance, "soft second" loans, and screening for admission to federal, state, or local subsidies. Many programs also offer post-purchase counseling to assist in money management, home maintenance, landlord training for two-to-four family owner-occupied properties, and workout schemes to prevent foreclosure.

Working with counseling agencies enables banks to establish relationships with some minority and non-English speaking communities that lenders might not ordinarily reach. Local nonprofit agencies have already gained the trust of the communities they serve and are positioned to provide homeownership counseling in a manner and setting that will be well received. Further, after receiving counseling from a trusted organization in the community, borrowers that experience financial difficulties will be more likely to return to the agency after purchasing the home.

In order to control the counseling process and their prospective mortgage customer, some banks have chosen to set up their own counseling programs. Banks provide special evening or weekend counseling classes in conjunction with a real estate agent or private mortgage insurer in order to offer homeownership counseling on a group basis. Banks also partner with employers or affinity

groups to provide targeted homeownership education, often at a work site, in order to attract individuals that they would not ordinarily reach.

## **RECOGNIZING AND AVOIDING ABUSIVE LENDING PRACTICES**

Objective, fairly applied subprime and risk-based lending has been important in expanding access to credit. However, certain lending practices — largely engaged in by non-depositories — have come under intense scrutiny. Most of these practices involve the setting of rates, fees, and other terms and conditions in a manner that drastically departs from those used by more traditional and responsible prime and subprime lenders. (See OCC Advisory Letters AL 2000-7, issued July 25, 2000, for more information on abusive lending practices; AL 2000-10, issued November 27, 2000, for information on payday lending; and AL 2000-11, issued November 27, 2000, for information on title loan programs.)

Financially unsophisticated individuals may easily become targets of abusive lending practices. For example, after years of paying down their mortgage balance and enjoying value appreciation, homeowners may build up significant equity. Certain lenders attempt to convince these homeowners that high-priced refinance products are all they can qualify for due to less-than-perfect credit. The interest rates and loan terms on automobile title loans may make it difficult or impossible for borrowers to reduce their indebtedness. And the inappropriate use of payday loans can force borrowers into a treadmill-like cycle of debt from which it is difficult to exit.

Financial literacy efforts help individuals avoid becoming victims of abusive lending practices. Banks have supported educational campaigns aimed at warning borrowers about these practices. These campaigns have used a combination of advertisements and public service announcements to educate borrowers about abusive lending practices.

Banks also provide financial support to organizations that help individuals avoid some financial products that might pose threats to them, possibly resulting in the loss of their homes or valued possessions. Government agencies and nonprofit organizations are collaborating with banks in providing education to help minimize the financial hardship of a predatory loan. The goal is to keep resident owners in their homes, avoid foreclosure, and keep neighborhoods intact. In conjunction with these educational efforts, banks have capitalized loan funds to refinance loans that have predatory features.

## **SMALL BUSINESS AND MICROENTERPRISE TECHNICAL ASSISTANCE**

Educational outreach may also be targeted to prospective small business and microenterprise<sup>1</sup> entrepreneurs. While access to credit was originally the greatest concern for microenterprises, the advent of specialized loan pools and loan programs has made the need for training and technical assistance equally important. In order to cultivate new markets and mitigate the risks inherent in this type of lending, banks with a small business focus provide staff to teach training classes and offer technical assistance to promising entrepreneurs.

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<sup>1</sup> The Small Business Administration defines a microenterprise as a business that has less than five employees, requires start-up capital of less than \$25,000, and has limited access to traditional bank financing.

Banks have developed a variety of programs to provide assistance to microenterprises and small businesses. Some banks conduct seminars for start-up business entrepreneurs and existing small business owners on how to write a business plan in order to qualify for a bank loan. Banks have also formed partnerships with organizations of retired business executives to provide technical assistance to small businesses. And banks have launched their own intermediaries to provide access to capital, information, technical assistance, and advocacy for segments of the small business sector that have traditionally had limited access to financing — namely minority- and women-owned businesses.

Banks also provide financial or teaching assistance to business development centers, which in turn offer technical assistance and mentoring services to small businesses and entrepreneurs. Likewise, small business incubators, which provide lower rents, shared facilities and expenses, cooperative services, and technical assistance to microenterprises and small businesses in an early growth stage can benefit from bank support. Business development centers and incubators are sometimes affiliated with business schools of nearby colleges and universities. The goal is to see their small business clients/tenants ultimately graduate and move to the next growth stage.

Success in these technical assistance programs is measured by better-prepared loan applicants, job creation, wealth building, and continued local economic development. Small business loan customers ultimately become prime candidates for other traditional banking products and services, including business checking accounts, lines of credit, and cash management services. Banks that participate in these programs report that they have consistently been rewarded with new customers who provide a solid base for cross-selling other financial products and services as they transition into traditional customer relationships.

## **FINANCIAL LITERACY AND THE CRA**

Through the Interagency Questions and Answers<sup>2</sup> (Q&As), the OCC and other financial institution regulatory agencies have interpreted the Community Reinvestment Act (CRA) and its implementing regulations as recognizing the importance of financial literacy programs in serving the credit needs of low- and moderate-income individuals. In addition to opening new business opportunities through an expanded customer base, a bank's participation in, or support for, certain programs may receive consideration under the lending, investment, and service tests of the CRA regulations. Such programs must have a community development purpose, which is defined to include community services targeted to low- and moderate-income individuals. While large banks are reviewed under these three tests, small banks may receive consideration under the CRA for lending to financial literacy providers and are eligible to receive consideration for investments and services if their lending performance exceeds satisfactory standards.

- **Lending Test**

Loans to organizations to be used for financial literacy programs targeted to low- and moderate-income individuals will be considered under the lending test. The Interagency Q&As define community development loans to include loans to “not-for-profit organizations serving . . . community development needs;” and loans to “financial intermediaries including Community Development Financial Institutions (CDFIs), Community Development Corporations (CDCs), . . .

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<sup>2</sup> See 65 *Federal Register* 25088 (April 28, 2000).

[and] community loan funds or pools . . . that primarily lend or facilitate lending to promote community development.” See Q&A §§\_\_\_.12(i) & 563e.12(h)-1. Community development activities are defined to include “educational, health, or social services targeted to low- or moderate-income persons.” See Q&A §§\_\_\_.12(h) & 563e.12(g)-1.

- Investment Test

Investments in, or contributions to, a program, activity, or organization that provides financial services education programs targeted to low- and moderate-income individuals will be considered under the investment test. The Interagency Q&As note that qualified investments include, but are not limited to, investments, grants, deposits, or shares in or to “not-for-profit organizations serving . . . community development needs, such as counseling for credit, home-ownership, home maintenance, and other financial services education.” See Q&A §§\_\_\_.12(s) & 563e.12(r)-4.

- Service Test

Community development services, which include, but are not limited to, providing bank staff to serve as educators in financial literacy programs targeted to low- and moderate-income individuals, will be considered under the service test. The Interagency Q&As state that examples of community development services include “providing technical assistance on financial matters to small businesses”; “providing credit counseling, home buyer and home maintenance counseling, financial planning or other financial services education to promote community development”; and “establishing school savings programs and developing or teaching financial education curricula for low- or moderate-income individuals.” See Q&A §§\_\_\_.12(j) & 563e.12(i)-3.

## CONCLUSION

For more information about the various types of initiatives described here, access the Financial Literacy Resource Guide on the Community Affairs page of the OCC Web site, <http://www.occ.gov/topics/community-affairs/resource-directories/financial-literacy/index-financial-literacy.html>. Community Affairs officers at OCC’s district offices also are available to answer questions.

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