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Before the

Interagency Panel Conducting a Joint Public Hearing on

Community Reinvestment Act Regulations

Good afternoon Vice Chairman Gruenberg, Governor Duke, Comptroller Dugan and Director Bowman. My name is Dan Iannicola, Jr. Thank you for inviting me to appear before you today to discuss one aspect of the Community Reinvestment Act (CRA) and how it can be improved to encourage financial institutions to be more effective in advancing the cause of community development.

Brief Overview of Financial Literacy's Role in Community Development

Sometimes overlooked in discussions of community development is the topic of financial literacy. While increased financial access for the underserved is necessary, it is not sufficient. We have only to look at the recent mortgage crisis to see that consumer *access* without consumer *understanding* leads to financial turmoil, on both the household and national levels. Put another way, without strong efforts to financially educate LMI communities, it is difficult for a financial institution to legitimately claim it is meeting the credit needs of that community, when one of the most acute needs is not just credit products, but financial knowledge. That is why I wanted to make three suggestions today on how improvements in the regulatory guidance can foster efforts to strengthen LMI communities through financial education.

Before discussing those suggestions let me take a moment to describe my background. Since early last year I have headed a small financial education consultancy called The Financial Literacy Group. My team and I create programs, materials, research and campaigns involving financial literacy. For over five and half years prior to that I led the federal effort on financial literacy as Treasury's Deputy Assistant Secretary for Financial Education. During that time I also served as the Executive Director of the President's Advisory Council on Financial Literacy and coordinated a twenty federal agency group called the Financial Literacy and Education Commission and in that role had the pleasure of working closely with each of your agencies. I have also been an official at the US Department of Education, a school board president and an attorney in the financial services industry for eight years where I worked with bank compliance issues including CRA. So I hope my experience can be of assistance to you today.

The financial literacy field is a field in its adolescence – it is not new anymore, but it is not mature yet either. As such it is growing and changing rapidly. Through three minor changes to the CRA's implementation, federal regulators can accommodate recent trends in the financial literacy field and help make LMI communities more financially capable. Simply put these recommendations will permit the CRA to catch up with innovations in the financial literacy field.

As recent surveys have shown, both youth and adults in America need to raise their levels of financial literacy. I will reserve my comments today however to how CRA can better serve young people by giving clarity to financial institutions that may wish to do more to support financial literacy in America's schools.

First Trend: The Growing Demand for Financial Education Professionals

The first trend is the growing professionalization of the field. Policy makers, educators and parents are simply asking more of financial education in schools. They want it to cover more topics and do so to a greater depth than just a few years ago. This makes sense. Today's financial services marketplace certainly requires adults to do much more than just balance a checkbook, and youth financial education is starting to reflect that. Moreover, a growing number of states are starting to implement financial education mandates for schools with specific requirements and standards of learning. The upshot of all of this is that, like every other subject schools teach children about, a professional educator is necessary.

The regulatory guidance surrounding CRA, addresses financial education a few places, but most directly under discussions of community services that might be provided by bank personnel. While an occasional school visit by a banker and a field trip to a bank are useful parts of a financial education program, they are not in and of themselves *a program*. An effective course of study in personal finance involves ongoing interaction, using professionally developed, research-based materials mapped to state standards, under the guidance of a professional, appropriately trained educator who has an adequate opportunity for evaluation of both student learning and program effectiveness. If your agencies would like to encourage financial institutions to support this more effective approach to financial education, an adjustment to CRA guidance would be helpful.

Specifically, financial education should receive greater attention in the discussion on qualified investments in Q&A §__.12(t)-4. What is needed is an example indicating that a qualified investment includes grants given to schools for teacher training in personal finance or to fund programs that bring financial literacy program providers into the schools. Such language might look like the following:

- Organizations engaged in community development through the provision of financial literacy education to low to moderate income individuals or to organizations engaged in financial literacy training to teachers in schools serving low to moderate income individuals.

This change would assure financial institutions that they could receive favorable consideration for supporting financial education in schools without reliance solely on the time of their own staff under the service test. Getting bankers in LMI classrooms is important and CRA regulatory guidance should continue to encourage this. It provides a rich educational opportunity for both the students *and* the bankers. However it is not enough. In a small but growing number of schools across the country financial literacy is no longer merely an enrichment topic, but a serious subject. Consequently, young people in LMI communities need trained and credentialed professionals to help them meet high school graduation requirements in certain states, while students everywhere need well-trained teachers to prepare them for the sophisticated financial services marketplace that awaits them.

My regular interaction with participants in this space tells me that this change would be welcome. Executives in financial institutions have commented to me that they would be willing to invest in such efforts, but are under the impression that only financial education provided by their own employees will merit favorable CRA consideration from their respective regulators. For their part, schools, teachers and financial education program providers have lamented that only a modest amount of outside funding is necessary to train teachers or bring effective financial education programs into schools.

Second Trend: Increased Interest in Supporting Financial Education in Schools

The second trend is an increased interest in financial education in schools on the part of financial institutions. Unfortunately some of those financial institutions are hesitant to follow through on their interest because they are unclear about whether working with a particular school with be given favorable consideration under CRA. They express concern as a threshold matter because they are unable to show that the students they are serving are LMI.

The following two recommendations suggest ways to ameliorate this issue. Q&A §___.12(g)(2)-1 addresses this issue and the second bullet appears to resolve the matter by describing ways to determine if LMI individuals are being served by describing the types of organizations providing creditable community service. The bullet lists nonprofits that are located in and serve LMI geographies. Some financial institution executives have expressed concern that the reference to non-profits in that bullet may not include schools. This is not an unreasonable construction of the regulatory guidance. In other parts of the Q&As when the agencies mean schools, that term is specifically used. A new bullet similar to the one below might clarify this issue.

- The community service is conducted by or through a school in a low- or moderate-income geography and is targeted to the residents of that area.

This provision would permit financial institutions to receive favorable consideration for financial education programs provided on school grounds to LMI students either by the school itself or by an outside entity that offers school-based programs.

The third and final recommendation is offered in the alternative to the previous suggestion as another way a financial institution could determine if financial literacy services offered to a school are serving LMI individuals. The recommendation is for the agencies to explore using another measure widely used by schools, so that financial institutions and examiners can approximate the LMI designation for any particular school. The administrators of most schools are aware of the school's Free and

Reduced Lunch percentage for its student body. The figure is calculated for compliance with the National School Lunch Program administered by the United States Department of Agriculture (USDA). Eligibility for the program is based on enrollment in other government assistance programs or falling below an income threshold of 185% of the poverty guideline, a figure calculated annually by the Department of Health and Human Services (HHS). A cursory comparison of the LMI individuals' income levels to those of the Free and Reduced lunch population reveals a strong degree of overlap between the two groups.

Given the ubiquity of the Free and Reduced Lunch percentage among schools, it might be useful for financial institutions and examiners to consider using the figure when the Q&As' other recommended methods of determining LMI are inapplicable or inconclusive. Conversations with staff at HHS, USDA and the Department of Education would likely be useful in determining the link between the two populations.

Conclusion

The Community Reinvestment Act's goal of developing LMI communities requires a strong focus on financial institutions but also depends upon understanding the perspective of the LMI consumer. It is not just about what banks offer, but what consumers choose. There will always be perfectly legal, sufficiently disclosed financial products and services that are suitable for one customer but not for another. Empowering consumers to make that determination is a critical part of their own consumer protection.

As recommended above, the agencies should take note of the rapid evolution of the financial literacy movement and adjust CRA regulatory guidance accordingly. By so doing, agencies can better tap the tremendous potential financial institutions have to help educators produce a generation of financially literate consumers.