

# POLICY STUDIES

## **Delivery of Financial Literacy Programs**

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Consumer Issues Research Series  
Consumer and Community Affairs Division  
December 2000 (2000-7)

FEDERAL RESERVE BANK  
OF CHICAGO

# **DELIVERY OF FINANCIAL LITERACY PROGRAMS**

**By**

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## **Abstract**

A critical challenge faced by educators, community leaders and policy makers is to bring financial literacy and consumer education effectively to their constituencies. Based on the qualitative evidence gleaned from focus groups, we take a pragmatic approach in proposing ways to deliver financial literacy programs to adults. This article makes several suggestions for implementing financial literacy programs, from outlining important financial literacy and consumer education topics to discussing the logistics of using various methods of outreach activities.

<sup>1</sup>The views expressed in this study are the authors' and do not necessarily represent the opinions of the Federal Reserve Bank of Chicago or the Federal Reserve System.

## **DELIVERY OF FINANCIAL LITERACY PROGRAMS**

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

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

A critical challenge faced by educators, community leaders and policy makers is to bring financial literacy and consumer education effectively to their constituencies. While most would agree that improved financial literacy is needed, identifying what attributes make an education program most beneficial to consumers is less certain. For example, would seminars be a more effective way to share information or would informational brochures and materials suffice?

Should financial literacy programs be targeted to all consumers or should they be primarily targeted to students, lower-income individuals or other uniquely selected consumers? Should different programs be created for each consumer group targeted? Or does one program fit all? Who should provide or offer these programs? Finally, what resources are available to help finance or implement these financial literacy programs?

In conjunction with its new financial literacy initiative, *Money\$mart*, the Federal Reserve Bank of Chicago conducted three focus groups to address these questions and to evaluate how financial literacy programs might be most effectively delivered to consumers.<sup>1</sup> Participants of these focus groups were drawn from local community development organizations, consumer advocacy organizations and agencies, and financial institutions. The majority of these participants were directly involved with providing financial literacy and consumer education programs to adult consumers. The focus groups were a practical way to gain broader insights about these issues and to determine the future direction of larger-scale quantitative research aimed at enhancing financial literacy and consumer education outreach initiatives. Based on the qualitative evidence gleaned from these focus groups, we take a pragmatic approach in proposing ways to deliver financial literacy programs to adults. A comprehensive resource guide listing financial literacy programs and initiatives nationwide is available to educators, community leaders, and others from the authors (Toussaint-Comeau et al., 2001).

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<sup>1</sup> The focus groups were organized and facilitated by the Consumer and Community Affairs Division and the Corporate Communication Department of the Federal Reserve Bank of Chicago. The Community Affairs Directors identified over 20 community leaders who participated in these focus group meetings.

## **Financial Literacy Topics and Targeted Consumers**

Identifying the appropriate subject areas and audiences are crucial first steps to initiating a financial literacy program. Table 1 summarizes the most important financial literacy topics based on specific targeted audiences identified by the focus group participants. In principle, most consumers could benefit from information on all these topics. However, some consumer groups were identified as having more pressing needs for specific financial education. As shown in Table 1, topics related to budgeting, personal finance, and keeping records were viewed to be more important to lower-income individuals and students. The elderly and widowed who unexpectedly face with the management of household finances were identified as target for education on maintaining checking accounts and keeping records. "Re-banked" consumers, individuals who had checking accounts in the past, misused them and had to close their account, and are trying to re-enter the banking mainstream, were also identified as potential beneficiaries of these types of programs.

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

Research has found that individuals who use alternative financial services (e.g., check cashing outlets) tend to have lower income, are less educated, live in lower-income urban areas, and tend to be a member of a minority group (Rhine et al., 2001). Providing consumer education programs to this constituency may help ensure that these consumers understand the relative costs

of financial services purchased from different sources. Several anecdotal stories from participants corroborated the need to help educate these consumers about making cost-effective financial decisions.

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

Availability of home mortgage loan counseling and information about different loan products were viewed by several participants to be critical, especially to their older and lower-income clients who may be more vulnerable to deceptive lending practices and predatory lending

schemes. This is consistent with documented reports about individuals who take a home equity, refinance or reverse mortgage loan and then find themselves faced with unexpected financial difficulties (Berry and Darwish, 2000).<sup>2</sup> In essence, consumers may not be fully aware of or understand the extent of these home-related credit transactions. Opportunities exist for consumer educators to help make the elderly and lower-income homeowner aware of potential deceptive lending practices.

### **Proposed Delivery Methods**

There are several ways to conduct financial literacy initiatives. Consumer educators and community organizations can convene information seminars, distribute pamphlets, use multi-media such as radio, television and newspapers, and post information on the Internet. Important insights were gained from the focus group participants about the most effective ways in which these various methods of communication can bring financial literacy and economic education to adult consumers. This next section highlights the merits and potential drawbacks from using these different types of delivery systems.

#### **Information Seminars**

Information seminars can be an especially good way of promoting financial literacy among the adult population. It is important that seminars be held in an environment that is culturally and linguistically comfortable to the attendees. Presenters who are culturally or ethnically/racially similar to the audience will be better able to connect with the participants. For many adults, attending a formal seminar would be an intimidating experience. Convening

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<sup>2</sup> In a *reverse mortgage*, a house-rich but potentially cash-poor homeowner extracts the equity from their home through a reverse loan made with a lender. The lender makes payments to the homeowner, thereby reversing the traditional payment pattern of mortgage loans.

seminars in an informal atmosphere may be preferred, and as a consequence, better attended. In general, individuals might feel less intimidated when attending seminars at locations often frequented such as community centers, churches, places of employment, day-care centers, local K-12 schools, community colleges, recreation centers, and local business establishments. Information sessions held at financial institutions (e.g., banks and credit unions) may be more effective and may reach a wider audience if these cultural elements are imbued in the seminar environment.

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

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

shopping for credit) increased the success of this advertising campaign. Another enticement aimed at increasing consumer attendance may include offering a gift or free service (e.g., credit counseling, free credit report, etc.).

### **Information Pamphlets/Booklets**

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

### **Newspaper/Radio/Television/Video**

Most people own a television set and a radio regardless of their socioeconomic status. Disseminating information through short videos and audiotapes, therefore, can be effective tools in educating consumers regardless of personal finances. In addition, educational articles in newspapers, neighborhood newsletters, magazines or journals are apt to reach the isolated or elderly audience who may have greater mobility constraints. Information given in ethnic newspapers or ethnic radio and television programs can be desirable ways to reach specifically targeted ethnic audiences. However, these media are generally expensive delivery mechanisms.

### **Web Pages/Internet**

The Internet can be an efficient and cost-effective way for organizations to make information about personal finances available to consumers. Information offered through a web

site may be less useful to lower-income consumers if they do not have access to the Internet. Many local libraries, however, offer Internet access to the community. Consumer educators and counselors can identify these local resources and encourage their students and clients to use these Web resources.

### **Conclusion**

This article makes several suggestions for implementing financial literacy programs, from outlining important financial literacy and consumer education topics to discussing the logistics of using various methods of outreach activities. Offering these various programs can be expensive in terms of time, human resources and actual expenses. Opportunities exist for community-based organizations, consumer counseling organizations, educational institutions, and government agencies to establish partnerships with financial institutions to leverage the resources needed to bring effective educational programs to adult consumers.<sup>3</sup> At the same time, financial institutions can take important steps toward earning Community and Reinvestment Act (CRA) credit through their educational service initiatives and partnerships.<sup>4</sup> Educators, community organizations, and financial institutions are encouraged to engage in such partnerships.

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<sup>3</sup> A resource guide lists of partnership opportunities is available from authors (Toussaint-Comeau et al., 2001).

<sup>4</sup> The Community and Reinvestment Act of 1977 encourages financial institutions to help meet the credit needs of their local communities, including low- and moderate-income neighborhoods, consistent with the institutions' safe and sound banking practices.

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**Table 1**  
**Topics and Target Groups for Financial Literacy**

<b>Topic</b>	<b>Target Consumers</b>
Budgeting/personal finances/record keeping Obtaining/maintaining a checking account Using mainstream banking	Lower income Elderly/widower Students Rebanked Immigrants/minorities
Assessing the relative costs (or benefits) of using alternative financial services	Less educated/lower income/minorities
Small business finance/planning	Small business owners/contractors Women business owners/entrepreneurs
Home purchase counseling	Homebuyers, those in transition from public housing
Home Loan Products Reverse mortgage Home equity Home expansion Home mortgage	Older, low-to-moderate income homeowners Homeowners Homeowners First-time homebuyers and homeowners
Consumer credit/financial products Financing durables goods Credit/charge cards ATM cards/machines usage Savings accounts Special savings (e.g., Individual Development Accounts or matching funds programs) Retirement and Investing	All College students, those with credit problems Checking accounts holders All, children Lower income Employees
Other Credit reports Predatory lending  Identity thefts Consumer protection	All Older, lower income, marginal borrowers with imperfect credit All All