

JULY 2013

# Financial Literacy Annual Report



Consumer Financial  
Protection Bureau



# Message from Richard Cordray

Director of the CFPB



On July 21, 2011, the Consumer Financial Protection Bureau was launched as the first federal government agency solely dedicated to consumer financial protection. The Dodd-Frank Wall Street Reform and Consumer Protection Act mandated that the Bureau develop and implement a strategy to improve the financial literacy of consumers and initiatives to educate and empower consumers to make better informed financial decisions. The Bureau is pleased to provide this report describing the Bureau's strategy and the financial literacy activities it has undertaken during its first two years of operation.

In the past few years, America has been working through the aftermath of the worst financial crisis since the Great Depression. There were many causes of the crisis. But the problems experienced by many Americans were exacerbated by the growing complexity of the financial marketplace and of the decisions consumers must make to manage their finances effectively.

The mission of the Consumer Financial Protection Bureau is to make markets for consumer financial products and services work for consumers by making rules more effective, by consistently and fairly enforcing those rules, and by empowering consumers to take more control over their economic lives. Empowering people to take more control over their economic lives is absolutely essential to our mission. But consumers should not have to go it alone, without ready access to a trusted source of impartial and expert information about matters of consumer finance. The most immediate form of consumer protection is self-protection: being able to avoid problems in the first place and to know what you can do about it when you do experience a problem. We want consumers of all ages and life situations to have the

opportunities and resources to improve their financial capability so they are able to navigate the financial marketplace effectively and achieve their own financial goals. To achieve that end, we have made financial education a critical component of our work, and we are committed to helping consumers increase their capability to make sound financial choices.

The CFPB is uniquely positioned to help bridge the gap between people's current levels of financial capability and the increasingly complex financial decisions they have to make. The CFPB's financial education agenda is focused on providing consumers with tools and information to develop practical skills and support sound financial decision making. These include tailored approaches to address financial decision-making circumstances for specific populations, including: servicemembers and veterans; students and young adults; older Americans; and low-income and economically vulnerable Americans.

The Bureau's strategy to increase consumers' financial literacy and capability includes foundational research, collaborative education initiatives with stakeholders who can reach consumers where they are, and providing tools and information directly to the public to help them navigate the financial choices they face. Our research program is helping us to identify, highlight, and spread effective approaches to financial education. We are working with a broad range of partners to provide decision-making supports in moments when consumers are most receptive to receiving information and developing financial decision-making skills. We are also helping consumers directly by providing innovative tools and information online, including resources like Ask CFPB, which provides nearly 1,000 questions and answers about financial products and services at [consumerfinance.gov/askcfpb/](http://consumerfinance.gov/askcfpb/).

We all have a part to play in building a nation where every consumer is financially capable. We need to sustain a national conversation about household financial issues, not just in the financial services marketplace, but throughout our communities, including in our families, schools, workplaces, and places of worship. Parents can and should talk to their children about money and how to make sound money choices. Schools must do more to teach key financial concepts and decision-making skills. Public and private employers can invest in a financially fit workplace – with benefits to both employees and employers – as we are doing at the CFPB. Places of worship can provide a safe setting for people who are struggling in their lives to seek guidance and direction about how to make responsible financial decisions that are sustainable over time.

As the American economy continues to recover, we want consumers to be able to look ahead with renewed hope and resilience. By working in coordination with all those who are dedicated to achieving these goals, we can enhance the financial capability of everyone in America. Money

decisions should support the hopes, dreams, and life goals of individuals and families. It takes both a financially capable populace and a well-policed marketplace to achieve that end. This report shows the progress the Bureau has contributed toward that national goal in our first two years. As we move forward, this important work will benefit consumers, strengthen the economy, and foster a brighter future for our country.

Sincerely,

A handwritten signature in blue ink that reads "Richard Cordray". The signature is written in a cursive, flowing style.

Richard Cordray

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# Executive summary

The recent economic downturn raised awareness about the complexity of both our financial marketplace and the decisions consumers must make to manage their finances effectively. Despite the availability of a wide range of information about managing money and about financial products and services, many consumers still struggle to make the financial decisions that serve their life goals. The Bureau hears every day from people experiencing difficulty in their financial lives, who often express regret that they did not know more about the risks involved in particular financial decisions at the time they made those decisions.

The Dodd-Frank Wall Street Reform and Consumer Protection Act mandates that the Bureau work to improve the financial literacy of American consumers.

In its first two years, the Bureau has developed a strategy and a broad range of initiatives to help consumers make informed financial decisions to meet their own life goals. Broadly, this strategy recognizes that financial literacy, or financial capability, requires more than simply providing consumers with more information. Being able to manage one's financial life and make the financial decisions that will serve one's life goals requires a combination of knowledge, skills, and action. For that reason, the Bureau has pursued a strategy that focuses on identifying how, where, when, and through whom we can provide assistance to consumers for maximum benefit, and developing and implementing initiatives to carry out the approaches we identify.

The Bureau hears every day from people experiencing difficulty in their financial lives.

There are three dimensions of the Bureau's strategy to improve financial literacy. First, we are seeking to provide assistance to consumers at specific important points in their financial lives. Second, we are engaged in research to identify effective approaches to financial education and to better define the metrics for success in financial education. Finally, we are engaged in significant ongoing outreach to a broad range of stakeholders who can assist us in reaching the public and fine-tuning our approaches.

The Bureau's financial education strategy focuses on identifying opportune moments to engage consumers about their financial decisions and providing information, tools, or other decision-making supports to help with those decisions. The Bureau is targeting its direct-to-consumer educational tools and resources towards assisting consumers with the financial aspects of large life decisions, such as going to college, retiring, or buying a home; and on smaller decisions that can have large life consequences, such as starting a habit of savings, managing debt, and passing along financial life skills to one's children.

We are aiming to provide consumers with financial decision-making resources and skills that will serve them today and in the future. We place a significant focus on answering the questions that members of the public pose to the Bureau. We are working to engage the public directly, while also collaborating with stakeholders and using existing service delivery channels. We are working to address financial decision-making issues that affect consumers generally, and also issues that affect specific populations – servicemembers, students, older Americans, and traditionally underserved consumers.

As a data-driven agency, the Bureau believes that evidence-based research is a necessary underpinning to improving the effectiveness of financial education initiatives. The Bureau has developed and implemented a financial education research program that focuses on (1) determining how to measure financial well-being and identifying the knowledge, skills, and habits associated with financially capable consumers, (2) evaluating the effectiveness of existing approaches to improving financial capability, and (3) developing and evaluating new approaches. The Bureau will use the results of this research to inform its financial education work. We will also share the results widely with other government agencies, financial education practitioners, and other stakeholders who will be able to look to the Bureau's research findings to develop policies and programs that lead to better financial outcomes for American consumers.

Finally, in order to develop and hone approaches that are effective, the Bureau is engaging in a rich and ongoing dialogue with consumers and other stakeholders to share information and learn about promising practices. Stakeholder organizations include financial education providers; federal, state, and local government agencies; financial institutions; and various other private and non-profit organizations. This outreach work both informs our strategy on an ongoing basis and enables us to forge meaningful and productive relationships with a network of organizations that will be essential conduits to reach and assist the public.

## HIGHLIGHTS OF EDUCATION INITIATIVES

The CFPB, acting primarily through our Division of Consumer Education and Engagement, has undertaken a broad array of education initiatives in the last two years to implement its financial literacy strategy. Here are some highlights of these initiatives.

CFPB tools and information to assist consumers directly in making financial decisions:

- Ask CFPB ([consumerfinance.gov/askcfpb/](http://consumerfinance.gov/askcfpb/)) is an interactive online tool that gives consumers answers to almost 1,000 questions about financial products and services, including credit cards, mortgages, student loans, bank accounts, credit reports, payday loans, and debt collection.
- Paying for College ([consumerfinance.gov/paying-for-college/](http://consumerfinance.gov/paying-for-college/)) is a suite of online tools for students and families evaluating their higher education financing options when comparing college costs, shopping for financial aid, and assessing repayment options.
- CFPB en Español ([consumerfinance.gov/es/](http://consumerfinance.gov/es/)) makes CFPB resources available in Spanish.

Initiatives through community institutions:

- Schools provide the opportunity to transform the financial lives of a generation of Americans by introducing key money and finance-related concepts early, and building on that foundation consistently through the K-12 school years. The Bureau has launched a K-12 initiative to build on existing efforts to integrate financial education into K-12 curricula, and to facilitate appropriate teacher training.
- Workplaces, including the federal government, can play an important role in promoting positive saving and investing habits for their employees. The Bureau is developing an empirically-based workplace financial education program, which we will share with other federal agencies, as well as with state and local governments and private sector employers.
- Faith communities and other neighborhood organizations often serve as first responders in times of financial crisis for American families. The Bureau is working to inform these organizations about CFPB resources and plans to offer financial capability training to them, to enhance their ability to assist their members.

Collaborations with other government agencies and other organizations with existing service delivery programs or consumer relationships:

- Volunteer Income Tax Assistance (VITA) sites provide assistance to millions of low-income consumers each year in preparing their tax filings and applying for their Earned Income Tax Credit (EITC) refund. The Bureau has provided materials to VITA sites to use to encourage consumers to pre-commit to saving a portion of their EITC refund at the time they learn the amount of their refund.
- We are developing a toolkit for front-line staff in social service organizations to help them incorporate money management and financial literacy information and tools into their work with their clients. This toolkit should be useful in job training programs and other types of social services for individuals for whom financial problems may be interwoven with other types of problems for which they are seeking assistance from a social service agency.
- In coordination with the Department of Defense, we developed financial planning materials to be delivered as a component of an existing DoD program for servicemembers leaving the military, and are developing a financial education program for new recruits. These programs are designed to provide servicemembers with targeted assistance at these crucial junctures.
- To enhance protection for older consumers and others who are financially vulnerable, we are developing how-to guides for “lay fiduciaries” – people who handle financial affairs for others. We plan to make the guides available through a multitude of channels that are likely to reach people when they first take on these responsibilities. These channels include banks and credit unions that help people set up fiduciary bank accounts, elder law and trusts and estates attorneys who help people establish trusts or powers of attorney, and state courts that appoint individuals as guardians.
- Together with the Federal Deposit Insurance Corporation, we developed a financial education curriculum, Money Smart for Older Adults (MSOA), as a module in the FDIC’s Money Smart financial education program. MSOA provides information for older adults and their caregivers on preventing and responding to financial exploitation. It includes tips to avoid scams, information about how to guard against identity theft and other forms of financial exploitation, and resources on how to prepare financially for unexpected life events and disasters. MSOA will be offered by community organizations

around the country that interact with older adults, family members, or caregivers. Participant guides are available for download at [files.consumerfinance.gov/f/201306\\_cfpb\\_msoa-participant-guide.pdf](https://files.consumerfinance.gov/f/201306_cfpb_msoa-participant-guide.pdf), and available for order through [promotions.usa.gov/cfbpubs.html](https://promotions.usa.gov/cfbpubs.html). Community organizations that wish to offer the course in their communities can order the instructor materials from the FDIC at [fdic.gov/consumers/consumer/moneysmart/olderadult.html](https://fdic.gov/consumers/consumer/moneysmart/olderadult.html).

# 1. Introduction

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) mandates that the Director of the Consumer Financial Protection Bureau (CFPB or Bureau) submit a report, no later than 24 months after the designated transfer date, and annually thereafter, on the Bureau's activities and strategy to improve the financial literacy of consumers to the Committee on Banking, Housing, and Urban Affairs of the Senate, and the Committee on Financial Services of the House of Representatives.<sup>1</sup> The Bureau is pleased to submit this inaugural report on the Bureau's financial literacy work. The report covers the time period from July 21, 2011, when the Bureau opened its doors, through June 15, 2013.

The economic crisis that led to passage of the Dodd-Frank Act demonstrated that national financial stability can depend on the financial well-being of individuals and families. The Bureau is the nation's first federal agency focused solely on consumer financial protection. Created by the Dodd-Frank Act, the Bureau's mission is to help consumer financial markets work for American consumers, responsible providers, and the economy as a whole,

Enhancing financial literacy is an integral part of the Bureau's consumer financial protection function.

- by making rules more effective;
- by consistently and fairly enforcing those rules; and
- by empowering consumers to take more control over their economic lives.

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<sup>1</sup> Consumer Financial Protection Act of 2010, Pub. L. No. 111-203, § 1013(d)(4), 124 Stat. 1955, 1971 (codified at 12 U.S.C. § 5493(d)(4)).

Enhancing financial literacy is an integral part of the Bureau's consumer financial protection function. This mandate is reflected in numerous provisions of the Dodd-Frank Act that charge the Bureau with researching, developing, promoting, and implementing financial literacy programs and activities. These include provisions directing the establishment of the Office of Financial Education (OFE), which is responsible for developing and implementing a strategy and a broad range of initiatives to provide individuals and families with opportunities to access information, education, tools, and services to make better informed financial decisions. The Dodd-Frank Act also mandated the creation of offices or functions addressing special consumer populations, as described further below.

The Bureau's financial literacy work is performed chiefly through our Division of Consumer Education and Engagement (CEE). This division includes the Office of Financial Education, the Office of Consumer Engagement, which develops the Bureau's online relationship with consumers, and the four offices that address issues and needs, including financial education, of special populations: the Office for Servicemember Affairs, the Office for Students, the Office of Financial Protection for Older Americans, and the Office of Financial Empowerment, serving traditionally underserved consumers.

Each of these six offices plays a role in implementing the Bureau's strategy to provide financial education and enhance financial literacy and capability. Other parts of the Bureau also contribute to our financial education mission. For example, the Bureau's Office of Research is a CEE partner in the research elements of the Bureau's financial education strategy. The Bureau's Office of Fair Lending and Equal Opportunity and Office of Consumer Response also provide education to the public. The Bureau's Know Before You Owe initiatives, as well as many other financial education initiatives, rely on cross-Bureau subject-matter expertise. The Office of Community Affairs from the Division of External Affairs works with CEE offices to engage consumers and organizations through webinars and other public events.

## 1.1 Financial education mandate: educate and empower consumers to make better informed financial decisions

The Bureau's principal financial literacy mandate is set forth in § 1013(d)(1) of the Dodd-Frank Act. Section 1013(d)(1) mandated establishment of an Office of Financial Education to "be

responsible for developing and implementing initiatives intended to educate and empower consumers to make better informed financial decisions.”<sup>2</sup> Further, the statute directs OFE to “develop and implement a strategy to improve the financial literacy of consumers that includes measurable goals and objectives, in consultation with the Financial Literacy and Education Commission, consistent with the National Strategy for Financial Literacy, through activities including providing opportunities for consumers to access” various types of information, education, tools, and services.<sup>3</sup> OFE is also responsible, with the Bureau’s Office of Research, for conducting research related to financial education and counseling.<sup>4</sup>

## 1.2 Special population offices and the Office of Consumer Engagement

The Dodd-Frank Act also mandated creation of offices to develop financial education and policy initiatives to support the financial well-being of particular segments of the consumer population. These offices focus on servicemembers, students, older Americans, and “traditionally underserved” consumers.

### **SERVICEMEMBERS**

The Dodd-Frank Act mandated the establishment of an Office of Servicemember Affairs to “be responsible for developing and implementing initiatives for service members and their families,” including initiatives intended to “educate and empower service members and their families to make better informed decisions regarding consumer financial products and services.”<sup>5</sup> The Office of Servicemember Affairs works to improve consumer financial protection for servicemembers, veterans, and their families in a number of ways. The Office partners with the Department of Defense and the Department of Veterans Affairs to provide opportunities for

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<sup>2</sup> 12 U.S.C. § 5493(d)(1).

<sup>3</sup> 12 U.S.C. § 5493(d)(2).

<sup>4</sup> 12 U.S.C. § 5493(d)(3)(B).

<sup>5</sup> 12 U.S.C. § 5493(e)(1)(A).

servicemembers, veterans, and their families to receive financial education relevant to their needs. The Office monitors complaints submitted by servicemembers, veterans, and their families. The Office coordinates consumer protection efforts among federal and state agencies related to consumer financial products and services offered to, or used by, military families.<sup>6</sup>

## **STUDENTS**

The Dodd-Frank Act directed the Secretary of the Treasury, in consultation with the Bureau's Director, to designate a Private Education Loan Ombudsman within the Bureau "to provide timely assistance to borrowers of private education loans."<sup>7</sup> The Private Education Loan Ombudsman position is held by the Assistant Director of the Office for Students. The Office for Students works to enhance the ability of students and younger consumers to make financial decisions, including monitoring complaints about private student loans, providing information and tools to help students understand the risks from student loans and other financial products, and identifying policy and marketplace issues with special impact on students and younger consumers.<sup>8</sup>

## **OLDER AMERICANS**

The Dodd-Frank Act mandated establishment of an Office of Financial Protection for Older Americans (Office for Older Americans). The functions of the Office for Older Americans include "activities designed to facilitate the financial literacy of individuals who have attained the age of 62 years or more . . . on protection from unfair, deceptive, and abusive practices and on current and future financial choices, including through the dissemination of materials to seniors on such topics."<sup>9</sup> More specifically, the statute directs the Office for Older Americans to, among other things, (1) develop goals for financial literacy and counseling programs for seniors, including programs that "help seniors recognize warning signs of unfair, deceptive, or abusive practices" and "protect themselves from such practices," and programs that "provide one-on-one financial

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<sup>6</sup> 12 U.S.C. § 5493(e)(1).

<sup>7</sup> 12 U.S.C. § 5535(a).

<sup>8</sup> 12 U.S.C. § 5535(c).

<sup>9</sup> 12 U.S.C. § 5493(g)(1).

counseling on issues including long-term savings and later-life economic security”; and (2) “conduct research to identify best practices and effective methods, tools, technology and strategies to educate and counsel seniors about personal finance management . . . .”<sup>10</sup> The statute also directs the Office for Older Americans to work with community organizations and other entities that educate and assist older consumers.

## **TRADITIONALLY UNDERSERVED CONSUMERS**

The Dodd-Frank Act mandated establishment of a unit whose functions are to include providing “information, guidance, and technical assistance regarding the offering and provision of consumer financial products or services to traditionally underserved consumers and communities.”<sup>11</sup> The term “traditionally underserved consumers” includes un-banked and under-banked consumers.<sup>12</sup> The Office of Financial Empowerment (Empowerment) directs its efforts towards strengthening financial consumer protection and enhancing the financial capability of low-income and other economically vulnerable consumers who comprise the traditionally underserved.

## **OFFICE OF CONSUMER ENGAGEMENT**

The Office of Consumer Engagement (Consumer Engagement) develops resources, information, and online tools to help consumers make better-informed financial decisions. Consumer Engagement works to create an interactive, informative relationship between the CFPB and consumers, and collaborates with offices and divisions across the Bureau on ways to effectively engage the public. Consumer Engagement approaches this mission with user-centered and data-driven approaches to public engagement.

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<sup>10</sup> 12 U.S.C. § 5493(g)(3)(A)(i)-(ii); 12 U.S.C. § 5493(g)(3)(D).

<sup>11</sup> 12 U.S.C. § 5493(b)(2).

<sup>12</sup> See 12 U.S.C. § 5493(b)(1)(F).

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