



Financial Literacy

What is Financial Literacy?

Today's complex financial services market offers consumers a vast array of products and providers to meet their financial needs. This degree of choice requires that consumers be equipped with the knowledge and skills to evaluate the options and identify those that best suit their needs and circumstances. This is especially true for populations that have traditionally been underserved by our financial system. Financial education is also essential to help consumers understand how to prevent becoming involved in transactions that are financially destructive.

Several broad categories of financial literacy activities can help potential bank customers participate in the U.S. financial system and help banks strengthen their communities:

- **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.

What are the benefits of financial literacy programs?

- Assists residents of lower-income neighborhoods build wealth and participate in the American financial system.
- Enhances a bank's visibility in the communities it serves and contributes to a larger customer base.
- Increases access to depository institutions by educating consumers about available products and services.
- Enables consumers to make better-informed choices in the financial marketplace.
- Participation in these programs may receive consideration under the Community Reinvestment Act (CRA).

Bank participation in financial literacy programs may receive consideration under the Community Reinvestment Act. Such programs must have a community development purpose, which is defined to include community services targeted to low- and moderate-income individuals.

A large bank's participation in, or support for, such programs may receive consideration under the lending, investment, and service tests of the CRA regulations. Intermediate small banks may receive CRA consideration under lending test and the community development test. 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.

Examples of bank support for financial literacy include:

- Loans to organizations to be used for financial literacy programs targeted to low- and moderate-income individuals.
- Investments in, or contributions to, a program, activity, or organization that provides financial services education programs targeted to low- and moderate-income individuals.
- Providing bank staff to serve as educators in financial literacy programs targeted to low- and moderate-income individuals.

What are some examples of financial literacy activities?

Basic financial services and asset building programs

School Age Programs

- School savings programs and savings clubs in elementary schools.
- Educational programs that progress in complexity as students get older.
- Field trips to banks, guest speakers, investment clubs, stock market simulation games.
- School-based bank branches.

Adult Programs

- Presentations to local community and religious organizations.
- On-the-job financial literacy seminars conducted in conjunction with employers.
- Educational outreach tailored to consumers with limited English proficiency provided in partnership with community based organizations.
- Counseling, training, and offering of Individual Development Accounts (IDA).
- Providing assistance at Volunteer Income Tax Assistance (VITA) sites offered by the Internal Revenue Service (IRS) which can help qualifying low-income individuals apply for the federal Earned Income Tax Credit (EITC).

Credit management and repair programs

- Assistance to organizations that offer consumer credit education programs.
- Providing staff and materials for credit-training classes.

Homeownership counseling

- Providing financial assistance to support programs or providing staff to lead classes.
- Jointly offering targeted counseling classes with realtors, private mortgage insurers, and employers.

Recognizing and Avoiding Abusive Lending Practices

- Supporting educational campaigns aimed at warning borrowers about these practices.
- Providing financial support to organizations that help individuals target and avoid some financial products that might pose threats to them.

Small Business and Microenterprise Technical Assistance

- Providing seminars on topics such as developing a business plan.
- Providing financial and teaching assistance to business development centers and small business incubators.

For more information

In Advisory Letter AL 2001-1, the OCC provides information on the types 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 markets. The advisory also outlines how these activities qualify for consideration under the CRA, and is available on the OCC Website at www.occ.treas.gov/ftp/advisory/2001-1.doc.

To assist banks develop their own programs or participate in existing ones, the OCC maintains an on-line Financial Literacy Resource Directory. The resource directory provides information about existing programs and initiatives, and is available on the OCC Website at www.occ.treas.gov/cdd/finlitresdir.htm

The Financial Literacy and Education Commission, representing 20 federal agencies, published "Taking Ownership of the Future: The National Strategy for Financial Literacy." This national strategy assesses the current state of financial education efforts and outlines a plan to improve financial literacy across the country.

www.mymoney.gov/pdfs/ownership.pdf