

President's Advisory Council on Financial Literacy  
Department of the Treasury  
Office of Financial Education  
Room 1332  
1500 Pennsylvania Avenue, NW  
Washington, DC 20220.

RE: FR Doc. E8-5480  
May 23, 2008

To Whom It May Concern:

Opportunity Finance Network<sup>1</sup> (OFN) appreciates the chance to comment on the President's Council on Financial Literacy's (Council's) efforts to improve financial literacy. OFN applauds the Council for seeking to increase and improve the financial literacy of Americans.

OFN shares with the Council the underlying goal of increased financial literacy: to build wealth and savings, and increase low- and moderate-income Americans' share in the nation's wealth. Financial literacy allows consumers to make more informed decisions in the financial marketplace. In addition, it enables consumers to make their own decisions regarding their economic interests, which makes them less vulnerable to usurious and predatory lenders.

OFN strongly supports the provision of financial education to all Americans, including among young people and in the workplace, as the Council highlights in items 1 and 2 of its request for comments.

It is in topic 3—reaching underserved markets—in which the opportunity finance industry has a sound track record in expanding financial literacy and financial education, and through that work, access to the mainstream financial system and participation in the mainstream economy. We urge the Council to make this audience a primary one in its efforts to expand financial literacy. The current subprime mortgage crisis stems in part from an information imbalance between lenders and borrowers with minimal experience with the financial system.

Though these information imbalances are important and should be rectified, Treasury and the Council must also address the significant systemic inequities that continue to exist in access to capital and to affordable and responsible credit. While expanding financial literacy will provide opportunity to many more Americans, it cannot succeed as a standalone effort. Complementary policies to increase private investment in underserved communities must accompany the financial education efforts for them to be successful. Support for CDFIs must be a component of any strategy to improve the financial literacy of all Americans.

The Council specifically seeks comments on five topics. OFN has particular comment on three of these topics:

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<sup>1</sup> Opportunity Finance Network, the national network of more than 160 financial institutions creates growth that is good for communities, investors, individuals, and the economy. Its members include Community Development Financial Institutions (CDFIs) and other opportunity finance institutions that work just outside the margins of conventional finance to bring those markets into the economic mainstream and to help the economic mainstream flow into those markets. CDFI financing has resulted in significant numbers of new jobs, jobs preserved, quality, affordable housing units, and new commercial and community facility space in all 50 states. Over the past 30 years, the Opportunity Finance industry has provided more than \$23 billion in financing that would not otherwise have happened in markets that conventional finance would not otherwise reach.

### **3) Financial access for underserved markets—How can access to financial services be increased in underserved markets? What markets are underserved for financial services?**

Many markets remain underserved by conventional financial services in urban, rural, and reservation-based markets across the country. The lack of financial institutions in these communities has left residents open to predatory lenders and unable to build and protect assets and wealth in their communities. These markets tend to have high incidences of poverty and higher concentration of nontraditional financial services providers, such as check cashing services and payday lenders. In fact, in some rural and Native communities, those seeking to transact with a financial institution have to drive more than six hours to reach the local bank branch.

Although many mainstream financial services providers are not serving large swaths of the population, community development financial institutions (CDFIs)<sup>2</sup> have stepped in to provide these much needed financial services and provide financial education to the residents of these distressed communities. Because CDFIs work with people with limited access to the mainstream financial system, their customers often need an understanding of basic financial concepts before taking on the responsibility of home or business ownership that the CDFI's financing supports. Technical assistance (TA) to customers and potential customers sets CDFIs apart from traditional financial institutions, and CDFIs provide TA as a routine matter of business. The homeownership counseling and entrepreneurial training that CDFIs provide to their customers often includes tools and strategies to help save for a downpayment or the start-up costs of self-employment. This training often incorporates basic financial education, including budgeting, cash flow, and credit understanding. There are many examples of CDFIs leading the charge to increase financial literacy across the country, including:

- The CORE FOUR Business Planning Course<sup>®</sup> offered by the Northeast Entrepreneur Fund of Virginia, Minnesota, includes financial goal setting, exercises to help clarify personal financial needs from the financial needs of the business, cash flow planning, and a module on "personal financial issues" in the "Success Planning" section of the course.
- The largest individual development account program in the country is co-managed by a CDFI—Opportunities Fund in San Jose, California. As part of this program, LCD offers money management training for low-income families.
- Neighborhood Finance Corporation of Des Moines, Iowa, offers a three-session homeownership preparation course that discusses managing money, understanding credit, shopping for a home, and acquiring a mortgage.
- One of the primary goals of First Nations Oweesta Corporation in Rapid City, South Dakota, is providing training and materials to enhance the capacity of Native American tribes, organizations, and people to manage better their financial assets.

CDFIs serve as effective delivery mechanisms for providing information to consumers, particularly those in low-wealth and low-income communities because they work in tandem to provide sustainable development and introduce asset-building strategies. CDFIs design and implement highly effective financial literacy programs for their constituents. In order for CDFIs to expand

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<sup>2</sup> CDFIs are market-driven, private-sector financial intermediaries with a primary mission of community development. They work just outside the margins of the conventional financial system to provide new services and development to underserved people and communities. CDFIs use capital to leverage social, economic, and political change by giving economically underserved people and communities the opportunity to enter the economic mainstream, and bring the economic mainstream into the lives of these people and communities. Their markets are low-income people and communities outside the economic mainstream—those most in need of better knowledge about the financial system.

these programs, the CDFI Fund must have increased funding levels to support the vast needs of these communities.

**4) Financial literacy research—What questions should be answered to provide a thorough understanding of the current state of financial literacy in the country? What are the gaps in existing research on financial literacy?**

To better understand the reach and impact of financial literacy, additional research on the effectiveness of TA is needed. CDFIs' anecdotal experience and some fledgling research indicate that counseling, training, and education expand borrower capacity and reduce defaults. Additional research in this area would help the government and the financial services industry understand strategies to help consumers best access and use the financial system.

**5) Outreach and awareness—What are the best ways to communicate to those who lack awareness of financial education resources?**

Financial education strategies will have little impact if the messages do not reach the communities that are most in need of assistance. Many financially distressed communities have large populations of minority and immigrant populations who have cultural and historical concerns with financial institutions. These issues range from language barriers prohibiting transactions, to a history of redlining and discrimination, to negative interactions with predatory lenders that have led to distrust of mainstream financial institutions.

CDFIs are in a unique position to supercede the negative stigma associated with traditional financial services providers due to their close connections and interactions with the communities they serve. CDFIs understand the unique needs of their communities better than anyone else, and financial literacy program may have to be tailored to fit cultural and regional differences, and therefore are important partners in any financial literacy strategy.

Local community and religious organizations are also important partners in reaching residents with specific language or cultural needs because these groups are trusted as reliable, safe sources of information in their communities.

In addition, providing financial literacy resources via a myriad of media outlets can provide broader dissemination of important ideas. Information should be pushed through multiple distribution channels to reach the largest audience, including direct mailing of pamphlets and brochures, web-based materials available for download in multiple languages, educational materials provided to schools and community groups.

**Financial Education Alone is Insufficient**

In developing a financial literacy strategy, the Council must recognize the underlying inequities in access to fair and affordable credit. Financial literacy is a necessary but insufficient step to ensure that all Americans have the opportunity to participate in the economic mainstream. Even if all Americans were fully educated on the financial system, many would still experience inequities. For its financial literacy initiative to be fully successful, the government must take additional steps to ensure all Americans have a place in the financial mainstream.

To reach fully the goals of the President's Council on Financial Literacy, the federal government should:

- Recognize the efforts of CDFIs in providing financial education even when not explicitly labeled as such.

- Support the work of CDFIs and increase funding for the CDFI Fund.
- Strengthen, expand, and modernize the Community Reinvestment Act (CRA). A strong CRA, including a well-enforced service test, will help ensure that resources are available to those benefiting from financial literacy initiatives, to help them own homes, build businesses, and open checking and savings accounts. Many banks consider their engagement in this area a way to expand their customer base and promote goodwill, and such activities are often given favorable consideration in examinations for compliance with the CRA.
- Provide expanded, adequate funding through the U.S. Department of Education and the U.S. Department of the Treasury for schools and other programs to develop and implement youth financial education that is culturally appropriate and effective in imparting pertinent financial management lessons.
- Enact meaningful protection against predatory and abusive lending. According to the Center for Responsible Lending, American consumers lose \$9.1 billion annually due to predatory mortgages; \$3.4 billion from payday loans; and \$3.5 billion in other lending abuses, such as overdraft loans, excessive credit card debt, and tax refund loans. Stringent, uniform laws and regulations will better protect financially unsophisticated consumers and preserve the assets they might gain through increased financial literacy.

Thank you for the opportunity to comment. If you have questions or would like additional information, please do not hesitate to contact me at 215.320.4304 or [mpinsky@opportunityfinance.net](mailto:mpinsky@opportunityfinance.net). OFN, and the opportunity finance institutions that are part of our network, look forward to working with Treasury to advance financial literacy and education.

Sincerely,



Mark Pinsky  
President and CEO