

FINANCIAL LITERACY:
Components of an Effective Fundamental Financial Education Program
Targeting Low-Income and Minority Populations
of the
Eugene/Springfield Metropolitan Area of Oregon

by

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The financial decisions of individual citizens impact our nation's economic health. Therefore, the knowledge and competence of individuals as it relates to personal financial decisions is important. The rate of personal saving in the United States has steadily declined since 1982 and at times been negative. Simultaneously, consumer credit has been continuously increasing, on average 5% per year over the last five years. In December 2003, Congress enacted The Fair and Accurate Credit Transactions Act of 2003 to promote financial literacy and education of persons in the United States. Financial literacy is receiving more political attention following the sub-prime housing crisis of 2007. With increasingly complex financial products available today it is crucial that individuals possess basic financial knowledge of banking and finance to reduce their vulnerability and susceptibility to predatory practices.

This project seeks to identify framework components of an effective fundamental financial education program to meet the needs of low-income and minority populations living in the Eugene/Springfield Metropolitan area of Oregon. Additionally, this paper explores governmental policy in the area of financial literacy, local public high school course offerings in personal finance, and the availability and accessibility of financial education programs to the target population.

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CHAPTER I

INTRODUCTION

“There will always be a variety of products that are not wise decisions for consumers, the key is to arm individuals with knowledge and skills they can apply, so troubling situations are not perpetuated.”

--Author

The financial decisions of individual citizens impact our nation’s economic health in many ways. This has been reflected in the decline of the national savings rate, the increase in consumer credit, the recent sub-prime lending practices, increased mortgage default rates, and the increased use seen in the payday lending industry. Even though the reasons leading consumers to products and services such as these are as diverse as the individuals themselves, a negative economic trend is occurring which deserves attention and assistance requiring government intervention of some degree.

The purpose of this study is to identify components of an effective fundamental financial education program that focuses on the needs of low-income and minority populations. The Eugene/Springfield Metropolitan area of Oregon has been chosen as the Study Area.

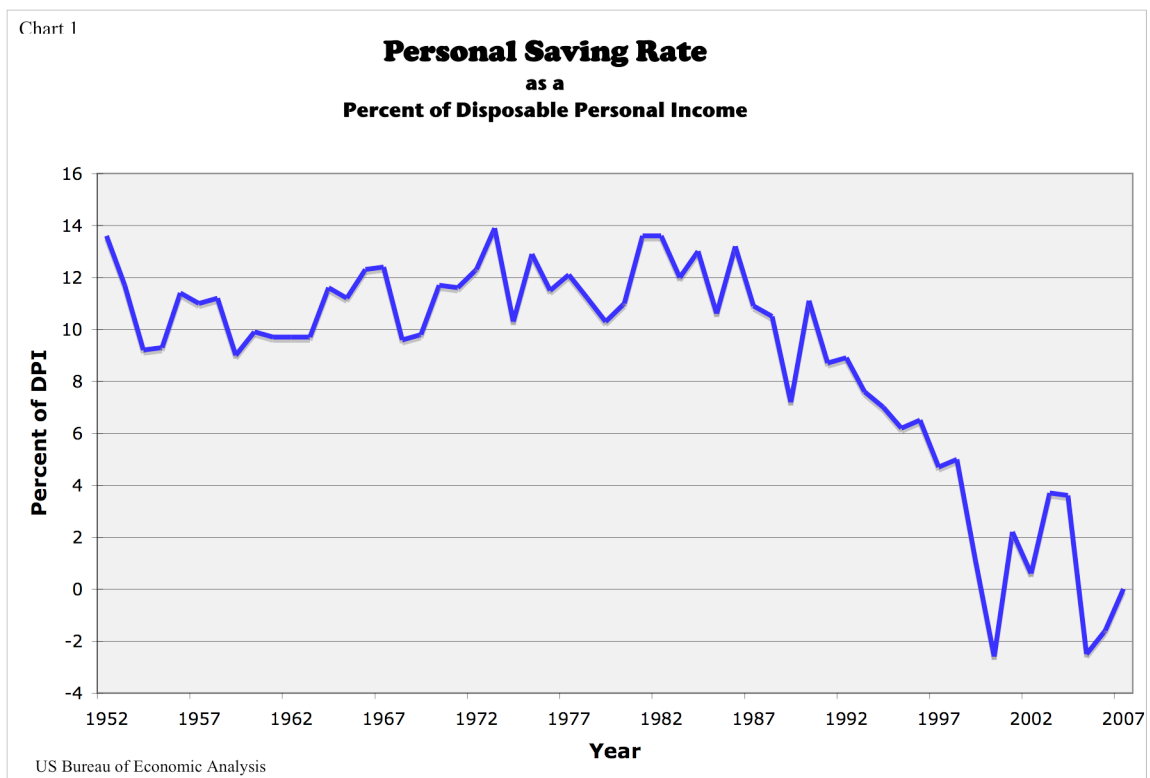
This paper explores the history behind financial literacy policy at the Federal level, actions taken at the State level, programs available to low-income and minority populations within the Study Area, and finally what practitioners

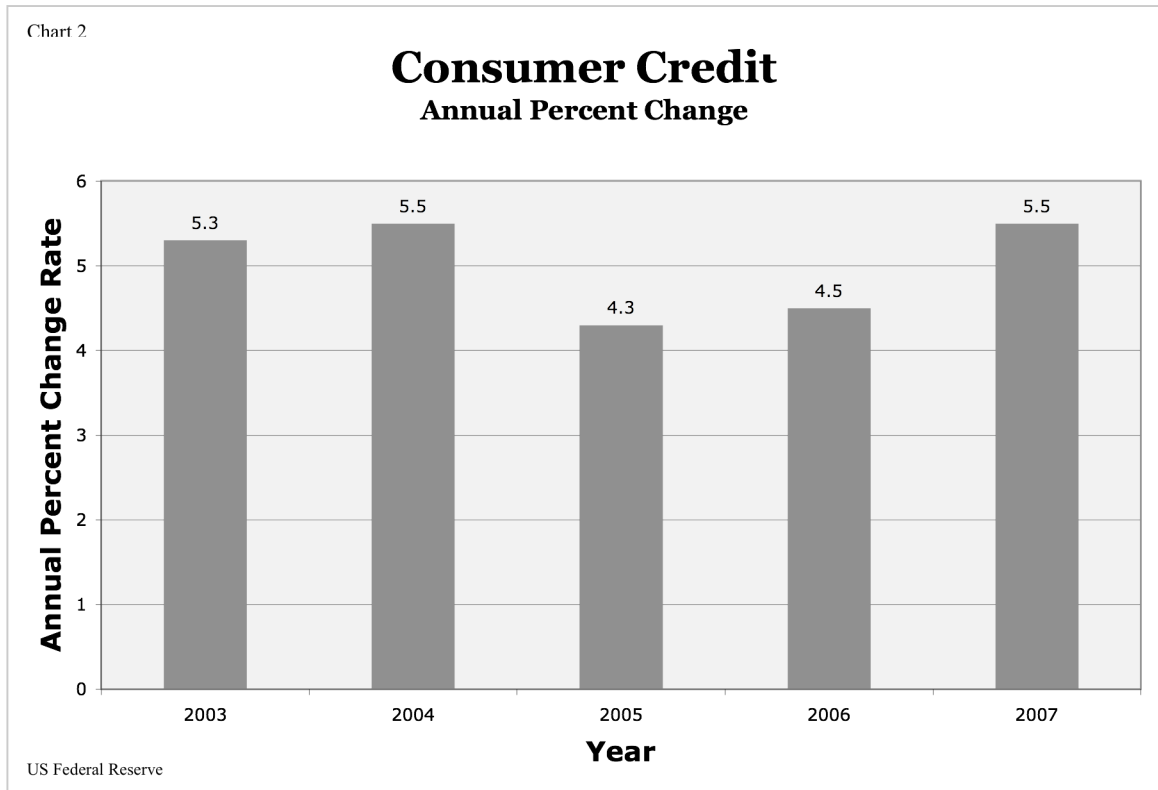
serving the community identify as important elements of a financial education program to better serve their clients. Chapter 2 presents a review of the literature regarding effective elements of financial literacy, Chapter 3 discusses the methodology utilized for this study, Chapter 4 will present the findings of the study, and Chapter 5 will provide recommendations.

Throughout my professional career working with small start-up business owners I have recognized a need for financial understanding and knowledge as it relates to business, but more importantly as it relates to personal finances. In providing technical assistance to a new business owner it is important for them to have a basic understanding of finances relative to themselves in order to apply those concepts to a business. In other words, if people are unable to manage finances on a personal level how will they be able to manage finances on a business level, which are more complex and dynamic in nature? It is through my observations and interactions over time that I realized the potential need for financial training at a very basic level. To illustrate, take the case of a small business owner opening his dream business. In order to save money he decided to remodel the leased space himself. However, before renovations were complete and revenue-generating operations could begin the money had been depleted. A review of his project revealed that tracking of the project costs and transactions relative to the business account did not occur. Unfortunately, the project ended with a loss to the business owner, because he lacked the knowledge and understanding of the importance of tracking expenses and how

this relates to finances. As with any large-scale issue there are many interrelated factors that have contributed to it and therefore play a part in repairing it.

The national savings rate, calculated as a percent of disposable income, has sharply declined since the late 1980's. In recent years, the savings rate has dropped below zero creating a negative personal savings rate for the nation; see Chart 1 (US Bureau of Economic Analysis). The negative savings rate reflects an overspending of disposable income, resulting in a rise in consumer credit or increased borrowing. Beginning in 2003, consumer credit increased, on average 5% each year over the last five years. The annual change rate is shown below in Chart 2, these figures are exclusive of real estate, containing revolving and non-revolving loans only (US Federal Reserve).





Over a 5-year period beginning in 1999, the state of Oregon experienced a 196% increase in payday loan locations, a dollar volume increase of 392%, and an increase in number of loan transactions of 263%. These loans target individuals, typically low-income, who have few alternatives available to access the cash they need in order to meet basic needs. These individuals may also lack the financial information and awareness to understand the overall cost of borrowing funds in this manner, which can lead to personal financial crisis. The Annual Percentage Rate charged on these loan funds often exceeds 500% (NeighborWorks; Oregon Department of Consumer & Business Services [DCBS]; Schreiner, Clancy, and Sherraden 2002; Social and Enterprise Development Innovations [SEDI] 2004; Zhan, Anderson, and Scott 2006; Moore 2003).

In the midst of the recent housing crisis, predatory lending practices, the national decline in the personal savings rate and increasing consumer debt, the subject of financial literacy is receiving much needed and overdue attention. Although concern about financial literacy has had a presence at the federal, state, and local levels of government, it is within the last decade that the Federal government has begun to take earnest actions toward increasing financial literacy. Robert K. Steel, Under Secretary for Domestic Finance of the US Department of Treasury, stated in a 2008 testimony regarding the housing crisis, “Foreclosures also pose negative externalities, placing hardships on neighboring homes and undermining the financial stability of broader communities and the families who live there.” The realization of the impact financially illiterate citizens can have on the nation’s economy is reflected in a statement made by Representative Judy Biggert,

“One of the first things that I did when I was elected to Congress back in 1998 was to go down to the Federal building in Chicago to observe the proceedings of the bankruptcy court. And I was struck by how many people who had gotten themselves into trouble, and they might never have, had they had had just one parent, a counselor, a teacher, or a friend, who taught them the basics of money and credit.” (US House of Representatives 2006).

Because of these issues and the recognition of their correlation with financial literacy, policymakers at both the federal and state level have taken action, outlined below.

Federal Policy

On December 4, 2003 Congress enacted The Fair and Accurate Credit Transactions Act of 2003, also known as the FACT Act 2003. Title V of the FACT Act 2003, also cited as the Financial Literacy and Education Improvement Act (FLEIA), addresses the topic of financial literacy and education. The FLEIA established the Financial Literacy and Education Commission (FLEC), charging them to "...improve the financial literacy and education of persons in the United States through development of a national strategy to promote financial literacy and education" (The Fair and Accurate Credit Transactions Act of 2003). According to the FLEIA, membership of the FLEC is to be composed of the Secretary of the Treasury, the head of each of 15 Federal agencies, including, but not limited to the, National Credit Union Administration, Securities and Exchange Commission, Department of Education, Department of Health and Human Services, Housing and Urban Development, and Small Business Administration. Additionally, up to five additional representatives can be appointed at the discretion of the President. Meetings of the FLEC are to occur no less than once every four months.

In order to accomplish their charge the FLEC is guided by policy to streamline, improve, or augment programs, grants, and materials of the Federal Government as it relates to financial literacy and education with an emphasis on basic personal income and household money management and planning skills (The Fair and Accurate Credit Transactions Act of 2003). The primary goal of the program is to improve consumers' financial choices and outcomes. Section 514(a)(2)(H) recognizes the needs of multilingual consumers as it reads "increase awareness of the particular financial needs and financial transactions (such as the sending of remittances) of consumers who are targeted in multilingual financial literacy and education programs and improve the development and distribution of multilingual financial literacy and education materials;" The FLEIA highlights the following elements to be included within an educational program: budgeting, saving, strategic investing, managed spending, credit, debt, credit reporting/scoring and its effect on accuracy and credit terms, fair/favorable credit terms, abusive/predatory products, financial product evaluation and comparison, and investor/consumer rights and avenues of recourse.

To better address the issue of financial literacy, Congress created the Subcommittee on Financial Institutions and Consumer Credit under the Committee on Financial Services. Many organizations have been enlisted to participate, such as the American Institute of CPAs, AARP, National Association of Federal Credit Unions, Credit Union National Association, American Bankers

Association, and the National Endowment for Financial Education (US House of Representatives 2006; Jump\$start Coalition for Personal Financial Literacy [Jump\$start] 2006).

In response to the Public Laws enacted by Congress and the participation of various agencies and associations in the Subcommittee, many financial literacy programs have become widespread to improve the Nation's financial education and literacy. Federal programs ranging in depth, complexity, and presentation style (i.e. Internet based, pamphlet style, classroom modules, etc), such as, MyMoney.gov through the US Department of Treasury, the online educational resources and interactive educational tools offered by the Federal Reserve Bank at www.federalreserveeducation.org, and Money Smart-An Adult Education Program sponsored through the Federal Deposit Insurance Corporation, have been designed and are available to practitioners and citizens, free of charge. Additionally, many community organizations, non-profit organizations, and associations have appeared which offer a variety of financial educational tools, programs, and curricula, which are generally fee based or are available for purchase. Two prominent organizations are NeighborWorks America, created by Congress to provide financial support, technical assistance, and training for community-based revitalization efforts (NeighborWorks America) and Jump\$start Coalition for Personal Financial Literacy, a national coalition of organizations dedicated to improving financial literacy through advocacy, research, standards, and resources (Jump\$start). In addition, the American

Institute of CPAs (AICPA) offers a variety of creative tools related to financial literacy, such as their national public service campaign 'Feed the Pig' (American Institute of CPA).

State Actions

In 2001, House Bill 2545 relating to savings education was recommended and referred to the Oregon Legislative Ways and Means Committee. The Bill identified the importance of an educational plan for personal savings due to the composition of Oregon's population as it relates to age, income, debt, and savings rate. The Bill outlined the following areas an educational plan should include: pension plan options, savings principles, the concept of compound interest, debt management, investing, and retirement planning. Unfortunately, the Bill was not enrolled into law and expired (Oregon State Legislature 2001).

In October 2006, the Office of the State Treasurer for Oregon introduced 'Reading is an Investment', a financial education program designed to teach basic financial concepts to elementary aged children while emphasizing the importance of reading. The participants spend a certain number of hours reading from books that have been donated to their schools' library focused on basic financial concepts. They receive prizes as they progress through the program, and a certificate of completion at the end along with a chance to win one of 50 college savings plan scholarships worth \$500 each (Office of the Treasurer). In addition to the reading program, the Office of the Treasurer provides a web-

based link to Tomorrows Money, an interactive tool for personal financial planning and education offered through The Bond Market Foundation.

On March 19, 2007 Governor Theodore R. Kulongoski signed a Proclamation, proclaiming the month of April 2007 as Financial Literacy Month for the State of Oregon, in support of the Oregon Society of CPAs (OSCPA) 360 Degrees of Financial Literacy program. A web based news release on the OSCPA's website shows the Governor's support of financial literacy reflected in the following quote: "The Governor's proclamation sums up the importance of promoting financial literacy: 'Changing negative financial behaviors will result in Oregonians making wise financial decisions and becoming responsible workers, heads of household, investors, entrepreneurs and business leaders'" (Oregon Society of CPAs).

Lastly, during the 2007 Legislative session House Bill 2584, "relating to education and declaring an emergency" was enrolled. House Bill 2584 creates a task force to study and recommend improvements and increases to civics & financial education in Oregon's K-12 public schools. A report, including recommendations for action, is due to the Legislature before October 1, 2008 (Oregon House Bill 2584).

Financial products and services are becoming more complex and confusing. Therefore, it is crucial that individuals possess basic financial knowledge of banking and finance to reduce their vulnerability and susceptibility to predatory practices. Within the last several years mortgage lenders have been

offering negative point mortgages. Initially, it appears to be a good option for the homebuyer that is short on cash; they receive credit toward closing costs and fees with a slight increase in the interest rate. However, they are often not informed, or are misinformed that a portion of the proceeds are used to increase the lenders commission and the additional cost of financing over time far exceeds the upfront benefit they received. This is just one example of why increased availability and accessibility of financial education programs is important.

CHAPTER II

LITERATURE REVIEW

Much of the literature surrounding financial literacy is associated with Individual Development Accounts, better known as IDAs. Most IDA programs provide matching funds to funds saved by the participant, up to a predetermined maximum, for a specific goal. These goals include home buying, higher education, and business start-up. These asset/wealth-building programs that offer an incentive for participation tend to outlast other program models based on the idea that human beings seek out information when they have a need or a purpose (Fox, Bartholomae, and Lee 2005; Hawkins 2005; SEDI 2004). The need or purpose could be as large as wanting to purchase their first home or start a small business, or it can be smaller, such as paying a utility bill or reducing debt. The latter can be just as overwhelming because assistance is sought during a time of crisis, as the individual perceives very few options available to them, other than bankruptcy. In addition to IDAs, the workplace is also used as an avenue for delivering financial literacy education as has been discussed in relevant literature (Fox et al 2005; Hawkins 2005; SEDI 2004).

In a discussion paper prepared by the Social and Enterprise Development Innovations (SEDI) of Canada (2004) three interrelated components were identified on which to model an effective financial education program (a three-legged stool if you will). These include:

Financial knowledge and understanding--The ability to make sense of and manipulate money in its different forms, uses, and functions, including the ability to deal with everyday financial matters and make the right choices for one's own needs.

Financial skills and competence--The ability to apply knowledge and understanding across a range of contexts including both predictable and unexpected situations and also including the ability to manage and resolve any financial problems or opportunities.

Financial responsibility--The ability to appreciate the wider impact of financial decisions on personal circumstances, the family, and the broader community and to understand rights, responsibilities, and sources of advice or guidance (p. 6).

Fox et al (2005) summed up the components as knowledge, attitude, and behavior. This supports a concept that moves beyond literacy as it stands alone to a more applied form, which leads to the more common term used in Canada, Financial Capability (SEDI 2004). Financial Capability as discussed by SEDI (2004) is not just about the technical information associated with finances, it includes personal behaviors and is concerned more about financial learning over an individual's lifetime and increasing the confidence of individuals more than the wrote technical skills which are often the focus of training and education programs.

In order to deliver successful programs to target populations, organizations must have a strong presence in the community, tailor delivery to the population served, build trust regarding the confidentiality of participant financial information, match educational topics to the appropriate learning level, and find ways to engage target populations outside of financial crisis situations (SEDI 2004). This begins with understanding the needs of the group targeted for financial education. An ideal approach according to Fox et al (2005) is to test financial literacy levels, identify any deficiencies, and then proceed with a curriculum that best matches a particular group. Some challenges organizations face in the delivery of educational programs, such as an IDA, include practical and attitudinal barriers, satisfying the range of need existing within a group setting, and explaining complex and abstract concepts in simple form.

Current literature as it relates to the effectiveness of programs, containing various elements and levels of financial literacy, are at this time limited as has been found by Caskey (2001), Fox et al (2005), and Zhan et al (2006), among others. The need exists for studies to be administered on current programs for the development of best practices in order to build models for effective financial education programs (Fox et al 2005; Jones 2007). In a 2006 study of the effects of a financial education program administered to low-income participants at the University of Illinois, Zhan et al (2006) showed participants' knowledge levels increased 20% from pre- to post-training. This study was not associated with an incentive based program. In a study referenced by Fox et al (2005) an employer

based program noticed a 22% increase in savings for those individuals offered a financial education program through their employer. However, Fox et al (2005) cautions that other factors, such as incentives, improve the rate of participation and completion in a program and therefore success cannot be attributed to, or measured upon, program completion alone; but rather based on their knowledge upon entering the program, leaving the program, and retention and application of materials over a period of time. The most desirable method of evaluation would be a longitudinal impact study to show the benefits of a program over time. However, a longitudinal study presents some difficulties in isolating the effect of a particular training program or element from other external information or behavioral changes the participant may have encountered during the same timeframe. Additionally, for programs that may have various components, such as classroom sessions and one-on-one counseling, it is difficult to differentiate between the cause and effect as mentioned by Fox et al (2005), "This combined approach [seminars, consultations with a financial professional, and educational materials] limits our ability to determine what method produced what outcome (p. 202)."

In his article Fox et al (2005) discusses the importance of program evaluation stating, "Efforts in designing and delivering financial education programs often take place without considering whether such efforts are effective, and without integrating the evaluation component as part of design and delivery" (p. 202-203).

In summary, three key interrelated components exist in the framework of an effective financial education program. Organizations can experience challenges delivering curricula due to various barriers, range of group needs, and explaining complex concepts. Six key points addressed in the literature can mitigate these challenges and lead to successful programs:

1. Having a strong community presence,
2. Tailoring delivery to the needs of the participants,
3. Administering placement tests for better grouping of participants,
4. Promote financial education outside situations of crisis,
5. Include the following elements: skills & competency, knowledge & understanding, and the broader context of personal decisions; and
6. Evaluating program performance.

CHAPTER III

METHODOLOGY

For the purpose of this study data on the availability and accessibility of financial education programs was collected in two phases. The first phase consisted of an environmental scan of the Study Area, to determine the availability of financial education assistance to low-income and minority populations and a telephone poll of the seven area high schools, to determine the inclusion of personal finance in their curricula. Utilizing the local phone directory and the Internet, over 200 community agencies were identified that provide social services to public citizens. These were then narrowed down, through a purposive sampling method, to 12 agencies most likely to provide financial service assistance to low-income and minority populations. Those 12 agencies were contacted via telephone and asked if they provide financial education programs to their low-income and minority clientele. Five agencies identified themselves as providing financial education. Information about each of the five agencies was collected from public sources.

The second phase of data collection consisted of interviews with three of the five agencies identified in phase one. Participants of this group participated in face-to-face interviews using exploratory open-ended questions, see Appendix A; each interview was recorded with a digital voice recorder, transcribed, and analyzed using a nominal level of measurement, see Appendix B.

CHAPTER IV

RESULTS

This chapter begins with a presentation of demographic information for the Study Area, to highlight the composition of diversity and percentage of the population considered low-income. Next, the chapter presents information about each of the five agencies in the Study Area that offer financial education programs to the target population. Then, the chapter highlights personal finance courses offered in the public high schools. Finally, the chapter outlines what the practitioners shared as key components to be included in a local financial education program.

Demographics

According to the 2005 US Census Bureau estimates, the percentage of the population of the State of Oregon and Lane County residents living in poverty is 14.1% and 16.2%, respectively. The 2000 US Census for the Eugene-Springfield Metropolitan Statistical Area considers 12.8% of the White non-Hispanic and 27.2% of the Hispanic population to be living in poverty (US Census Bureau).

The United States Department of Housing and Urban Development (HUD) considers an annual income of \$55,500 to be the 2008 Median Family Income (MFI) for a family of four, for the Eugene-Springfield Metropolitan Statistical Area. Participation in housing and other government-assisted programs, for low-income

persons, is commonly determined using the HUD income limits. The income limits are calculated each year using a formula, which includes the MFI. The 2008 income limits for a family of four in the Study Area is as follows (US Department of Housing and Urban Development):

- Low-income (80% of MFI) = \$44,400
- Very Low-income (50% of MFI) = \$27,750
- Extremely Low-income (30% of MFI)= \$16,650

Agencies

The environmental scan of the Eugene/Springfield Metropolitan area produced a list of over 200 community agencies and institutions (government, non-profit, and private entities), that potentially provide service of some type to low-income and minority populations living in the Study Area. Of those, 12 were identified as more likely to provide financially related services to the target group and were contacted via telephone and asked if they provide services to low-income and minority persons in the area of financial literacy education. Five agencies stated they do not provide financial education services; one agency which provides quality affordable housing to low-income persons stated they provide financial education on a quarterly basis, once per year at each of their four housing communities, through partner agencies; another agency offers a program to persons that have lost their ability to qualify as a renter and refer other services of a financial nature to another local agency known to assist low-

income and minority persons; and five identified themselves as offering financial education services, relative to specific purposes, to the target population. These agencies are:

∞ **Neighborhood Economic Development Corporation (NEDCO)--**

NEDCO is a private, non-profit Community Development Corporation located in Eugene that has a history of helping neighborhoods and families build assets through home ownership, neighborhood revitalization, and business development. NEDCO offers IDAs for homeownership and post secondary education or job training, as well as commercial and housing developments. NEDCO offers four programs which include elements of financial literacy:

1. ABC's of Homebuying: helps participants better understand the home buying process;
2. Threshold Homeownership Education & Counseling Program: takes a participant through the home buying process from beginning to end;
3. Individual Consultations: for the final steps in home purchasing; and
4. Post-Secondary Education: highlights important information regarding financing higher education.

Each program has a minimal fee ranging from \$35 to \$65 and provides some kind of incentive i.e. matching funds, etc. (Neighborhood Economic Development Corporation [NEDCO]).

- ∞ **O.U.R. Federal Credit Union (OUR)**--OUR is a Community Development Credit Union (CDCU) dedicated to providing and supporting financial services to low-income community members of Lane County. OUR offers services that will help build and strengthen the community, such as providing personal financial management services through their Lifeline program. The program covers topics such as: personal financial management, budgeting and savings, credit management, smart shopping, predatory lending practices, and creating personal spending plans in 4 class sessions of 2 hours each. Upon completion of the Lifeline program individualized financial management counseling is available to those individuals who would like information and instruction more suited for their personal circumstances. Although not required, membership in the Credit Union is encouraged (O.U.R. Federal Credit Union [OUR]).
- ∞ **Centro Latino Americano (Centro)**--Centro is a bilingual multicultural private non-profit organization serving the needs of Latino families primarily in Lane County. Centro is dedicated to the empowerment of the Latino Community by providing assistance to help families meet basic needs and achieve self-sufficiency, locate and secure affordable housing, live healthier lives and access basic health care, lower child abuse creating stable violence free home environments, promote respect and understanding of diversity, and encourage economic development for

those with lower socio-economic status through a variety of programs (Centro Latino Americano [Centro]).

- ∞ **Lane MicroBusiness (LMB)**--LMB is a non-profit micro-enterprise development organization located in Eugene. Their mission is to provide high-quality services to low-income individuals who are wanting to either start a small business or to build an existing business. LMB provides one-on-one technical assistance, classes, workshops, peer groups, business planning assistance, marketing assistance, management assistance, and access to capital through micro-loans or IDAs (Lane MicroBusiness [LMB]).
- ∞ **Lane Community College (LCC)**--LCC is a learning-centered community college offering a variety of educational opportunities. For a low fee, individuals can enroll in a finance course entitled Financial Smarts, offered through the Department of Continuing Education (Lane Community College).

Public High Schools

The Study Area has seven high schools, 4 are located in Eugene School District 4J, two are located in Springfield School District 19, and one is located in Bethel School District 52. A web-based search of each school site was performed to locate curriculum focusing on personal finance. Then, each school was contacted via telephone and asked if the schools curriculum contained a

course in personal finance. Of the seven high schools only two, Thurston High School in Springfield and Willamette High School in Bethel, offer a personal finance course. Historically, the Thurston course had been required, however, as of the 2007-2008 school year is now offered as an elective course once per year to sophomores, juniors, and seniors. The Willamette High School personal finance course is required at the senior level for graduation. The remaining schools have offered separate finance courses in the past, but have embedded a smaller component into their economics curriculum within the past 5 to 7 years.

Key Components

During the second phase of data collection, practitioners from three of the five agencies identified to provide some level of financial education to low-income and minority populations in the Study Area were interviewed. These were Centro Latino Americano, Lane MicroBusiness, and Neighborhood Economic Development Corporation. The focus of the interviews was to obtain their opinions, as practitioners in the field, of the components they believe should be included in a financial educational program to better meet the needs of their clients.

Six components were identified for inclusion in a financial education program. Three components are personal elements and three are technical.

The first component identified received overwhelming consensus as the most important. A tool, such as a needs assessment to better align the training

content to the current understanding and knowledge level of the individual.

Shawn Winkler-Rios, Executive Director of Lane MicroBusiness, reiterates this point, stating, “You’ve got to look at the issues that are being addressed in the curriculum and does it apply to the people that are going through it.” Using such a tool could increase both program retention and student retention of content, due to more appropriate curriculum matching.

The second component identified was to relay the information in a positive and encouraging manner, which can be easily understood and applied without individuals feeling defeated before they begin. As Jorge Navarro, Executive Director of Centro, mentioned, “The method of teaching needs to connect to the student’s everyday life and provide a positive message that empowers and doesn’t carry a tone of inadequacy.” This mirrors the alternate phrase, financial capability, used by SEDI.

The third component identified was one-on-one interaction. This does not suggest that financial education needs only to occur in a one-on-one format in order to be effective. Each of the practitioners interviewed expressed the need for a one-on-one component, in addition to classroom style teaching, for overall program success. The opportunity for individuals to work one-on-one and relate their personal situation to classroom training may increase participant success and retention over time.

The fourth component identified was tracking expenses. Most people do not track expenses because it is tedious and time consuming. However, this is

viewed as an important jumping off point in assisting individuals in gaining control of their finances. It helps individuals begin to understand their connection with money, see the choices they make, and determine if those choices are supportive of their future goals. This aids in relating other skills, such as cash management and budgeting, to the importance of their overall financial health.

The fifth skill agencies identified was the need for basic math skills and how they apply to finances. For example, the inflows and outflows of a budget, calculating the time value of money, and perhaps the most critical as it relates to personal finances is the cost of borrowing. Expressed in a statement by Stacey Howard, Homeownership Counselor at NEDCO, "Many people come in and do not know what the interest rate is on their loans. Some do not realize it costs more to purchase furniture from a Rent-to-Own business than other ways of financing."

The final skill identified was understanding of the United States banking system and the intricacies of the products and services offered through financial institutions. During an interview with Mr. Navarro, he expressed that the Latino community his agency serves is familiar with the financial service concept of credit unions, however there is not a broad based understanding of the banking and economic systems here in the United States in order for his clients to make personally beneficial financial choices. Additionally, I have worked with many individuals whom do not understand the process of transactions clearing checking accounts, also known as demand deposit accounts. They often

overdraw their account, incurring overdraft fees, simply because they used the stated balance obtained from an Automatic Teller Machine; not realizing items may be outstanding that have not yet cleared their account.

During the research for this paper I noticed each of the agencies were in different stages of refining their financial education tools and delivery methods. Centro, for example, had used external resources in a variety of ways in the past and has been exploring options available to meet the needs of the community it serves now and in the future. When asked to expand further on his experiences Mr. Navarro said, "What we have done in the past has not really addressed the needs of this community and that is to get basic education about the economic system here." NEDCO has over the past twenty years cycled through various financial education programs for the homeownership area of their agency, ultimately creating their own model. Currently, NEDCO is developing a curriculum for use in their new educational IDA program to incorporate skills and knowledge applicable to student loans and post-secondary education, in order for individuals to better understand how choices regarding educational funding can impact them over time. Mr. Winkler-Rios is continually looking at how to better serve the financial literacy needs of the clients of Lane MicroBusiness. He has expressed a need for a flexible training model that can grow with an individual and their changing needs over time, something he says current models do not provide, "Financial literacy can't be transactional. It is not about a one time intervention where the problem is taken care of...it can't be what we think they

need. It is about what they need at that moment in time and financial literacy needs to adapt to that.”

CHAPTER V

SUMMARY & RECOMMENDATIONS

With complex financial services available today, such as those found in the mortgage industry (i.e. adjustable interest only and partial interest mortgages, reverse mortgages, and negative point mortgages), and the shift to paperless processing of governmental financial transactions to recipients (i.e. cash and food assistance, child support, etc.) it is imperative that individuals possess basic financial knowledge of banking and finance in order to navigate the financial system and improve their financial future.

Action at the State level should be taken to ensure financial knowledge and capabilities of our youth. Currently, the State does not require personal finance as part of the public school system curriculum. Only two of the seven high schools in the Study Area offer a personal finance course, one as an elective credit to sophomore through senior level students and one as a requirement for seniors. Legislative action should mandate public schools to include personal finance within the required curriculum of high schools statewide. The course description for Personal Finance at Thurston High School states it best “You’ll be on your own sooner than you think and Personal Finance will help you get through the day-to-day, real-life, decisions...” (p. 16).

Many financial education programs assume more than a basic level of understanding and are not easily accessible to the low-income and minority populations from sources that are objective and free from self-interest. Most

programs offered through impartial sources are available only through the Internet, thus requiring access to a computer. Additionally, the Internet based programs are often difficult to discover, hard to navigate, confusing, and assume a higher than basic level of understanding. Furthermore, individuals at the rudimentary level of knowledge and understanding benefit from the support and immediate feedback found in traditional teaching methods.

Financial literacy programs available to low-income and minority members of the Eugene/Springfield Metropolitan area are limited. Practitioners providing financial education programs to low-income and minority populations within the Study Area identified the most critical components of an effective program is matching the curriculum and support to the ability, knowledge level, and need of their client at that specific time and continuing support over an extended period of time. Additionally, technical skills including tracking expenses, basic math, and the United States banking system were identified as key components.

Therefore, the basic framework for a financial education program should begin with administering a placement test, which includes elements of basic math skills, aspects of the banking system, use of budgeting tools, and a self-assessment of strengths and weaknesses. Existing placement tests are written specifically for accompanying programs and do not encompass an ample range of elements. Consequently, an assessment tool would need to be developed that includes all relevant elements. An individual meeting to assess proper group placement and to determine comprehension of financial terms in the English

language, especially for those where English is a secondary language, should follow the placement test. Once proper group placement is determined, classroom instructed curriculum begins, including assigned homework applicable to the life of each student. Individual meetings should be available for each student during each component.

The curriculum of a fundamental financial education program serves two objectives; the immediate need for the participant to solve a current situation or reach an intended goal and the long-term benefit of improved financial decisions through increased knowledge. Components of a financial education program should include:

- ∞ **Banking System**--Types of financial institutions, business operation concept, services, processing, depository insurance, governing bodies, institutions responsibilities, depositor responsibilities, and consumer rights.
- ∞ **Money**--Basics of the economy, interest rates (fixed, variable, and compounding), Annual Percentage Rate, Annual Percentage Yield, time value of money, and inflation.
- ∞ **Budgeting**--Purpose and role, sources of income, expense categories (fixed, non-fixed, and discretionary), tracking expenses, spending plans, emergency fund, why budgets fail, and how budgets succeed.
- ∞ **Saving & Investing**--Reasons to save and invest, types of vehicles (i.e. savings account, certificates of deposit, mutual funds, retirement

accounts, stocks, etc), interest rates, risk, strategies, diversification, service providers, fees, penalties, insurance, and responsibilities.

- ∞ **Daily cash transactions**--Checking accounts, point-of-sale, ATM, debit cards, and credit cards.
- ∞ **Borrowing**--Purposes for borrowing, want vs. need, types of vehicles (credit cards, store credit, financial institutions, pay-day lenders, rent-to-own, leasing, etc.), interest, fees, total cost, credit ratings, loan types (secured, unsecured, installment, revolving, etc.), debt management (building credit and paying down credit), and bankruptcy.
- ∞ **Insurance**--The role of insurance, how it works, types of policies (life insurance: term and whole life, long-term care, disability, health, etc), service providers, and components.
- ∞ **Taxes**--Types of taxes (income, sales, use, sin, property, etc.), how taxes work, taxing districts, where tax dollars go, withholding, and tax planning.
- ∞ **Protect Yourself**--Identity theft, Internet scams, Phishing, and document management.

Each of the above components should be offered as separate modules to better adapt curricula to the varying needs of students and student groups.

The above framework for a fundamental financial education program will provide a solid base for individuals to move into other targeted and more specific curriculum driven programs, such as IDAs for home buying, education, and small business. Moreover, it will provide individuals a solid foundation to make more

informed and educated decisions regarding their personal finances. Thus, reducing their financial vulnerability.

In addition to identifying components of an effective fundamental financial education program, a promising offshoot of this paper would be the beginning of collaborative discussions regarding the issue of financial literacy both in the Eugene/Springfield community and the State of Oregon as a whole. Subsequently, increasing availability and accessibility of financial education programs to low-income and minority populations by organizations that are objective and free from self-interest.

Ideally, collaborative partnerships, successful program performance, and legislative action will provide protection for consumers of financial products, increasing financial literacy within our communities, thus securing a more positive future for our residents and our economy as a whole.

APPENDIX

Interview Questions

1. What population does your agency serve (i.e. low-income, minority, etc)?
2. What geographical area do you serve (i.e. Eugene, Springfield, Metro, County)?
3. What types of services do you provide your clients (i.e. basic needs, translation, financial, etc)?
4. Do you offer a personal financial education program (i.e. cash management, investment, borrowing/debt, budgeting)?
5. Are you familiar with, or do you use, the Money Smart program offered through the Federal Deposit Insurance Corporation (FDIC) or NeighborWorks or other program?
6. What do you perceive are the most important financial educational needs of your clientele?
7. In your opinion, what components would an effective financial educational tool include? For example: banking systems, balancing a checking account, borrowing, etc.

Interviews

Howard, Stacey, Homeownership Counselor, Neighborhood Economic Development Corporation, interviewed by Ramona Mitchell, 15 February 2008, Eugene, Oregon. www.nedcocdc.org

Johnson, Sarai, Homeownership Counselor, Neighborhood Economic Development Corporation, interviewed by Ramona Mitchell, 15 February 2008, Eugene, Oregon. www.nedcocdc.org

Navarro, Jorge, Executive Director, Centro Latino Americano, interviewed by Ramona Mitchell, 15 February 2008, Eugene, Oregon. www.cla1.org

Winkler-Rios, Shawn, Executive Director, Lane MicroBusiness, interviewed by Ramona Mitchell, 15 February 2008, Eugene, Oregon.
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