



NATIONAL ENDOWMENT FOR
FINANCIAL EDUCATION

Partnering for Financial Well-Being

Testimony of

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Before

**The Committee on Financial Services
Subcommittee on Financial Institutions and Consumer Credit
of the
United States House of Representatives**

Regarding

“Problem Credit Card Practices Affecting Students”

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I am Brent Neiser, Director of Strategic Programs and Alliances for the National Endowment for Financial Education® (NEFE®), located in Greenwood Village, Colorado. We at NEFE would like to thank Representative Carolyn B. Maloney, Chair, and members of the Subcommittee, for scheduling this hearing and providing members of the financial literacy community the opportunity to share our experiences, to explore with you ways to help students that are adversely affected by credit cards and consumer debt, and to prevent future problems in this area.

The National Endowment for Financial Education is perhaps the only national, privately operating foundation wholly dedicated to improving the financial well-being of all Americans. NEFE is an independent, nonprofit, and nonpartisan foundation committed to educating Americans on a broad range of financial topics and empowering them to make positive and sound decisions to reach their financial goals. For more than 30 years, NEFE has been providing funding, logistical support, and personal finance expertise to develop a variety of materials and programs, including the award-winning NEFE High School Financial Planning Program®, the new CashCourse college program, and the consumer-oriented Smart About Money public awareness Web site. NEFE funds research and awards research-based development grants that advance innovative thinking and contribute to our understanding of financial behavior. NEFE also serves segments of the American public in need of specialized financial information through partnerships with numerous organizations.

The Strategic Programs and Alliances department has developed financial education and awareness materials through collaborations with many organizations, including the American Indian College Fund, Hispanic Scholarship Fund, United Negro College Fund, and the National Collegiate Athletic Association. More recently, NEFE has developed CashCourse, a free, online, just-in-time financial education resource for every stage of college life. It features unbiased, noncommercial, relevant content to address an emerging long-range problem of students immersed in debt. According to the U.S. Department of Education and Demos, two-thirds of all undergraduates borrow money to pay for college. The average undergraduate today leaves campus with just over \$19,000 in student loans. One in four grads will carry more than \$25,000 (www.demos.org, 2006). On top of that, half of all graduates in 2004 used credit cards for school expenses, carrying an average balance of \$3,900 (American Council on Education, June 2005). Because of this debt, it's estimated that between 1.4 million and 2.4 million bachelor's degrees will be lost as financial concerns prevent students from the lowest income bracket from attending college (Advisory Committee on Student Financial Assistance with data provided by the U.S. Department of Education).

CashCourse was developed less than a year ago to specifically target college-age students on campuses across the country. So far over 125 schools are signed up, with over 100 more enrolled with outstanding agreements. This turnkey program allows universities to provide students with the information and resources necessary to cultivate positive money management habits that will last a lifetime. NEFE is providing and maintaining this service at no cost to community colleges and four-year colleges and universities alike. It is our intention to extend this initiative beyond the student community to peer groups who are not in college, including those who are in the military. We are actively pursuing this.

Background

Many of today's college students are facing an oncoming personal finance crisis in which the opportunity for positive engagement in the United States financial mainstream is being threatened by a culture of ignorance, peer pressure, and intense marketing tactics.

The additional burden of consumer debt is layered upon student loans and other costs that are significant to this population: expenses related to transportation, housing, and job preparation. All these areas

often mask the opportunity to highlight the positive side of the time value of money. Einstein called this power of compound interest the Eighth Wonder of the World, and it certainly is powerful. The problem, however, is that depending on how one manages his or her money, sets goals, delays gratification, and becomes financially aware, the power of compound interest can work for you or against you. Unfortunately, many young adults are not accumulating interest by saving and investing; rather, they are paying interest on these many debts.

The lack of participation in the numerous defined contribution and IRA programs that Congress has established is truly a problem. By not taking advantage in the early years of one's career or prematurely raiding these accounts despite penalties and tax consequences, young adults subject themselves to a lifetime of financial struggle, including a retirement saving paralysis. Though these consequences are imperceptible at first, poor decision making at a young age carries with it an erosion of purchasing power and a decline in financial stability in the long run.

Financial decision making certainly carries consequences at a personal level. But consider the cumulative effect of those circumstances and choices for millions of emerging households on the long-range financial security and strength of the nation's tax base, its national competitiveness, and demands on the social service structure of the non-profit sector and all levels of government.

There are several encouraging developments on the horizon that can be effective if paired with a healthy financial environment, a clear understanding of the power of compounding, the thoughtful use of credit, and a level of commitment to help foster the behavioral change that will help college students and other Americans avoid unnecessary debt.

We suggest five key areas that are the foundational elements for building a balanced approach to responsible credit management:

1. Financial Education
2. Disclosure
3. Defaults
4. Public Awareness
5. Culture of Commitment

Financial Education

As a nonprofit, noncommercial, nonpartisan, private operating foundation, the National Endowment for Financial Education believes that Americans can increase their financial capacity and capability through various components of financial education, including classes, small groups, and one-on-one counseling. By creating CashCourse, an online Web resource, NEFE is meeting the demand for just-in-time financial information and resources for college students who are facing large-scale decisions on campuses nationwide. CashCourse is linked to from financial aid, student affairs, career services, and alumni association Web sites to give ongoing support, even after college.

CashCourse is an easily-implemented, unbiased and noncommercial financial education solution for colleges, universities, and alumni associations to offer their students, many of whom are living away from the guidance of their parents. College is often a time when many students make unwise financial

decisions due to lack of financial knowledge. This deficiency can lead to financially irresponsible or uninformed behaviors, such as getting into debt, which can extend well beyond their college years. Increasing concern over this issue has led to the joint effort between NEFE and universities to fill in the missing gaps of financial knowledge that many college students have.

Support and enthusiasm for financial education varies widely among campuses, but the issues surrounding credit often captures the attention of students, staff, parents, alumni, donors, and state legislatures. It's one of the issues that helped make our High School Financial Planning Program especially effective, as over 5 million students have learned about credit cards, budgeting, the time value of money, risk management, and setting goals through the program. CashCourse seeks to do the same thing as an ongoing no-cost Internet platform that is co-branded with higher education institutions and that gives them the convenience, credibility, and standing to create a culture of financial concern and responsibility.

Disclosure

Credit cards offer convenience, safety, and the opportunity to build good credit. But the critical disclosures at both the point of purchase and the point of payment are lacking clarity and inventiveness. For this generation, electronic disclosure in addition to printed statements is necessary. We'd like to see the teachable moments exploited at the time when a payment is made on the card balance. The power of compounding should be shown in such a way as to lay out the decision: One can choose to pay the minimum, pay a greater portion of the balance, or pay it off in full, each presented with a realistic dollar-based outcome. The Federal Reserve's work in the consumer testing and design of new disclosures is a much-anticipated step in providing realistic, clear, and comprehensible information to the consumer.

Because of the Bankruptcy Reform Act, in 2009 the Federal Reserve will be requiring credit card companies to display personalized scenarios on credit card bills. These scenarios would reveal the consequences of only paying the minimum payment in terms of years and total costs associated with that choice.

There is an alternative, permissible, non-personalized scenario that credit card companies may elect instead. This option shows a standard disclosure: For example, a scenario could be shown where a minimum payment is made on a \$1,000 outstanding balance at a certain interest rate. With this option, too, the total time and cost of the credit card balance until it is paid off is presented. This non-personalized option will be coupled with information and an offer for consumers to use a new Federal Reserve Web site or toll-free number where consumers can interact with scenarios that involve different payoff timeframes so as to get the answers they need—namely, the amount they would have to pay and how long it will take until the debt is satisfied.

Each of these tools will need to be promoted.

Defaults

Defaults, if set properly, are successful as we have seen with the opt-out settings for defined contribution plans supported under the Pension Protection Act. These behavioral finance techniques often nudge consumers in the direction of their best interest. In this culture of consumerism, overspending, and personal debt, college students and all Americans need all the gentle nudging they can get. We suggest two defaults be put in place in regard to credit cards.

First, convenience checks are offered to credit card users, and we suggest that these be placed on a defaulted opt-in basis. Second, credit offers through affiliate sharing agreements currently are exempt from the Federal Trade Commission's toll free number (1-888-5-OPTOUT), which consumers can call in order to block pre-approved credit offers. We'd like that changed so that *all* unsolicited credit offers can be blocked by consumers at their discretion.

Public Awareness

Unlike the efforts to reduce smoking, cut down on obesity, encourage civic and voluntary participation, increase tolerance, and promote safety and disaster preparedness, coordinated and targeted messages for healthy financial services practices are few. Increasing awareness and improved messaging about credit scores and credit reports in the private and nonprofit sectors have helped illustrate the potential consequences of credit inattention and abuse. Yet students and emerging households (many of whom do not attend four-year institutions) in their teens and twenties are basing their personal financial habits and practices on the behavioral patterns of their peers and the influences of media. Creating a culture of personal financial management and control can emerge through public awareness and social marketing campaigns. Among this age group, network and social marketing should be considered.

Culture of Commitment

College and university administrations need to create a culture of personal financial awareness, learning, and responsibility. This sends the right signal to taxpayers, private donors, state legislators, parents, and most of all, to the students whose financial choices—when made now—will either expand or constrict opportunities in the future. We suggest consistent credit card reform: new regulations should be universally applied so that there is one standard for students, non-students, and Americans of any age group or demographic. This allows people to understand one system that has the power of disclosure and default settings.

Attention and action needs to take place in all five areas—financial education, disclosure, defaults, public awareness, and creating a culture of commitment—from all sectors of society in order to empower Americans to embrace a culture that is moving towards thrift and ownership of their financial future.

The National Endowment for Financial Education stands ready to assist the House Financial Services Committee with additional information or insight. For further information on NEFE's previous testimony before the Financial Services Committee on broader financial education issues, see the September 28, 2006 testimony of Ted Beck, NEFE's President and CEO, available at www.nefe.org.

Thank you.

Attachments: Kansas City Star Article
Brent Neiser Resume



Posted on Sat, Apr. 19, 2008

New tool helps students gain financial smarts

Better late than never.

Don't get me wrong. I firmly believe youngsters need to master spending, budgeting and other money-management basics by the time they graduate from high school.

But despite a growing emphasis on financial education, many studies — including one this month from the **Jumpstart Coalition** — show that high school teens continue to struggle with this important topic.

All is not lost, however. A new Internet-based program aims to help college students and recent graduates fill in some of the financial gaps they might have missed from high school.

Developed and rolled out last fall by the nonprofit **National Endowment for Financial Education**, CashCourse is being used on more than 60 college campuses by thousands of young students.

Among the schools or collegiate organizations tapping into CashCourse are **Kansas State University**, the **University of Missouri**, **Southeast Missouri State**, **Ohio State**, **Bowling Green State**, **Rutgers**, the **University of Iowa** and the **University of Illinois Alumni Association**.

CashCourse is free to interested colleges and universities — the material is also positively free and clear of advertising and commercial content. What the Web service offers is this: current, relevant personal-finance information to young adults on several dozen topics, such as renting apartments, the financial issues of Greek life, the temptations of gambling, and buying or leasing a car. There are also sections on the hunt for college scholarships, understanding the financial-aid game and getting out of credit-card debt.

The site is easy to navigate, and the information is easy to read and print out.

"It's just-in-time financial information," said Brent Neiser, director of strategic programs and alliances at the National Endowment for Financial Education. The Denver-area organization pioneered a financial education curriculum for high school students about 20 years ago.

The pickings, to be sure, are ripe for this type of education on college campuses.

Many of today's college students are swimming in student loans and are starting to build higher levels of credit-card debt. And many are not schooled in how to weigh offers for plastic, how to pick through savings and investment options or how to evaluate the financial aspects of job offers.

"Many young people just don't understand the basics," Neiser said.

According to the April 9 Jumpstart survey, high school seniors correctly answered just under half the questions on a financial literacy test. That's down from a similar test in 2006, when 52.4 percent of the questions were answered correctly by seniors.

This year, for the first time, Jumpstart also tested college students. They reported significantly higher scores than high-schoolers, answering 62 percent of the questions correctly. College seniors scored a 65 percent.

That's still a D in my grade book, but progress is progress. Perhaps over time, CashCourse and other financial education programs will drive those scores higher.

CashCourse is not the only Web tool aimed at college students. The **Federal Reserve**, for example, this month introduced its Money Smart for Young Adults program for students ages 12 to 20 (<http://www.fdic.gov/>). But, from what I've seen, CashCourse is certainly one of the most comprehensive programs.

While anyone can view the site at <http://www.cashcourse.org/>, much of the information is available only to students at participating colleges.

The site is divided into four basic content areas: financial basics; paying for college; college life; and the world of work. There's also highlighted content on the 20 most-popular topics —chosen by college students and including car financing, budgeting, paying for college and many other complications that money brings.

For example, a student who's running out of money late in the semester could search for money-saving tips on CashCourse and turn up nearly 50 suggestions.

The program caught the attention of Gayle Spencer, assistant dean of student life at Kansas State in Manhattan. Earlier this year,

the school unveiled the tool on its Web site, and now it has begun to more actively promote it to the 23,000-plus student body. Spencer said the university in the next year hopes to tie in CashCourse with a proposed financial-planning assistance center for students.

“Many students have made really poor financial decisions at some point,” Spencer said. “We want to help them become more financially responsible.”

A click away

Helpful financial Web sites for parents, youngsters and teachers:

- <http://www.jumpstart.org/> : Online clearinghouse of personal finance materials to educate students from kindergarten through college.
- <http://www.moneyskill.org/> : Interactive financial literacy programs for high school students and others.
- <http://www.autofinancing101.org/> : Auto finance calculators and information on buying and leasing.

To reach Steve Rosen, call 816-234-4879 or send e-mail to srosen@kcstar.com.

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Partnering for Financial Well-Being

Brent A. Neiser, CFP® National Endowment for Financial Education

Brent A. Neiser, CFP® is Director of Strategic Programs and Alliances for the National Endowment for Financial Education® (NEFE®). His work focuses on developing financial education initiatives through unique collaborations with over 100 nonprofit organizations, foundations, and corporations nationwide such as the Red Cross, Hispanic Scholarship Fund and Habitat for Humanity. He directed NEFE's national Personal Finance and Latino Immigration Think Tank and directed the think tank on Retirement Income Decumulation in December 2007. As a direct outcome of the think tank, Brent is overseeing the development of key messages to middle and moderate-income Americans. He led the creation of a comprehensive personal finance Internet platform www.cashcourse.org to educate college and university students about credit, spending, saving and investments delivered through alumni associations and other departments of higher education. He leads public issues and government affairs strategy and has worked on financial literacy strategy issues with the U.S. Department of the Treasury and Congress.

While serving as Executive Director of the Institute of Certified Financial Planners, a national professional association, membership grew significantly, including international expansion to Japan. In Washington, he helped develop and design the nation's first Personal Economic Summit, a conference addressing financial illiteracy, business, and public policy.

Neiser is a fellow with the Center for Social Innovation at the Stanford University Graduate School of Business. He was a national CORO Foundation Public Affairs Fellow, which included work with The Walt Disney Company. He holds a Master of Global Studies with an emphasis in Public Diplomacy and International Security (University of Denver), MBA (University of Louisville), MA- Urban Studies (Occidental College), and BA- Public Affairs (George Washington University). He is a Certified Financial Planner (CFP®) and holds the Certified Association Executive (CAE) designation.

He is the immediate past chair of the Colorado Council of Advisors on Consumer Credit (gubernatorial appointment). He also volunteers with the Young Americans Bank, Adoption Exchange, University of Denver Daniels College of Business, Financial Planning Association (Advisory Board - Journal of Financial Planning and Task Force Chair) and is a graduate of Leadership Denver.

Neiser's media appearances include: "Today" on NBC, "The News Hour" with Jim Lehrer and "Nightly Business Report" (both on PBS), MSNBC, CNBC, CNN, and various other television and radio stations. He is frequently quoted in newspapers and magazines, including The New York Times, The Washington Post, and The Wall Street Journal.

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