

and the WINNER is...

NFI receives two national awards from the Institute for Financial Literacy



NFI's director of development, Kristina Uland, accepts the Organization of the Year Award from Leslie E. Linfield, executive director of the Institute for Financial Literacy.

Networks Financial Institute is pleased to announce that it has been selected for two of eight new national awards designed to honor innovation, dedication and commitment in financial literacy education.

The Institute for Financial Literacy's first annual Excellence in Financial Literacy Education (EIFLE) Awards went to Networks Financial Institute for *Organization of the Year (Not for Profit)* and *Published Research Paper of the Year*. The awards were presented in Dallas, Texas on October 4th at The Institute for Financial Literacy's Annual Conference on Financial Education.

Criteria for selection as *Organization of the Year* includes offering a financial literacy program, earning the respect of peer organizations and communities served, inspiring program participants to learn, and utilization of quality financial literacy educational materials. One factor considered was Networks Financial Institute's creation and implementation of The Money Bus™, the nation's first financial literacy classroom on wheels, which has visited dozens of Indiana schools.

The award for *Published Research Paper of the Year* went to "Assessing Adult Financial Literacy and Why It Matters," a compilation of research presented by Networks Financial Institute at a forum in the spring of 2006. The publication examines factors which have become particularly relevant in the context of today's over-usage of credit cards and disturbingly high incidence of mortgage foreclosures.

"We are delighted to have received these two EIFLE awards," said Elizabeth Coit, executive director of Networks Financial Institute. "Each year, we are discovering a greater need for quality financial literacy education and seeing the difference that it can make in peoples' lives."

"The Excellence in Financial Literacy Education Award is an opportunity to recognize the hard work and effort of the individuals and organizations that are seeking to improve the financial literacy of Americans," commented Leslie E. Linfield, executive director of the Institute for Financial Literacy. "The Institute is pleased to help raise the visibility of these efforts to the general public through the EIFLE Award."

Looking in the MIRROR

As the nation comes to grips with rising home foreclosures coupled with decreasing home values, the collapse of the sub-prime lending market, and ever increasing credit card debt, governments, the media, educational systems, the financial services industry and consumers are beginning to recognize the thread of financial illiteracy that underlies all of these challenges.

As financial literacy emerges as a cohesive field of study, many constituencies will need data, information and ideas to help them make informed decisions about how to respond to financial crises, and how best to serve their constituents. Networks Financial Institute recognized this need, and undertook a series of three market studies designed to provide a collective snapshot of the state of financial literacy in America, from childhood through adulthood. In depth discussions of these three studies, along with all of NFI's research, are available for download at www.networksfinancialinstitute.org.

K-12 NATIONAL FINANCIAL LITERACY INVENTORY

The first study, the *K-12 National Financial Literacy Inventory* – sought to:

- Assess what, if anything, is taught by K-12 teachers in the United States relative to financial literacy topics
- Understand the techniques used (incidence and anecdotally) relative to academic standards
- Understand the use of learning assessments
- Identify current source(s) of information and materials
- Understand perceived barriers to teaching financial literacy

Hundreds of K-12 teachers from around the nation responded to the survey. Their answers revealed some very surprising

contradictions. While most teachers felt that financial education was an important topic, only about half of those surveyed actually incorporated it into their classroom.

Anticipating that a substantial number of teachers did not cover financial literacy topics, we felt that it would be valuable to understand the reasons for this. Interestingly, those who do not teach financial literacy cited the lack of specific academic standards tied to financial literacy as the number one reason. This brings up another contradiction. Using our own curriculum, Kids Count, as an example, the front of the teacher's guide contains a listing of all currently existing Indiana academic standards that are addressed in the curriculum. Specifically, content standards in mathematics, social studies, and language arts are referenced to make it easier for teachers to plan their lessons. Our work has demonstrated that indeed, even at elementary school levels, financial literacy is part of the standards.

Teachers also cited a lack of time as a major roadblock to teaching financial literacy. However, mapping Kids Count to existing academic standards, we have demonstrated that the addition of financial literacy instruction does not have to mean adding time to the school day.

Also of note, surveyed teachers reported what they felt to be lacking in currently available financial literacy materials. This list included the following:

- Exercises designed to simulate real-life applications in the financial world
- Hands-on activities
- Credit/debit card exercises
- Materials for students in K-3 grades
- Banking
- Basic finances
- Visually pleasing presentation materials and worksheets
- More current material and videos
- Guest speakers
- Games to make learning fun
- Computer simulations that would allow students to make financial decisions

THE NATIONAL ADULT FINANCIAL LITERACY SURVEY

Shifting focus to the adult population, NFI research asked, how do adults feel about their own levels of knowledge? Where do they go for information? *The National Adult Financial Literacy Survey* asked hundreds of Americans about a broad range of topics, with research goals to:

- Assess the baseline knowledge of adults in the United States relative to financial literacy topics
- Understand the types of information sought to improve personal financial knowledge
- Determine areas in which adults need the most help with personal financial education
- Identify current source(s) of financial information and materials
- Understand perceived barriers in seeking personal financial literacy education

Similar to the K-12 survey, the responses to this survey are also somewhat contradictory. The majority of those surveyed have not received any personal financial literacy instruction in the previous 12 months. However, the vast majority of those surveyed felt it was important to enhance their own financial knowledge, specifically in the areas of investing, retirement planning, and consumer rights.

Most adults look to friends and relatives for advice rather than financial services professionals when they do seek assistance. In a classic ‘chicken or egg’ scenario, the majority of adults cite the lack of funds to invest as the main reason for not learning more about financial topics. This finding, in particular, stands in contrast to presumptions that providers of financial educational services make about their own work.

NATIONAL ADULT SURVEY OF FINANCIAL LITERACY PROVIDERS

In our third market study, the *National Adult Survey of Financial Literacy Providers*, NFI sought to:

- Understand the level of financial literacy education that is offered to adults by financial services, government and non-profit organizations
- Assess the content and focus of the organizational support for adult financial literacy education.
- Understand the breadth of resources and/or programs offered for adult financial literacy education.
- Understand the roadblocks and challenges in offering adult financial literacy education.
- Assess the type of adults served by these organizations for financial literacy education

Eighty-five percent of financial institutions consider their own financial literacy programs to be effective. This stands in contrast again to what American adults not only say about where they get their financial education information, but also to economic indicators, such as credit card debt, foreclosure rates, savings rates, etc.

The research conducted by NFI to understand better the state of financial education provides important insights into potential solutions. Clearly, there is an opportunity to improve the nation’s approach to early education, a critical component of a long-term solution. The research also implies opportunities to close the gap between consumers’ need and motivation for better financial education and their access to effective information and materials.

NFI will continue to assess these challenges, while experimenting with potential solutions. We welcome and encourage the input and collaboration of others as we pursue these goals.



The Nation's FORECLOSURE EPIDEMIC

Causes, Consequences and Remedies

Experts agree that the Midwest has been particularly impacted by the recent surge in home foreclosures, but they also believe the epidemic is curable. On Tuesday, August 28, Networks Financial Institute, in partnership with the Federal Reserve Bank of Chicago, convened The Nation's Foreclosure Epidemic, a forum addressing the evolving foreclosure crisis. Speakers and panelists representing financial institutions, the real estate community, builders, regulatory parties and government convened to address a broad agenda.

THE SIZE AND SCOPE OF THE PROBLEM

According to Dr. Jack Tatom, director of research at NFI, the United States experienced a foreclosure rate of 1.1 % in 2006. In Indiana, the foreclosure rate was 2.9%, sandwiched between Ohio's first place and Michigan's third place foreclosure rates. While home ownership rates in each of these states was higher than the national average (with Indiana at a 74.2% home ownership rate compared with a U.S. average of 68.8%), these states had significantly lower home price apprecia-

tion. In Indiana, prices appreciated 3.2% in 2006, compared to a 9.3% appreciation rate throughout the U.S. Employment growth, while positive, was also significantly slower in Indiana compared to the national average.

Dr. Tatom noted that rising foreclosures portend risks for local housing markets, lending institutions and the overall economy. The corresponding loss of equity values will place a tremendous burden on the building sector, neighborhoods and individual homeowners.

THE HOUSING BOOM AND THE SUBPRIME FORECLOSURE BUST

The subprime mortgage market has experienced vigorous growth, growing from a scant \$3 billion of the market in 1988 to 15% of the 2006 mortgage market. The dollar amounts are significant – subprime loans rose from \$38 billion in 1996 to \$529 billion in 2004. John C. Weicher, director, Center for Housing and Financial Markets at the Hudson Institute, discussed this surge in the subprime market and elaborated on the key causes.

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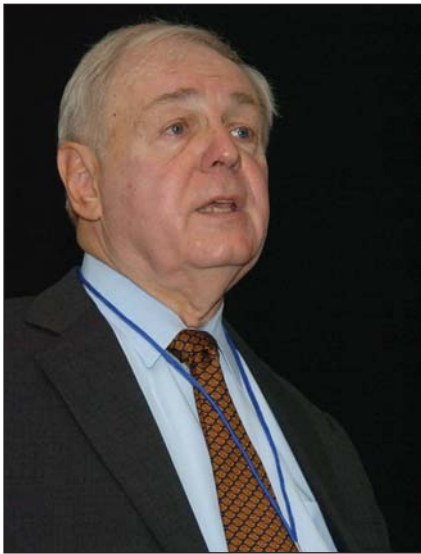
IACED

Indiana Association of Realtors

**Indiana Mortgage
Bankers Association**

**Indianapolis Neighborhood
Housing Partnership**

National City Bank



John C. Weicher

Anticipating the future of the foreclosure trend, Weicher referenced the Mortgage Bankers Association data indicating a projected 2007 subprime ARM default rate of 10.8%, or about 200,000 to 300,000 defaults. He also provided data from the Center for Responsible Lending that projects, over the life of the loan, a default rate of 15-20% for subprime loans.

Weicher cautioned that home buyers and financial institutions must not lose sight of the broader view of the U.S. housing sector. Between 1994 and 2004, home

ownership rose from 64 to 69%. “The period ranks as the fastest increase in home ownership since the decade after World War II,” he noted. Home ownership remains vigorous even among immigrant populations. Weicher emphasized that the rise in subprime foreclosures is real, but the problem will largely be limited to subprime loans. “The roof is not caving in on the housing market,” Weicher concluded.

And, Weicher identified forbearance as a key remedy. By working out a plan, Weicher advised that borrowers could mitigate losses and retain their homes.

Yuliya Demyanyk, an economist with the Federal Reserve Bank of Saint Louis, provided preliminary insights from her ongoing research on the cause of mortgage delinquencies. Based on her analysis, “the relationship between low price appreciation after purchase and delinquency is the universal recipe. Other factors may be important, but this is where we saw a real impact in foreclosure rates escalating,” Dr. Demyanyk noted.

ALL AGREE FINANCIAL EDUCATION AT THE HEART OF THE SOLUTION

Desiree Hatcher, community affairs program director with the Federal Reserve Bank of Chicago, discussed the Federal Reserve Bank’s efforts to encour-

age responsible underwriting through guidance recently issued for banks. She urged financial institutions to verify documentation, qualify borrowers at the fully indexed rate (never the teaser rate), and educate the borrower so that he/she understands the terms. She also advised banks to incorporate home ownership counseling as part of their overall Community Investment Act compliance. “The cost for a financial institution to complete a foreclosure is \$50,000. Educating customers is a much more cost-effective opportunity,” Ms. Hatcher noted.

David Godsted, NFI’s director of financial literacy, released Networks Financial Institute’s *National Adult Financial Literacy Research*, a nationwide survey of adults to understand their attitudes, personal confidence and propensity to seek information. The results point to a clear lack of financial education and awareness. While adults say that financial literacy is important and that they need to know more, for a number of reasons few are investing the time and engaging the resources to improve their financial literacy.

The full report, as well as presentations and slides from other Financial Forum experts, may be accessed online at www.networksfinancialinstitute.org.





the **INDIANA** foreclosure story

The housing foreclosure crisis has impacted mortgage lenders and other financial institutions; but, its effects are also being felt in neighborhoods, the real estate sector and whole communities. Indiana is among the harder hit.

Rick Wajda, Chief Executive Officer of the Indiana Builders Association, believes that foreclosures can be mitigated through effective regulation and education for both consumers and lenders. At NFI's recent conference in Indianapolis, Wajda pointed to the 2007 Mortgage Foreclosure Counseling Bill as a step in the right direction. Wajda further pointed to a need for Indiana to continue attracting jobs and for first-time homebuyers to invest in their own research on housing decision. "The media has perhaps done too good of a job of scaring away qualified buyers. Our challenge is to educate buyers about the responsibilities involved in owning a home without scaring them away from entering the market," he noted.

Seth Payton, a senior policy analyst with Indiana University-Purdue University Indianapolis's Center for Urban Policy and the Environment, conducted a study for the Metropolitan Indianapolis Board of Realtors (MIBOR) looking at a 12-county foreclosure analysis. He found that foreclosures often occur in concentrated areas characterized by low income and in households where 30% or more of income is dedicated to mortgage costs. Reviewing MIBOR data, he noted that the lower price points – \$80,000 to \$120,000 – represent the properties with the slowest appreciation rates. Geography further puts the size of the problem in context. Payton noted that within a one-mile radius of a property in Marion County, an average of 51 foreclosed properties can be located.



Indiana Secretary of State Todd Rokita explained his office's efforts to help with Indiana's foreclosure problems.

This is especially significant when one considers that 33% of a home's value is impacted by what happens to the adjacent property.

SIX PERCENT OF INDIANA FORECLOSURES ARE DIRECTLY RELATED TO FRAUD

Indiana Secretary of State Todd Rokita served as luncheon keynote speaker at the event, addressing some of the initiatives his office has implemented to halt fraudulent mortgage brokers. In 2005, Secretary Rokita introduced Indiana Investment Watch to educate Indiana investors and monitor investment providers, including mortgage brokers. The \$1.8 million program is funded through fees assessed on brokers, appraisers, title companies and related real estate partners. Secretary Rokita decried the lack of a single database in Indiana to verify home appraisal values and characterized Indiana's foreclosure problem as a "perfect storm," with property taxes being a complicating issue. He advocated a two-pronged approach that focuses on enforcing regulation and educating consumers, starting in Indiana's schools.

REMEDIES AND SOLUTIONS – HOW INDIANA IS FIGHTING BACK

A panel, moderated by Curt Wiley, who co-chairs the Indianapolis area Mortgage Fraud and Foreclosure Prevention Task Force, noted that Indianapolis non-profit Momentive established a help line in 2004 to deal with the mortgage foreclosure problem. In 2007, calls are projected to reach 7,500. Momentive partners with 25 agencies to provide loss mitigation counseling to consumers in

“Our challenge is to educate buyers about the responsibilities involved in owning a home without scaring them away from entering the market.” -Wajda

both the pre- and post-purchase phase of home buying. “There is an appetite for resources. As a society we must help individuals move beyond embarrassment so that they can mitigate their situation sooner rather than later,” he noted.

Bonnie Boards, Vice President and Homeownership Preservation Officer for Chase Bank, discussed the bank's Homeownership Preservation Program. The service includes a help line exclusively for non-profit counseling agencies, as well as fax and e-mail support. Four case managers support the service, including a bilingual staff person. The Homeownership Preservation Office supports an average of 130 to 150 new cases per month.

Donna Eide, co-chair of the Mortgage Fraud and Foreclosure Prevention Task Force and formerly Assistant United States Attorney for the Southern District of Indiana, spoke about her experiences prosecuting mortgage fraud cases. Eide cited the lack of federal oversight as a key reason for the surge in fraud.

There is no simpler answer to Indiana's burgeoning foreclosure crisis. However, as the causes are better understood, many are poised to develop targeted solutions. As is the case on the national level, education is at the heart of long-term stability in home ownership.



Bonnie Boards and Donna Eide participated in the afternoon panel session.