

Teach your members to fish and you'll feed them for a lifetime

By Jim Hanson, VP, CUNA's Center for Personal Finance

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ever has the need for financial education been stronger.

- Every year payday lenders strip \$4.2 billion in excessive fees from Americans who think they are getting a two-week loan and end up trapped in debt.
- The typical payday borrower pays back a staggering \$793 for a \$325 loan.
- Together the un-banked and under-banked community makes up a whopping 84 million consumers in the United States. That's almost the size of the entire credit union movement's membership.

Who are these consumers?

Generally speaking they are poor, undereducated, and members of a minority population. While it is the least affluent one-third of consumers who are the primary users of fringe banking services, it's not just low income consumers who use payday lenders.

One-third of households that use payday lenders are credit union members.

They are members of your credit union and members of your credit union's staff. Payday lenders are all too happy to report that 58% of their customers who cashed checks in 11 major metropolitan cities across the United States had an account at a bank or credit union and 35% reported having both a checking account and a savings account.

So, why would those individuals choose to pay 400% annual interest rate charges? Do they really understand the math behind their transactions? Do they understand the long-term implications when those payday loan balances roll over?

There are more than 11,000 check cashing outlets in the U.S. They cash more than 180 million checks valued at more than \$60 billion. They sell immediacy, easy access to cash, convenient hours, in a no-questions asked environment.

Clearly, check cashing outlets are serving a consumer desire — at a far too expensive price.

But changing behaviors, especially those of adults, is not an easy task. The payday lobby has successfully exempted its constituency from consumer loan laws. In addition to legalizing the practice of holding a live check as collateral, exemptions for payday lenders authorize rates up to 10 times the interest rate cap provided for most state consumer loan laws.

Short of changing the legal and regulatory environment in which these payday bloodsuckers operate, what's the next best option?

Financial education.

Remember the old Chinese proverb: "Give a man a fish and you feed him for a day. Teach a man to fish and you feed him for a lifetime." That's exactly what educating your members about money matters does. Financial literacy is teaching your members to feed themselves for a lifetime.

Managing money is a learned skill. And most of us are prone to making mistakes.

Today's society encourages people to spend more than they have. Instant gratification is not a phenomenon reserved solely for the young or the well-to-do. Reasons for poor money management are plenty — poor savings habits, bad spending decisions, mismanaged





credit card debt, job loss, change in marital status, and other events that often lead to financial challenges for many people who are least equipped to handle the trouble.

Of course, today's plethora of financial service offerings, delivery channels, and payment mechanisms don't make understanding finances easy on anyone. The environment most of us operate in today is one that's difficult for well-educated and well-heeled consumers, not to mention our nation's tired, poor, and undereducated counterparts.

The need for financial education is great. And it extends to all markets — not just the young, the disadvantaged, the new immigrant, the elderly, or the minority segment. The challenge is difficult because reaching those who need it is hard and expensive. By most accounts, one-to-one approaches are the most successful, but also the most expensive. Partnering and collaborating with community groups is essential.

The fact is, teaching financial education is like encouraging people to eat their vegetables.

Most people know it's good for them but unless you can make vegetables look and taste like pizza, who wants to eat them?

That's one of the reasons the Internet has played an important role in the development of financial education products. Many providers are learning to use the Internet because it provides a safe environment for people to learn from. Users of products like *Home & Family Finance Resource Center*, *Guides to Independence*, and *Anytime Adviser* can go at their own pace to learn money management skills.

“We have found that one of the best ways to teach adults about money management is to do so in formats they are familiar with,” says Susan Tiffany, director of CUNA's adult financial literacy programs. “People are comfortable with reading articles, listening to radio programs, watching videos, doing interactive-self-paced online testing where no one judges your performance. And those are all tools we employ in our offerings.”

Educating members to be better managers of their finances is teaching them to help themselves.

It benefits your credit union because it makes them better and more responsible users of the financial services you provide. Over time it will strengthen

your credit union's financial position, and it strengthens the credit union movement's advocacy position in state and federal venues. In the long run it strengthens the movement's brand and brand proposition.

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Here are some simple goals for your consideration:

- Commit to doing something to help the underserved — now.
- Create a community advisory group to guide your credit union's efforts.
- Measure the effectiveness of your efforts.
- Make a long-term financial commitment to financial education — for all segments of your membership and your community.
- Lobby to make financial education a high school graduation requirement.
- Take advantage of programs that are already available.
- Recognize that financial education is good for business.
- Look for appropriate partnerships.