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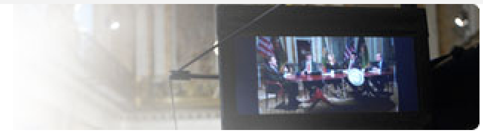

Under Secretary for Domestic Finance Robert K. Steel Remarks Before the President’s Advisory Council on Financial Literacy Subcommittee on the Underserved

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In particular I want to thank the subcommittee chair, John Hope Bryant, as well as Council members Sharon Lechter and Ignacio Salazar for their efforts to cast more attention on the underserved, and subcommittee member Rev. Dr. Robert Lee, who could not be with us today, for his efforts in this area. And I also want to thank you, our meeting participants, for agreeing to focus on this important work.

When John called me about the Subcommittee's plans for today, he spoke about how today's mortgage problems are a clear example of the need for financial literacy. I wholeheartedly agree. But what I especially liked about today's meeting is your focus on the underserved and encouraging access to financial services to continue for credit-worthy Americans, even as we work through these challenging times in our financial markets.

Now let me turn to the main themes of today. We have seen financial innovation in the mortgage market. We have seen how that innovation benefits the U.S. economy and U.S. homeowners. Many Americans became homeowners because of these financial innovations.

Unfortunately many Americans do not have access to mainstream financial services. They lack the requisite understanding to utilize financial tools and products to manage their financial affairs properly. Additionally, as financial institutions revise their lending standards, some credit-worthy borrowers could find it more difficult to access the credit needed to finance their futures. As our markets move forward, they will need to find the right balance of improving their own lending practices, while not cutting off responsible, credit-worthy borrowers.

There are more financial products available now than ever, but these products have become more complex and challenging for all of us to understand. And as consumers, we need to know more than our parents or grandparents did, if we are going to employ these financial products successfully.

For the underserved, who by definition are not using many mainstream financial services, the barriers to understanding complex financial products are high. Many lenders do not clearly explain the terms of their complex loans and borrowers have infrequent or no experience with these products. These combined factors lead to a lack of participation, which continues a downward cycle for the underserved.

This creates an ongoing responsibility for us. We can see the true value of financial education by observing what happens when it is absent. In the last few years too many Americans either chose or were put into mortgages that were not appropriate for their financial positions. And without an adequate base of financial knowledge, too many consumers entered into loans that were difficult to understand. These trends were especially pronounced among subprime borrowers.

Avoiding preventable foreclosures is in the interest of all homeowners. We must reach homeowners who are struggling, reach them early, and reach them with information and hope. Although many mortgage industry leaders have stepped up their efforts to reach delinquent borrowers, too many distressed borrowers are still uncomfortable speaking to their lenders. This stems in large part from lack of financial education. In fact, we learned that 50 percent of foreclosures occur without borrowers ever talking to their lender or to a mortgage counselor.

We want distressed borrowers and lenders to work together and find a way to keep people in their homes. To do so we forged a coalition of mortgage servicers, counselors and investors that are working to avoid preventable foreclosures and to improve the functioning of the mortgage markets.

This, as you know, is our HOPE NOW initiative. Through this effort we are helping distressed borrowers by connecting them with mortgage counselors. To reach more Americans, HOPE NOW continues to broaden a public service announcement campaign, to spread the word that hope is only a phone call away.

We are also looking to the promise of financial education over the long-term. Financial education is preventative in nature. The best approach is to help people avoid difficult situations from the start.

By working with the type of private sector groups like the ones we have assembled here today, we can help Americans help themselves. More Americans can and should learn more about their money, and, in turn more about financial products.

A more financially literate consumer base – across all income levels and in prime and subprime markets alike – could have mitigated at least some of our current housing difficulties. Financial knowledge makes people better informed consumers. And when they understand the terms of a mortgage loan, they are better able to compare the costs and benefits of different products and they are better positioned to make long-term decisions that advance their financial goals.

With that in mind, and with an eye on the long-term view, the subcommittee will ask you today to consider what policy recommendations it should present to the President's Council to address some of these challenges. In particular, the subcommittee will ask you to think about potential solutions to questions such as: How can we better identify and differentiate responsible and irresponsible subprime mortgage lending? What types of financial literacy initiatives are needed now to lessen the possibility of another round of turmoil in the subprime mortgage market? How can the private and public sectors deliver financial education programs directly to the subprime borrower? What should more effective disclosure from lenders look like? And what are some of the best ways we can capitalize on "teachable moments" to make sure this and other important lessons are taught? And, just as important, how can we measure success?

Through better disclosure from lenders, improved products for consumers, and increased financial education for borrowers, we can encourage a vibrant, mainstream marketplace for credit-worthy borrowers looking to finance an education, to experience the dream of responsible homeownership, and to have the opportunity to turn other lifetime goals into reality.

When it comes to educating the subprime borrower, there are ideal roles for lenders, servicers, regulators and other organizations to play. The questions you discuss today are important to the President. This discussion complements other work happening within the federal government, such as the Federal Deposit Insurance Corporation's upcoming conference on lending for low and moderate income families.

We recognize that financial literacy cannot immediately fix all our problems. But as I mentioned, it is part of the long-term solution. It is the preventative medicine that will help today's underserved avoid tomorrow's financial problems.

Thank you for lending the council subcommittee your time and your energy. You are part of a growing movement to create a more financially literate nation. Thank you.