

### A Literature Review of the Effectiveness of Financial Literacy

This survey summarizes current research on financial literacy efforts. Because most financial literacy programs are relatively new, much of the literature reviewed here is also new and part of a field that is still developing as a program of research. However, the review can conclude that financial education is necessary and that many existing approaches are effective. Among the findings are that (1) there is a causal connection between increases in financial knowledge and financial behavior and (2) the benefits of financial education appear to span a number of areas including retirement planning, savings, homeownership and credit use. — *Excerpt from original survey.*

[www.richmondfed.org/publications/economic\\_research/working\\_papers/pdfs/wp07-3.pdf](http://www.richmondfed.org/publications/economic_research/working_papers/pdfs/wp07-3.pdf)



### Mobile Financial Services and the Underbanked: Opportunities and Challenges for Mbanking and Mpayments

The Center for Financial Services Innovation has released a paper on how mobile phones could be used to provide financial services to the underbanked in the United States. The provision of financial services through mobile phones, or mobile financial services (MFS), includes mobile banking (mbanking) as well as mobile payments (mpayments). Mobile banking describes only the provision of account information and transaction opportunities, while mobile payment is any transaction paid for using a mobile phone. A conservative estimate shows that the existing market for MFS for the underbanked is about 17.5 million people.

Mobile financial services have grown more rapidly abroad than in the United States. One important reason is that other countries' mobile industry players have developed common standards to bring products to the market. Although MFS in the United States exhibits the same degree of market penetration and technological innovation as in other countries, the slow standardization of the fractured wireless market impedes compatibility between users and different carriers. Networks in the United States have taken longer to upgrade to the high-speed capability necessary for optimal uses of MFS.

Successful MFS platforms for the underbanked market would build on, improve, and in some cases, replace the financial services that customers already use. The best solutions will go a step further to enable the kinds of transactions that alternate providers may not provide, such as savings opportunities and access to moderately priced credit. — *Excerpt from the report.* [http://www.cfsinnovation.com/research-paper-detail.php?article\\_id=2906](http://www.cfsinnovation.com/research-paper-detail.php?article_id=2906)

**AUTHORS**  
KATY JACOB  
CAROLINE BOYD

### Give Credit Where Credit is Due: Increasing Access to Affordable Mainstream Credit Using Alternative Data

Despite the vast accomplishments of the American credit system, approximately 35 million to 54 million Americans remain outside of the credit system. For a variety of reasons, mainstream lenders have too little information on them to evaluate risk and therefore extend credit. As a result, those in most need of credit often turn to check-cashing services and payday loan providers, with effective interest rates as high as 500 percent. This study offers a feasible market solution to bring those outside of the mainstream credit fold into it. Mainstream leaders can use "alternative" or "nontraditional" data, including payment obligations such as rent, gas, electric, insurance and other recurring obligations, to evaluate the risk profile of a potential borrower. The findings indicate that alternative data, if widely incorporated into credit reporting, can bridge the information gap on financial risk for millions of Americans. — *Excerpt from the report.*

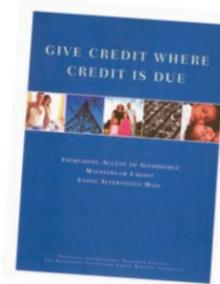
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[www.brookings.edu/metro/umi/pubs/20061218\\_givecredit.htm](http://www.brookings.edu/metro/umi/pubs/20061218_givecredit.htm)

### Foreclosure Prevention: Improving Contact with Borrowers

The rapid growth in the subprime and nontraditional mortgage market, combined with a slowdown in the appreciation of home values, may lead to increased foreclosures over the next few years. Nearly 500 billion of adjustable



**AUTHORS**  
THE POLITICAL AND  
ECONOMIC RESEARCH  
COUNCIL  
THE BROOKINGS  
INSTITUTION

rate mortgages (ARMs) will be eligible to reset during 2007, and between \$500 billion to \$800 billion will actually reset with new interest rates. Some analysts estimate that defaults from mortgage loans originated over the past few years using adjustable rates, introductory teaser rates and payment options may lead to as many as 1.1 million foreclosures with losses approximating \$112 billion, spread over the next six years or more.

This report reviews strategies that banks are using to prevent foreclosures to mitigate credit losses. The strategies presented in the report involve partnerships developed by banks, nonprofit organizations, state and local governments, and others who have a stake in keeping homeowners in their properties and maintaining the economic health of local communities. The information presented in this report was obtained from a variety of sources including financial institutions and nonprofit agencies. — *Excerpt from the report.*

[www.occ.treas.gov/cdd/Foreclosure\\_Prevention\\_Insights.pdf](http://www.occ.treas.gov/cdd/Foreclosure_Prevention_Insights.pdf)

### Linking Colleges to Communities: Engaging the University for Community Development

The nation's more than 4,000 public and private colleges and universities are increasingly referred to as "anchor" institutions. With rare exceptions, they almost never move their location once established. There are scores of examples of campuses that have begun to harness their scholarly and economic power to directly benefit society outside the walls of the campus. University-community partnerships are becoming an important element in reinvigorating civic life. Yet, overall, higher education remains a "sleeping giant" when it comes to strategically using its considerable resources to meet the challenges facing communities, particularly the needs of the most disadvantaged citizens.

This report reviews the history of policy and funding decisions that have shaped the agenda and direction of higher education. The author surveys the growing movement for university-community engagement from service-learning and community-based research to university financial strategies that are investing millions of dollars annually in community development. — *Excerpt from the report.* <http://community-wealth.org/articles/index.html>

**AUTHOR**  
OCC

**AUTHOR**  
STEVEN DUBB  
THE DEMOCRACY  
COLLABORATIVE

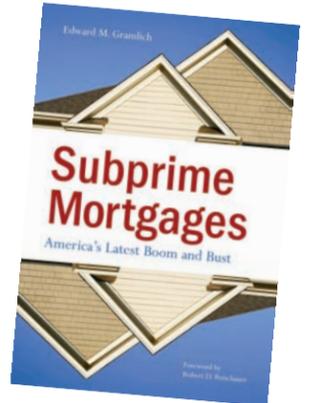
### Subprime Mortgages: America's Latest Boom and Bust

Over the past decade, a new mortgage market—offering loans at low interest rates and for little or no money down—has given low-income people an opportunity to pursue the American dream of homeownership. The resulting wave in home buying promised to stabilize neighborhoods and families, boost the economy, and reduce crime.

*Subprime Mortgages: America's Latest Boom and Bust* analyzes how the subprime market emerged, why it is in crisis, and how public policy can be reformed to avert disaster. An examination of the rental market also offers recommendations for shoring up what may be the best housing option for some families. — *Excerpt from the Urban Institute.*

[www.urban.org/books/subprimemortgages](http://www.urban.org/books/subprimemortgages)

*In memory of Edward M. Gramlich*



**AUTHOR**  
EDWARD M. GRAMLICH  
THE URBAN INSTITUTE

### Report to the Congress on Credit Scoring and Its Effects on the Availability and Affordability of Credit

The Fair and Accurate Transactions Act of 2003 directed the Federal Reserve Board and the Federal Trade Commission (FTC) to study the effects of credit scoring on credit and insurance markets and to report their findings to Congress. The Board's report covers credit markets; the FTC has issued a separate report covering insurance. In the broadest terms, these are the findings:

- The credit history scores evaluated are predictive of credit risk for the population as a whole and for all major demographic groups.
- Results obtained with the model, estimated especially for this study, suggest that the credit characteristics included in credit history scoring models do not serve as substitutes or proxies for race, ethnicity or sex.
- Different demographic groups have substantially different credit scores, on average.
- Evidence provided by commenters, previous research and the present analysis supports the conclusion that credit has become more available over the past quarter-century.

This report was prepared using two types of information. The first was gathered from public comments submitted for the report and from a review of previous research and surveys. The second came from unique research conducted by the staff of the Federal Reserve Board specifically for this study. — *Excerpt from the report.* [www.federalreserve.gov/boarddocs/RptCongress/creditscore/creditscore.pdf](http://www.federalreserve.gov/boarddocs/RptCongress/creditscore/creditscore.pdf)

**REPORT AUTHORS**  
BOARD OF GOVERNORS  
FEDERAL RESERVE SYSTEM