

PREPARED STATEMENT OF
THE FEDERAL TRADE COMMISSION

Before the

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
U.S. SENATE

on

Financial Literacy
And Consumer Education

July 29, 2003

Mr. Chairman and members of the Committee, my name is Joel Winston. I am Associate Director for Financial Practices at the Federal Trade Commission ("Commission" or "FTC"). The division I head is responsible for enforcing the various consumer credit laws subject to the Commission's jurisdiction.⁽¹⁾

I am pleased to appear today to discuss "financial literacy," both generally and as it relates to the Fair Credit Reporting Act ("FCRA"). This is a topic of critical importance, especially because the FCRA relies on the vigilance of consumers in protecting their own rights. Our economy operates most efficiently when consumers understand the credit system so that they can make the best decisions about their finances.

I. The FTC's Consumer Education Program

The Commission has undertaken significant efforts to educate consumers about financial matters generally and credit issues specifically. Consumer education is among our most important tools in the fight against fraud and deception, because consumers are their own first line of defense. Through our Division of Consumer and Business Education, we continue to develop creative and effective ways of reaching consumers to arm them with the information they need. We have over 30 publications related to consumer credit topics, ranging from advance-fee loans⁽²⁾ to vehicle financing.⁽³⁾ These publications are available directly from the FTC and through a variety of partner organizations and the Federal Citizen Information Center in Pueblo, Colorado. All these materials are on the Commission's Web site at www.ftc.gov. Credit publications have consistently been among the Commission's most popular items. Last year, we distributed about 2 million credit-related brochures in print, and consumers accessed these publications on the Commission's Web site another 1.5 million times. Twelve of our credit publications are available in Spanish, and more are in the translation pipeline.

Both at our headquarters here in Washington and in our regional offices, we have partnered with many outside organizations to improve financial literacy. For example, our Northeast Region works with colleges and universities in an effort called "Project Credit Smarts," in which we make presentations and distribute credit-related publications during student orientation sessions. We have similar working relationships with organizations such as the JumpStart Clearinghouse, the American Savings Education Council, AARP, the Consumer Federation of America's Consumer Literacy Consortium, the National Consumers League, and the Department of Defense. We also distribute financial education materials at national meetings of the NAACP, National Urban League, National Council of La Raza, and the League of United Latin American Citizens, among others.

When the Commission takes law enforcement action, it strives to combine it with an educational effort. Each action comes with a press release and outreach efforts to consumers. Many cases are accompanied by a consumer education publication that re-emphasizes the messages consumers should take away from the case.⁽⁴⁾

Our identity theft program is another important way in which we educate consumers about credit matters. One of the most devastating consequences of identity theft is the damage that it causes to the victim's credit record. As you know, Congress designated the Commission to operate the national clearinghouse for ID theft complaints. We offer publications with tips on how to avoid identity theft and what to do if it happens. Last year, the Commission distributed about 1 million ID theft publications and registered an estimated 2 million hits to our ID theft Web site.

There are many sources of financial education materials throughout government and the private sector. For example, the National Endowment for Financial Education, a non-profit foundation, provides funding, support and expertise to develop financial literacy programs for the public. The three major credit bureaus and Fair, Isaac & Co., a major developer of credit scores, all operate Web sites with useful information about credit reports and scores.

II. Consumer Education and the FCRA

Unfortunately, many consumers have limited knowledge of our credit reporting system. They may not realize that information about their financial history is compiled and sold, not just to creditors, but also to employers, insurers, landlords, utilities, and others who use it to make decisions. Consumers may not know what information is reported about them, who uses it, and for what purposes. They may not understand how that information affects their ability to get a loan, insurance, or a job, and what rights they have to ensure that the information is accurate. Uninformed consumers may not take the steps they should to improve their credit ratings or correct errors. Improving financial literacy may not by itself ensure that consumers are successful in using our credit system, but it's certainly a key component.

It also is important to remember that the FCRA itself serves an important educational function. The FCRA mandates that information be made available to consumers in many different contexts. Perhaps most important, the law requires that lenders and other users of credit reports notify consumers when they take "adverse action" based on information from a credit report. The notice must tell consumers that the action was based, in whole or in part, on information in a credit report. The notice also must disclose which credit bureau supplied the report, and advise consumers of their rights to a free copy of the report and to dispute the accuracy of the information in it. This notice puts credit reports in consumers' hands when they are the most motivated to act on it - that is, after they have been denied credit, insurance, employment, or benefits based on the report.

Consumers receive additional information when they obtain credit reports from the bureaus, whether in response to an adverse action notice or otherwise. In 1996, Congress mandated that the bureaus send with the report a copy of a document called a "Summary of Consumer Rights." This summary briefly describes the FCRA and explains the consumer's rights under the statute, and directs consumers to the FTC's Web site, which has extensive information about the FCRA and other credit laws, and to the Commission's toll-free telephone helpline.

The Commission's legislative recommendations, about which Chairman Muris testified before this Committee on July 10, would result in better-educated consumers.⁽⁵⁾ Our proposals would put more information in consumers' hands by (1) expanding consumers' right to adverse action notices when they are offered less favorable credit terms; (2) making annual credit reports available at no charge, and (3) giving consumers more information about their credit scores along with explanatory materials.

The Commission's proposals also would empower consumers to act on this improved information by streamlining the dispute process. For example, the Commission supports an amendment that would require resellers of consumer reports to submit disputes to the originating repository to investigate these disputes.⁽⁶⁾ In addition, the Commission believes that the law should be amended to require furnishers of information to investigate consumer disputes when the consumers contact them directly.⁽⁷⁾

Thank you for the opportunity to discuss the Commission's efforts in the area of financial literacy. I will be happy to answer any questions you may have.

1. The views expressed in this statement represent the views of the Commission. My oral presentation and responses to questions are my own and do not necessarily represent the views of the Commission or any Commissioner.

2. "Easy Credit? Not So Fast. The Truth About Advance Fee Loan Scams".

3. "Understanding Vehicle Financing".

4. For example, the Commission's announcement of its [settlement](#) with Mercantile Mortgage Co. included consumer education regarding home equity loans.

5. See [Testimony of Timothy J. Muris](#) Before the Senate Committee on Banking, Housing, and Urban Affairs, July 10, 2003

6. *See id.* at 10.

7. *See id.* at 15.