

>> Robin Thurston: Hello, everyone. We're gonna go ahead and get started to try to keep us on track this afternoon, not keep you all here too late. My name's Robin Thurston. I'm an attorney with the Federal Trade Commission. And this is Panel 6, which is "Special Programs to Enhance Consumers' Financial Literacy." We have another great group of panelists. To my right is Susie Irvine, who is president and CEO of the AFSA Education Foundation. Next is Jerry Jackson, a personal financial management program manager at Lackland Air Force Base. To his right, John Van Alst, an attorney at the National Consumer Law Center. And, finally, at the end of the table,

car buyers. A number of other entities. I actually work with -- direct a program called "Working Cars for Working Families," that works with a number of nonprofits that provide cars to low-income families. Its subsidized rates were basically at no cost at all to the consumer. And tried to do consumer education, as well. There are a lot of other -- [Speaks indistinctly] But I do think it's concerning the folks who have looked at this. There was a recent GAO study in April of this year. I know CFA -- Consumer Federation of America -- looked at some of these issues last year in some testimony that they were

>> Robin Thurston: Jerry?

>> Jerry Jackson: As a financial counselor for the Air Force, we primarily try to touch our new members coming in, and it's primarily the Air Force folks. We try to instill in them financial literacy, and we try to encourage them to use the resources that are available to them, like their bank and their credit unions, okay? we have a class -- it's called First Term Airmen's Center -- where we actually go through financial literacy. We start with the budget and spending. We talk to them about financial institutions and about how to use those. Credit cards, checkbook maintenance. Credit and debt issues, 'cause that do affect our military readiness -- not just the military, but the civilians as well. And in car buying, we have someone that actually comes in as one of our financial institutions, someone from one of our credit unions. She comes in, and she does about an hour briefing on car buying. She goes over financing. She goes over insurance -- gap insurance -- those type things -- trade-ins, okay? And basically you're just trying to give them a wealth of knowledge about car buying. And so we just try to use the basic financial literacy and being knowledgeable about using financial resources.

>> Susie Irvine: I'd like to say one more thing about it. We feel pretty strongly that financial-literacy education really needs to be in grades K through 12. Much like math and reading, these concepts can evolve over time. To that end, we did develop "MoneySKILL," which is a complete online textbook that's been converted to an online course. And retention -- I would agree with John. That's one of the next things we want to do with our "MoneySKILL," is to test the stickiness of the skills over a period of two to three years with the students going through it.

>> Robin Thurston: Now, are there areas -- specific areas of car purchasing or financing -- in which financial education has been relatively more successful or less successful -- or specific issues? John, go ahead.

>> John Van Alst: I think -- You know, it was interesting -- our first panel this morning, when Keith brought it up -- how complex these transactions actually are, that you're negotiating and purchasing a car, you're negotiating and purchasing financing, you're negotiating -- selling your trade-in. Oftentimes, there's a whole litany of add-ons that you're trying to make a decision about,

as well. And that's a very difficult assignment for anyone. You know, I do this work, you know, and have for years and years. And it's something that I would feel, you know, go to buy a car. This is a very important thing to do. You know, the GAO did a study, and I think it's right around 50% of the folks in the United States can read at an 8th-grade level. I think it's a lot to expect that education -- learn financial education, learning consumer education awareness, and then address these issues. I think it's important in all of our discussions today that we have to look at regulation -- effective regulation -- effective enforcement of regulation -- and consumer education if we're going to actually address these issues. It was really interesting earlier in the previous panel when Pam talked a little bit about the need for transparency. And in order to achieve a lot of these things, we're certainly are gonna have to have regulations that make these transactions transparent. When we look at different methods of educating people -- a lot of discussion -- At lunch we were talking a little bit about problems people encounter when they're buying a car. And there was a discussion

>> Jerry Jackson: Okay, for our military members, we try to offer that open-door policy as a financial counselor. We do the initial training, but then we also offer them that one-on-one -- You can come in and sit down and talk with a financial counselor. We can help you to go over those steps for doing effective car buying. And if they don't want to come in and talk to us, well, then go to your bank or your credit union. For example, U

this as a percentage or whatever. We tend to just say there's sort of a high chance, a medium chance, and low chance and simplify our decisions because it's such a complex decision to make. So when you're out trying to buy, decide -- You know, earlier Keith said, you know, most consumers, it's a bad deal to get credit life insurance, credit disability insurance. You look at the payouts compared to the premiums, and it's not a good deal for consumers. But for a consumer to try to make that decision and try to get all that information and understand all that information is a really incredibly complex and difficult thing that I think, you know, a lot to expect.

>> Robin Thurston: Are consumers interested in increasing their financial literacy, and if they're not, any ideas why not?

>> Susie Irvine: I would say they are interested, and I'm just gonna fall back on -- I looked at the hits on our "Understanding Vehicle Financing" brochure, and there's been, to date, just this year, online, 6,000 hits, of people going in to look at the brochure and utilize it. I can't imagine anybody going in, and I'll use myself, you know, to buy a car, without spending some time preparing myself for it. And, I think, you know, maybe our 18- to 24-year-olds, they're more convenience-driven and maybe a bit more impulsive, 'cause they're young and they see the shinier cars. But hopefully, either they will take the time to prepare themselves, or they will go to a dealer that will point out to them this is a pretty important decision. And we need to make sure that you can afford that car that you drive out of here. There's a responsibility on both parts.

>> Robin Thurston: Greg.

>> Greg Zak: Well, I would agree with Susie on that, shall we say, older consumer -- not necessarily older, but certainly not that 18- to 25-year age group. Many times, in my experience with that age group, whenever you're looking at their credit report and they do have numerous obligations that have been charged off on the credit report, and you go to engage them and talk to them and say, "Look, you know, you've got a dozen different obligations here -- obligations you didn't pay." And they total most times a minimal amount of money -- \$1,000. A couple thousand dollars. And I have talked with numerous of them. Say, "Go back, contact these creditors, and pay this to help yourself, you know. It will translate into you multiple thousands of dollars years from

now, and that you won't be succumb to paying higher interest rates on trying to purchase and finance -- purchases. And you won't be told no so many times." And for many of them, it's just, you know, no one's ever told them that. And I tell them, you know, "Many times, these creditors will settle for 10, 20 cents on the dollar. But you need to take the step in order to go do that." And unfortunately, we have too many -- those being, I think, attorneys or different type of agencies around that are advertising, "Come to me, I'll wipe out all your past sins." well, there's nothing more the consumer can do themselves by contacting the credit bureau and going through and inquiring about those items on their credit report to see if they're actually legitimate or not. And I tell them many times, "You can do that yourself for free." So I tried to encourage them to do that, and I've done that many, many times over the years. Unfortunately, that younger age group doesn't seem to care. And that's the real sad part, that they continue to go along in life and they don't care.

>> Robin Thurston: John.

>> John Van Alst: I think that, yeah, probably Susie sort of said earlier -- the folks who probably need education the least are those who probably have the most incentive to go get it and are the most likelihood that they're gonna go get it. And the folks -- You know, if it's service member about to do a tour, and you think perhaps -- I don't know if it's rational or not, but, you know, if I come back alive and over my head and under water on this car loan, gosh, there are a whole lot worse things that could happen. You know, this is what I want to go out and do. Or if you've got -- You know, Greg mentioned earlier -- Folks who began at home -- You know, they never learned a lot of these sort of principal, basic issues around financial literacy. At that point, if this is gonna be such an overwhelming undertaking to try to understand this transaction, you probably do have -- I forget who it was earlier -- One of the panelists said, you know, you're gonna pay for this one way or another, either in a bunch of abusive sort of costs or from your wallet or in time spent trying to learn and understand this transaction. I think for folks who -- It's gonna be a real undertaking just to get to the point where they sort of understand compound interest and all those other sort of basic principles. They sit down and look and think, you know, "Is it really gonna truly be worth it to go through all of this for this transaction?" I think that's a real detriment. There's no easy answer. When I used to work at Legal Aid, I used to do day-long sort of attempts at car-buyer education. We'd go out to a community college and get a mechanic to show, you know, sort of what you ought

even lower level, in terms of their ability to actually read and understand, even if they're provided a

>> Jim Chen: And taking off on what you said about persons who have been turned down for loans

not only getting over any issues of apathy, but also getting over this illusion that people are actually smarter about all things to do with buying a car than they actually are.

>> Jim Chen: Susie? Want to comment on that?

>> Susie Irvine: I have nothing, really, to base this on, any research, but I do think probably females spend more time researching it, because men do think they're so much smarter in this process. [Laughter] But, you know, I mean, I myself personally like a man to go with me when I buy a car. I've done it on my own, but I do think that we do educate ourself maybe a bit more.

>> Jeremy Anwyl: Just don't let the man make the decisions.

>> Susie Irvine: I don't.

>> Jeremy Anwyl: There you go.

>> Jim Chen: Alberto?

>> Alberto Mesta Jr.: I think many times when researching for financing, I think the process should be more complicated, especially with knowing about your credit score. I think everybody has gone to school. Everybody knows what getting an "A" or having an "A" grade-point average versus an "F" grade-point average, so it's kind of like hard when you go, try to pull your credit score when the mathematics is a little bit different. So you don't know what's the difference between, like, 640 or 720, 'cause how we're used to learning, especially how with numbers, it's based upon your grade-school performance. You know, what is 4.0 GPA versus a 2.0. So many times, I always wondered whether simplifying how we rate credit into something that was more familiar to what most people experience during their lifetime, especially going to school. Will it help people grasp at the concept of credit score more easily by using that terminology that they're so used to.

>> Jim Chen: And have there been any efforts put in that regard? What is being done new to help people understand credit scores better, since it's obviously such a huge part of auto financing?

>> Alberto Mesta Jr.: I don't know. We'll ask my other panelists to see if something like that's been thought of.

>> Jim Chen: Jeremy?

>> Jeremy Anwyl: Well, I think you're raising an interesting point, because when you think about providing information to consumers -- say you're providing information about a vehicle -- it's the same information, no matter which consumer is looking at that vehicle. When you're starting to talk to consumers about financial options, the options vary wildly based on the credit profile of that consumer. So one of the things that could be thought through in terms of how to make this easier for consumers, is how do you blend their credit score into the providing of information. How do you -- getting a credit score isn't that straightforward of a process, and generally it's not even free. So there's barriers to doing this. But when you think about this from an Internet publisher's perspective, there's all sorts of information that's out there, and we all understand the principle of customizing the information so that it's relevant and applicable to that particular consumer. But you don't know enough about the consumer to actually do that, and one of the impediments is actually the credit score. So I can see a pathway that you could go down where getting access to credit scores -- getting access to your own credit score was actually easier for a consumer, and then they could then use that to get personalized information presented to them -- not just the interest rates and things like that, but actually more in the way of advice. Depending on whatever their credit score was, the sorts of vehicles that they should be thinking about, financing options, is leasing a good idea, is financing the best way to go? You know, et cetera, et cetera.

>> Jim Chen: We'll go to Alan.

>> Alan Mosher: I think, and I'm not sure that I have the answer. In fact, I'm pretty sure I don't, but I'm not sure how you can create an educational program that makes them care. And I think that's part of the issue. A couple of panels ago, Mike Wood disclosed to us that when he was 18, he

you can try to do the right thing for the consumer. Try to present them with information that really ought to be aware of. But in many ways, it creates frustration. They're just not that interested.

>> Jim Chen: Al.

>> Alan Mosher: I would agree with that and also with what Susie said. Something that Susie said in the last seminar about MoneySKILL and getting this kind of educational material into students' hands an earlier age. And I'd like to see, you know -- I know we don't have any of those kinds of numbers yet, but I'd like to see some numbers -- whether some of the issues that have been talked about throughout the day with comparing early education opportunities and that people who did

just has an aversion to doing math. Until we change that, it could be very hard to try to, you know, teach financial literacy in tell people how -- what would be most beneficial to them in conducting financial decisions.

>> Jim Chen: Now, practically speaking, most people can't buy a car until a certain age, and it sounds like some of the panelists are suggesting that the financial education, the literacy education needs to come in even earlier. But how do you make that relatable to someone that's, say, 12 or 13, that they can't buy a car. What would be a good foundation to give them the tools to make better decisions when they are of age to buy a car?

>> Alberto Mesta Jr.: Well, I think given the example that they really want that car that's in a music video, this is how you're supposed to be able to obtain it, by having a good credit score and actually how that would impact your decision. Everybody relates to that -- having a desire for something that's advertised on television. You know, just use that. And to educational purposes, or using some sort of social media application to try to teach somebody younger, like, this is the consequences. Or the factors that need to be into play in order to obtain what you desire -- that car.

>> Jim Chen: Susie?

>> Susie Irvine: I would say most 12 and 13-year-olds, they're really thinking about cars, because, as parents, all of us have had that kid that wanted to drive our car up and down the driveway, I'm sure. So they're already thinking about it. What we have in our middle-school curriculum that we're gonna release in August is we start exposing them to the concepts on credit history, credit scores, unsecured borrowing, secured borrowing. And not that we necessarily go into so much specifically auto financing but secured borrowing, is what --

>> Jim Chen: Al?

>> Alan Mosher: And that was very similar to what I was gonna say. As we're trying to teach younger children and young adults the path to a bright financial future, auto financing is certainly

what it takes to get there. And so, you know, I don't know that teaching 8- or 9-year-

>> Jim Chen: Al.

>> Alan Mosher: I would both agree and disagree with Jeremy. I don't think there is a number in the used-car market that equates with invoice price in the new-car market. There are certainly guides that make sense that give you some semblance of the value of a used car. But every used car is unique. It's gonna have different mileage. It's gonna have different tread depth left on the tires. It's gonna have a different amount of parking-lot dings it's picked up in its life. And so while every Ford Mustang, since that tends to be our new car of choice we've used all day, comes off the lot with the same equipment, carries the same invoice price, and the same manufacturer's suggested retail price and is precisely the same, except perhaps for its color, that's not true in the used-car market. And so you can get some guides, and there are some good national guides and figures available, via the Internet or other forms that give you a pretty good idea of a small range of value for that used car. There is nothing that is the same as the invoice price.

>> Jim Chen: Alberto.

>> Alberto Mesta Jr.: I represent a lot of low-income individuals, and having something like the Blue Book and have them use it even more is essential, especially because they don't have that

market conditions, and some of these tools get down to the zip code. There's an emotional aspect of buying a car, so there are always this random element that's kind of hard to quantify. But mathematically, there's pretty good data. And when you start looking at the mass of vehicles that gets sold, there is this consistency where you can start to put values on vehicles with some degree of accuracy.

>> Jim Chen: And do we know if more people are taking advantage of those tools, as compared with tools for purchasing new cars? Jeremy?

>> Jeremy Anwyl: Yeah. When you start to think about what people are doing on the Internet, getting pricing is a very big feature. And at least on our site, about 50% of the traffic focuses on new cars, and about 50% focuses on used. About half of the people who are looking at used are actually looking to find out what their trade-in is worth. So they're actually really thinking about it in the context of a new-car transaction. But there is an awful lot of interest when it comes to pricing information online.

>> Jim Chen: And further to that, do the panelists feel that information on car pricing is readily available to all populations? Or are there some groups that need more guidance on where to find car pricing?

>> Alberto?

>> Alberto Mesta Jr.: I think with my client base that tends to be recent immigrants or people that their language is primarily not English -- Many times, that information is difficult to find. One is that most tend not to have Internet access, even under smartphones. So they have to rely on either word of mouth or try to see if maybe somebody else can give them some sort of Internet access. So for most low-income consumers that tend to be lower-educated, Internet access is, I think, an issue, especially if their language is not primarily English.

>> Jim Chen: Jeremy?

presentation of the information? And if you're providing a set of comparisons about interest rates, you have to know something about the consumer in order to do that in a way that's meaningful.

>> Jim Chen: Now, we've also heard a lot over this day about the various types of disclosures that are being made to consumers. I'd like to see the panel's opinions on what are the most helpful disclosures that are out there and what the least helpful ones are. Jeremy?

>> Jeremy Anwyl: It just seems -- I've heard a lot of horror stories today. I guess maybe I'm a little bit optimistic, but I think most vehicle transactions don't have problems, and I think from a disclosure perspective, the thing that people do care about is, what are they paying on a monthly basis for the vehicle, what the interest rate is, what the down payment is. It's the same sort of thing we were talking about. The in-depth disclosures you're talking about become, really, a factor when there's a problem. But that's despite all the bad situations we've heard about today. That is still a rarity. So I think for most consumers, they're not that -- They're just not gonna sit down and listen to a lot of that. You even find that in -- We just did a safety conference in Washington, and one of the issues we were running into there is that consumers don't know how

>> Alan Mosher: You know, I -- I would tell you no. It is not substantially higher than the repossession rate of dealer-assisted financing, where a used-car or new-car dealer helps someone arrange financing with a third party. The repossession rates -- In fact, one of the things that we teach in particular is "repossess the customer, not the car." Find a way to work it out with the customer. Take the car as a last resort.

>> Female Speaker: And then second question to that. What is the average interest rate that someone would get offered, based on their score?

>> Alan Mosher: Surprisingly enough for what most people think, the average interest rate at "buy here, pay here" dealers across the country is just under 15%, which, in many cases, is lower than the interest rate they get from subprime finance companies.

>> Male Speaker: I've listened to what we've said today, and it seems like when we're dealing with financial literacy and fraud, the issue is always money. And I was wondering if there was a way to make consumers protectors of the financial industry by incentivizing their disclosing fraud. So if you went to a dealer and you got a loan, then the bank would follow up and say, "Well, were these things disclosed to you?" And if they weren't, you'd get a percentage off for some funds for whistle blowing, essentially. Or if there was a way when you applied for a loan online, as part of that application process with the credit union or with the bank, you would take a quick pop quiz on, like, Edmunds, where you could find out the fair value of the car and the maintenance and could certify that you knew all these things before you bought the car, and then you'd get another percentage point off of your loan, because you're a more informed consumer. So if we empower consumers by incentivizing their knowledge and rewarding them for disclosing fraud, maybe we could start to educate them and they'd want to be educated.

>> Alan Mosher: You know, there's a wide vari

think you see more and more finance institutions doing some sort of verification of what they're being told. And part of that includes verifying what the dealer has told them, as well. Does the car really have a sunroof? Is it really the XL model? You know, et cetera. And having the consumer verify the details of the transaction seems to be almost a natural step on from there. Now, how you'd build in any kind of incentives -- I'm not sure how that would work, but it certainly is an interesting concept.

>> Male Speaker: Thanks. A couple points that stuck out to me as we've had these conversations on financial literacy -- One is that we're operating under an assumption that if people aren't accessing the information, that it's necessarily apathy, that the reason they're not accessing is because they don't care, versus an issue of, is there too much information available? Is it overwhelming? We're also assuming that this is the only financial transaction that somebody is paying attention to. If you think about the range of financial transactions that people have to deal with and just transactions generally, we're expecting people to be investment experts, because they're having to balance their investment portfolios. We're expecting people to understand the car-financing business and all the different variables that are in there. There's behavioral economics research that suggests that most people can't handle more than seven different variables in a transaction before they start to oversimplify. And so this issue of, why are they looking at monthly payment versus the other things may play into that. I wonder if the folks on the panel have a reaction to this presumption that if the information's out there and it's not being accessed, that it necessarily has to be that and tneo

negative view of humanity, but when you do talk to some behavioral psychologists, they tend to argue that human beings are pretty bad at making decisions and we're terrible judges of risk. And if you go down that pathway too far, we shouldn't be allowed to be buying cars, because there's no way that the average consumer is gonna be able to weigh all the pros and cons and to be a good judge of the decisions that we're asking them to make. I choose not to go in that direction, but there's certainly a body of evidence that would support that, if you wanted to make that case.

>> Jim Chen: Susie?

>> Susie Irvine: Time is a very important resource, just along with our money. I might mention that with our MoneySKILL, twice a year, I send out an e-mail promoting to all the teachers the Auto Financing 101. We were looking at the hits online on that yesterday, and the lady working with me said it spiked in the months of September. A0(y)2 were ctd1(houl)-2(1)-2(k)-10(y)20(e)4s c

>> Male Speaker: I just want to make a few comments. Many of y'all had referenced the different guides --

marketplace -- more volatility than we've seen in the past in the used-car-pricing marketplace as a basis of -- through the financial crisis. But I just can't let a statement be made publicly that the values in the NADA used-car guide and, to that suspicion, in the Black Book and Kelley Book that are not being based on market data. They are based on massive amounts of market data, and they are exceedingly responsive. And for any one particular transaction going through one auction, they may not be reflective. They're just guides. But they are based on incredibly sophisticated algorithms using massive amounts of market data, and they are very reflective of the market.

>> Jim Chen: Well, thank you ver