



**Testimony of**

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**On behalf of**

**The National Association of Federal Credit Unions**

**“Improving Financial Literacy:  
Working Together to Develop Private Sector Coordination and Solutions”**

**Before the**

**House Financial Services Committee**

**Subcommittee on Financial Institutions and Consumer Credit**

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## *Introduction*

The National Association of Federal Credit Unions (NAFCU) is the only national organization exclusively representing the interests of the nation's federally chartered credit unions. NAFCU is comprised of over 800 federal credit unions—member owned financial institutions across the nation—representing over 27 million individual credit union members. NAFCU member credit unions collectively account for approximately two-thirds of the assets of all federal credit unions in the United States. NAFCU, and the entire credit union community, appreciate the opportunity to participate in this important discussion about financial literacy and education.

I am Frank Pollack and I currently serve as the President and CEO of Pentagon Federal Credit Union headquartered in Alexandria, Virginia. With \$9 billion in assets, Pentagon FCU serves over 600,000 members in the Air Force, Army, Coast Guard, Department of Homeland Security, Department of Defense, defense-related companies, and the Veterans of Foreign Wars. We were federally chartered in 1935 and serve our members worldwide. I have been involved in the credit union movement for over 28 years, having been with Pentagon Federal Credit Union since 1978. Beginning as a Loan Portfolio Analyst in the Credit Committee, I held successively progressive positions before being appointed to the position of Executive Vice President, Operations in 1997. In 1999, I assumed my current position as President and CEO of the credit union.

As Americans are faced with an ever widening array of financial services, it is important that consumers are armed with a sound understanding of the basics of personal

finance. Financially literate individuals are more likely to spend prudently and put money in savings, retirement funds and other wealth building accounts. Conversely, the same individuals are less likely to rack up large, burdensome—and sometimes unaffordable—debt.

NAFCU and our member credit unions know that financial literacy is an issue that touches all Americans – at every age and income level. Intertwined with financial literacy is personal savings. The nation’s savings rate is slumping and personal savings are near their lowest level since the Great Depression. In 2005, the national savings rate fell below zero—meaning that we spent more than we earned—for the first time since 1933.<sup>1</sup> Large numbers of Americans habitually spend instead of save. Credit unions know that saving is a matter of choice and that the most important factor in long-term wealth accumulation is the act of saving itself. NAFCU is proud to be pro-actively involved in promoting financial literacy and personal savings in America. NAFCU is pleased to have been both a sponsor of and a participant in this year’s National Summit on Retirement Savings.

NAFCU created and has made available to credit unions for the last few years a financial education curriculum based on the Federal Deposit Insurance Corporation’s (FDIC) Money Smart program. The curriculum, tailored to credit unions, is aimed at teaching individuals outside the financial mainstream how to manage their finances,

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<sup>1</sup> Final Report on 2006 National Summit on Retirement Savings, citing U.S. Department of Commerce, Bureau of Economic Affairs, *National Income and Product Accounts*

while also stressing the importance of long-term saving. In addition, the curriculum discusses the basics of borrowing and the importance of sound debt management.

Credit unions have long been at the forefront of financial education. Credit union employees have been helping teach personal finance in schools for years. In addition, credit unions have developed a list of financial education classes too numerous to list here, as well as providing valuable one-on-one consultations with individuals who wish to learn how to better manage their finances.

Additionally, the credit union industry is a key partner in the fight against predatory lending, as recognized by the August 9, 2006 “Report on Predatory Lending Practices Directed at Members of the Armed Forces and Their Dependents,” issued by the Department of Defense. The credit union movement is dedicated to helping its members to avoid unscrupulous lenders by providing members with low-cost loan alternatives and offering financial education to assist members in developing sound debt management skills.

### ***Working with Local and Federal Agencies in Promoting Financial Education***

For years, credit unions have successfully partnered with federal and local government agencies in order to promote financial literacy across the nation. According to NAFCU’s July 2006 *Flash Report*, 22 percent of credit unions surveyed are collaborating with U.S. Government agencies in their financial education efforts.

The National Credit Union Administration (NCUA), the independent federal agency that charters and supervises federal credit unions, has been imperative to the national effort to foster financial knowledge. Credit unions have joined with the NCUA in numerous important programs including:

- NCUA's Access Across America initiative
- Biz Kid\$ public television program
- The National Youth Involvement Board

As well, NCUA Chairman JoAnn Johnson serves on the Financial Literacy and Education Commission (FLEC), which is comprised of 20 federal agencies and chaired by the Secretary of the Treasury. The Commission was created by Congress in 2003 to improve financial literacy and education for people throughout the United States. Since launching its National Strategy for Financial Literacy in April 2006, the Commission has successfully carried out a number of its "Calls to Action," including improvements to the [www.mymoney.gov](http://www.mymoney.gov) website and the 1-888-mymoney telephone hotline; the first of several quarterly summits on reaching the "unbanked;" and a roundtable meeting in which government, non-profit, private sector, and trade association participants, including NAFCU, discussed the advancement of homeownership.

Credit unions have also collaborated with local government, community groups, and school boards to promote financial literacy throughout America. Through these

positive partnerships, dedicated credit union staff and volunteers have made a difference at the local level by visiting youth groups, teaching at local schools, donating credit union resources, and participating in community education events to provide citizens young and old with sound money management skills.

### ***Trends in Credit Union Financial Education Programs***

Financial education and volunteerism embodies the guiding principle of the credit union system—“People Helping People.” Data from NAFCU’s July 2006 *Flash Report* survey indicates that 94 percent of responding credit unions contribute to the betterment of their communities by offering financial education programs. Among these, a vast majority of credit unions—78 percent—offer general financial education programs to teach their members the fundamentals of personal finance management.

Credit unions understand that responsible money management is one of life’s most vital skills, a skill that is best learned early on. It is critical that children are provided with the tools they need to enable them to achieve their dreams for success. Recognizing this, credit unions are making an extraordinary impact on youth financial literacy. According to NAFCU’s data, a large majority of those credit unions offering financial education also offer youth-oriented programs: 73 percent of credit unions surveyed offer programs for members ages 25 and younger; 48 percent offer programs for high school students; and 42 percent provide education oriented toward younger, elementary school children. Additionally, NAFCU member credit unions indicate that 40

percent offer programs for middle school students, while 30 percent specifically target college students.

Just as important as early education, is *late* education. In recent years, personal savings has become increasingly important to an individual's future retirement security. With this increased emphasis on individual responsibility for retirement income, credit unions are also recognizing the need for financial education for those in the latter stages of their lives. Accordingly, credit unions are rising to the challenge of providing financial education to older Americans; indeed, 43 percent of NAFCU member credit unions surveyed indicated that they offer programs geared towards retirees.

Other groups that credit unions' financial literacy efforts target include military families, women, and underserved communities. Various groups have very different needs and credit unions are making great strides to strengthen the financial literacy of Americans of all ages and backgrounds.

### ***Shining Examples of Successful Education Strategies***

Many credit unions have extremely innovative financial literacy programs to educate their members and to assist them in becoming more financially literate. I would like to share a few success stories with you. But first, I would like to tell you a bit about my credit union's own financial literacy program.

In 2001, as a response to the difficulties experienced by some military personnel in achieving financial security for themselves and their families while serving in the armed forces, Pentagon FCU created The Pentagon Federal Credit Union Foundation (Foundation), a nonprofit organization fully devoted to improving the financial literacy and well-being of the military members served by the credit union. Many young servicemembers have little grounding in the basics of budgeting, wise spending, and saving. This inexperience is compounded by the general nature of military service—members are often in distant locations and subject to frequent duty station changes, leaving the financial responsibilities to spouses and family members. The Foundation’s programs are designed to creatively address these challenging circumstances.

For example, as discussed in the August 9, 2006 Department of Defense report entitled, “Report on Predatory Lending Practices Directed at Members of the Armed Forces and Their Dependents,” predatory lenders thrive from being near military bases and often take advantage of inexperienced junior military personnel by giving them high-cost payday loans. Some of these abusive and unscrupulous lenders charge young service-members up to 1000 percent interest on short-term loans. Payday lenders purposefully seek out young and financially inexperienced borrowers who have steady jobs but also have little savings, and flawed, little, or no credit. Most predatory lending business models further exploit the borrower’s inability to pay the loan when due by encouraging extensions through refinancing and loan flipping. These refinances often include additional high fees and little or no payment of principal, thereby trapping financially unsophisticated service-members in a vicious cycle of debt.

To combat predatory payday lending, we offer the Asset Recovery Kit (ARK) program, which provides low-cost, small cash loans to our military members. Along with the low-interest loans, members are required to undergo financial counseling so they can learn how to successfully manage their finances. Neither the Foundation nor the credit union earns a profit from the program; the sole purpose is to help our members to develop solid budgeting skills and to foster a relationship with Pentagon FCU, a financial institution that works in its members' interest rather than to extract an exorbitant profit.

The Foundation also uses two unique concepts to provide financial education in a new and inventive manner. First, we provide members with interactive, online financial education that builds on the concept of "accidental learning." In accidental learning, a member playing a web-based game learns about money management as a means of scoring; however, the financial concepts are not the overt focus of the game. The program utilizes electronic games, cartoons, and competitive situations to teach financial literacy, and is specifically designed to target younger members who find it difficult to learn through traditional books and written materials.

Second, with our Dream Circles program, the Foundation uses the "home party model" to propagate financial education to military families. Military spouses have a strong tradition of sharing resources and relying on one another for information and knowledge. This tradition creates a powerful conduit for the sharing of successful strategies for financial planning and money management. By creating a network of

military spouses and volunteers with financial expertise, knowledge can be successfully disseminated in a manner in which these members are already very accustomed.

Another major initiative by the Foundation is a program called Dream Makers. This program is aimed at helping military personnel and Department of Defense employees to achieve the American dream of homeownership. Members who are first-time homebuyers can receive grants of up to \$5,000. These grants do not have to be repaid.

It is our hope that with these programs, we can help to foster financial literacy, personal wealth, and success for all our members. These brave men and women are joining our armed forces and laying their lives on the line for us; we want to give them all that we can in exchange for their service to our country.

Many other credit unions are also stepping up to the challenge of helping Americans of all ages to build a solid foundation of financial management skills. Here are just a few examples of credit unions that are making a positive impact in financial education across the nation:

**The Summit Federal Credit Union:** In 2002, this Rochester, NY, credit union began offering a financial education class to local middle school and high school students. Working in conjunction with the Hillside Work Scholarship Connection, Clover Lanes Bowling Center and the Roland Williams Youth Lifeline Foundation (formed by National Football League player Roland Williams), Summit FCU employees designed a six-week

financial literacy course that teaches the basics of personal finance. Each classroom session lasts one hour and focuses on a topic such as financial goal setting, savings, investments, budgeting, savings and checking accounts, and credit.

In order to foster participation, classroom sessions are held at the Clover Lanes Bowling Center, where students and volunteers are able to enjoy free bowling after each one hour classroom session. The strategy has been a great success. Since the program's inaugural class in 2002, The Summit FCU has continued to team up each season with the Foundation to teach financial fundamentals to at-risk youths in the community. Attendance has steadily been increasing every session. Additionally, this past June, Summit staff was on hand to lead a youth financial education session entitled "Credit 101" for 150 campers at John Marshall High School in Rochester, as part of the annual Roland Williams Youth Lifeline Foundation Free Football and Life Skills Camp.

In addition to their youth education efforts, The Summit FCU also provides frequent financial education seminars including Credit 101, How To Buy Your First Home, Fraud and Identity Theft, and How to Get Out of Debt. These programs help their members, young and old, to understand the fundamentals of financial services and money management so they are better able to handle their finances, make positive financial decisions, and ultimately, improve their financial lives.

**Affinity Federal Credit Union:** Affinity FCU boasts a number of innovative financial education programs, covering everything from basic personal finance for elementary

school aged children to sound debt management for individuals who have become overextended. Affinity's youth education program is designed to begin teaching children about personal finance early on. Children who open an account are encouraged to save through a reward program that gives away gift certificates to stores that appeal to children, such as The Disney Store, The Gap, KB Toys, and Borders. The more money children save, the better chance they have of winning gift certificates. The program follows young members through each stage of their development, with separate educational programs geared towards middle school students, high school students—even college aged students and beyond.

Affinity FCU also offers credit management services and education for members who find they have taken on too much debt. Affinity helps members consolidate debt into fewer payments with less interest. In addition, Affinity's credit management specialists help members devise a management plan that will help eliminate debt, guard against future credit problems, and, if possible, save for the future.

**Navy Federal Credit Union:** NAFCU member Navy FCU encourages its youngest members to develop early savings habits by signing up for the Navy Federal Kids Club. As a member of the Kids Club, children receive a membership card, activity book, bookmark, savings pad and other goodies. As an incentive to saving, every time a young member increases their savings account by \$50, kids get a stuffed animal of Sammie the Sea Otter, the Kids Club mascot. As they increase their savings, they can also earn other

prizes. Kids can also enter the Kid Zone online to learn about money and financial management via interactive games and activities starring Sammie and friends.

Navy Federal also provides its members with free personal finance counseling. This program helps members to attain their financial goals, avoid monetary pitfalls, and deal with financial crisis. There is no charge for the service, and assistance ranges from answering specific questions to developing a detailed money management plan, or even establishing a personalized debt management program. Additionally, certified credit bureau reviewers on staff provide free consultations to help members to understand their credit report, learn how to make changes, guard against identity theft, and take steps to improve their credit score.

**Hawaii State Federal Credit Union:** Hawaii State FCU's financial education program, developed by its own staff, reached more than 4, 000 students in its first year alone. The program has also earned recognition from the National Youth Involvement Board, which named it as one of the Top 10 programs in the nation for number of student reached and presentations given. Topics covered include: how to avoid credit pitfalls; personal budgeting; checking accounts; buying a used car; starting a small business; and mock interviewing. The program, taught entirely by dedicated credit union staff volunteers, is geared toward high school and college students, and is customized to supplement the curriculum of the students' business classes.

**McCoy Federal Credit Union:** In September 1993, NAFCU member McCoy Federal Credit Union began a “Youth Savings Program” to teach young people about saving and to give them incentives to encourage them to save. This program reaches future generations by establishing at an early age a meaningful relationship or “link” between young members and their credit union. When a young person joins McCoy FCU’s Youth Savings Program and opens a no-fee account, they receive several items appropriate to their age designed to encourage savings and to help them measure their progress in meeting their savings goals. Young people earn various incentive gifts when they attain savings goals of \$100, \$250, \$500, \$750 and \$1,000. The program continues educating young people as they mature from their teenage years to young adulthood.

**San Antonio City Employees Federal Credit Union:** SACEFCU, which serves government employees in San Antonio, was initially asked to prepare and teach basic financial courses for the San Antonio’s Adult Basic Education and G.E.D. Preparation Program. SACEFCU adopted an educational curriculum initially developed and made available by The National Endowment for Financial Education (NEFE), a non-profit foundation committed to helping Americans gain the skills and knowledge needed to control their personal finances. The curriculum includes courses on financial planning, cash flow, spending and savings, credit and debt management, insurance needs, savings and investments, homeownership and small business opportunities. SACEFCU’s financial literacy program is free, and the curriculum is supplemented by guest appearances by area professionals and experts. The financial literacy course is now offered in a number of literacy centers in San Antonio throughout the year.

SACEFCU also offers ongoing financial education to its members. Previous topics have included Wallet Wisdom, Home Buying, Car Buying, and Investment Planning.

### *Conclusion*

These are just some of the myriad ways that federal credit unions across the country are fostering financial literacy among Americans of all ages and backgrounds. Because the credit union mission has always been to promote savings, credit union staff and volunteers were some of the first financial educators in America. In addition to being among the first to emphasize the importance of financial literacy, today credit unions are also among the finest at providing sound financial management advice to their members. Credit unions, as non-profit, financial cooperatives have a unique relationship with their members which is unlike other financial institutions—a relationship that has put credit unions on the front line in combating financial illiteracy. Credit unions will continue to use that special relationship as a conduit to help improve financial literacy, encourage savings, and teach sound debt management skills. We support ways in which the federal government can work with credit unions to provide these services. Credit unions' relationships with their members make them critical partners in the national effort to promote financial literacy and education. Partnerships such as the FDIC allowing NAFCU to tailor the Money Smart program to credit unions help in these efforts. NAFCU and the federal credit union community stand ready to work with the House Financial Services Committee on this important issue.