

**REMARKS OF JOHN M. REICH, DIRECTOR
OFFICE OF THRIFT SUPERVISION
TO THE
FINANCIAL LITERACY AND EDUCATION COMMISSION
WASHINGTON, D.C.
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Thank you, I am delighted to be here today at the 10th meeting of the Financial Literacy and Education Commission to talk about the Commission's important work to advance the goal of improving financial literacy and education for all Americans.

One of the key objectives of the Commission was the development of the National Strategy in April 2006. I want to acknowledge several recent accomplishments of the Treasury Department and Commission members that were outlined in the National Strategy: (1) Efforts with the Ad Council to develop and execute a public service announcement focusing on increasing credit literacy among young adults; (2) Widespread distribution of the "*Identity Theft: Outsmarting the Crooks*" DVD to the public through the 1-888-MyMoney toll-free hotline and MyMoney.gov website. (3) Meetings hosted by HUD highlighting successful partnerships that have advanced homeownership; (4) A summit hosted by the Department of Education discussing the integration of financial education into core school curriculum; and (5) A series of regional conferences held by Treasury and the federal banking agencies exploring ways to reach the unbanked market.

Last month, OTS participated in a Southwest Regional conference in Edinburg, Texas on reaching the unbanked and we are looking forward to working together on the next conference planned in Seattle, Washington in March.

Through these efforts, and the combined efforts of many of the people and organizations the Commission has heard from over the past three years, there is growing awareness of the importance of financial education at all stages of life. In today's economy, knowledge concerning everyday financial products such as credit cards, checking accounts and mortgages is critical.

For example, today's mortgage market offers a dizzying array of choices designed to meet the needs of a broad range of borrowers with various income levels and credit backgrounds. The availability of such choices has created a dynamic and robust mortgage market. Nearly 70% of all Americans own their own homes today.¹ And according to testimony provided to the Senate Banking Committee during a hearing last week on credit card lending, in early 2006 there were approximately 190 million bank credit cardholders in the US holding an average of seven credit cards who charged an average of \$8,500 during 2005.² The average outstanding credit card balance for American households with at least two adults is over \$13,000.³ In an economy with a growing range of credit products, options and fee structures -- spanning home mortgages, credit cards, and even gift cards -- financial education becomes more and more important.

To help consumers navigate their choices among mortgage products, the Office of Thrift Supervision worked closely with the Federal Reserve Board last year to develop and release an important consumer disclosure, entitled the Consumer Handbook on Adjustable Rate Mortgages, also known as the CHARM brochure. Released on December 26th, the brochure provides information to consumers about the features and risks of ARM loans such as the potential for payment shock and negative amortization.

¹ Presidential proclamation, May 24, 2006 creating "National Homeownership Month" in June 2006.

² Prepared statement of Robert D. Manning, PhD, Research Professor of Consumer Finance and Director of the Center for Consumer Financial Services, E. Phillip Saunders College of Business, Rochester Institute of Technology, Hearing on Examining the Billing Marketing, and Disclosure Practices of the Credit Card Industry, and their Impact on Consumers, US Senate Committee on Banking, Housing, and Urban Affairs, 1/25/07.

³ Ibid.

In recognition of the growing use of nontraditional or alternate mortgage products that allow borrowers to defer payment of principal and sometimes interest, we substantially revised the CHARM booklet to include discussions about “interest-only” and “payment option” mortgages. The revised booklet describes how these loans typically work, showing how much (and how often) monthly payments could increase, and how the loan balance could increase if minimum monthly payments are made. The booklet, which is a required consumer disclosure for ARM loans, also includes a mortgage shopping worksheet to help consumers compare the features of different products.

The OTS, along with the other federal banking agencies, also issued guidance last September to address the risks posed by alternate residential mortgage products, entitled Interagency Guidance on Nontraditional Mortgage Product Risks. The guidance primarily consists of three important themes: First, lenders must prudently underwrite alternate mortgages, with careful consideration of a borrower’s repayment capacity. This element is key because sound underwriting provides fundamental consumer protection by determining whether borrowers can handle the debt. Second, the guidance advises lenders to apply effective risk management standards. And third, the guidance requires lenders to ensure that consumers have sufficient information to clearly understand loan terms and the risks and benefits associated with alternate mortgages before making a product or payment choice.

There are other mortgage products with features that may warrant additional guidance such as so-called “2/28 mortgages.” Marketed largely to subprime borrowers, 2/28s are mortgages with fixed interest rates for the initial two years followed by adjustable rates during the remaining 28 years. These products can present significant payment increases and other features that borrowers need to understand.

The OTS is also monitoring emerging trends and evolving financial products in order to develop guidance for our institutions and resources to consumers. A good example is guidance soon to be issued on gift cards. Next month OTS will issue guidance advising our institutions concerning prudent risk management practices and important consumer disclosure practices. We will also release a brochure, entitled "OTS Consumer Fact Sheet: Buying, Giving and Using Gift Cards."

Conclusion:

At the OTS, we have long believed that financial education is an important objective for consumers and the institutions that we regulate who serve them. A better-educated population leads to a more stable customer base, increasing opportunities for financial institutions and contributing to the ongoing stability of communities. We will continue to work with financial institutions, the Financial Literacy & Education Commission, and the federal banking agencies to strengthen consumer education. Thank you for inviting me to share my views on our shared objectives to promote financial literacy.