

Testimony of

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**before the
Senate Committee on Banking, Housing and Urban Affairs**

**“Consumer Awareness and Understanding of the Credit Granting
Process”**

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Chairman Shelby, Ranking Member Sarbanes and Members of the Committee. My name is Scott Hildebrand and I am appearing before you on behalf of Capital One Financial Corporation where I serve in the capacity as Vice President for Direct Marketing Services. On behalf of Capital One, let me express my thanks to you for the leadership you have shown on this important issue.

Capital One is one of the top 10 largest credit card issuers in the nation, and a diversified financial services company with over 45.8 million customers and \$60.7 billion in managed loans outstanding. In addition to credit cards, we are one of the nation's premier auto finance companies, and also offer our customers an array of banking and related products. We employ nearly 18,000 associates worldwide, with offices around the country and overseas.

We wish to commend you and the Congress on the work you have done to support financial education programs. Last year, President Bush signed into law the "No Child Left Behind Act of 2002," making \$385 million available to state educational agencies to encourage the sharing of best practices and the teaching of basic economic principles and personal finance. This Act put into place the resources that teachers need to teach basic personal finance and personal finance management skills to school-age children. We believe that this Act has served as a foundation for improving the nation's level of financial literacy as the monies have put more schools in the position of being able to incorporate personal finance teaching into their curriculum.

I. Informed Customers are Key to Capital One's Success

At Capital One, we believe that a thorough understanding of financial matters not only helps consumers to make better decisions, but also helps to ensure the continued health of the financial services industry. In the banking business, there exists an age-old truism: anyone can lend money; success is measured by whether you are paid back. We are not successful if our customers fail to manage their personal finances effectively, and thus are unable to meet their credit obligations. To borrow a phrase from legendary clothing retailer Sy Syms, "an educated consumer is our best customer." Capital One's success can be attributed to its offering the most attractive products and pricing in the market today, including the lowest fixed credit card rate in the nation of 4.99 percent, and auto rates as low as 3.89 percent. It is our belief that consumers who understand the benefits of these products will choose Capital One.

Continuous financial education is a vital component of our customer interactions

Capital One believes that clear communication about its products and services is important to maintaining successful relationships – ensuring better customer retention in a highly competitive environment. Therefore, each product is accompanied by basic information that covers how our cardholders can avoid fees, stay within their established credit limit, obtain copies of credit bureau reports and understand how their annual rates are applied.

Our best channel and most direct vehicle for reaching our cardholders is their monthly statement. We include financial tips that are pertinent to their account in prominent locations on the statement where it is most likely to be noticed. We have used this vehicle to inform cardholders of their account status and to remind them to make payments, check their bureau reports and to monitor their credit line. Some sample messages include:

Why does good credit count?

Employers check credit references before hiring new people.

Banks and leasing companies often base the interest rate they offer you on your credit rating.

Achieving life goals such as buying a new car or owning your own home are facilitated by good credit.

Credit bureaus keep information on your record for up to ten years so a credit problem history can follow you around for a long time.

Overlook your bill?

Be sure to make your payment today.

First-time cardholders receive a course on “the fundamentals”

Understanding that Capital One may be the first credit card for many college-age cardholders, we have built financial education into all product touchpoints. Upon activation of the card, college students receive a welcome booklet that explains the ins and outs of credit. Our message focuses upon the importance of building a positive credit history – making at least the minimum monthly payment by the due date each month, and making sure to always stay within the credit line.

Following the welcome package, for their first year with Capital One, cardholders will receive quarterly reminders about the importance of maintaining good credit habits. Created with Myvesta.org and the Jump\$tart Coalition for Personal Finance (“Jump\$tart”), these reminders provide more detailed information on being cost conscious, understanding how interest and finance charges can add up, the cost of accessing cash advances, warning signs of having too much debt, obtaining a copy of credit bureau reports, and the importance of saving.

Capital One has also joined forces with YOUNG MONEY, the leading quarterly money and lifestyle magazine for young adults, to provide information to our cardholders on improving their financial decision-making skills. In this first-time venture, Capital One and YOUNG MONEY will co-brand a website specifically geared to our cardholders. In addition, we will provide a free one-year subscription to a select number of our college age cardholders. Because YOUNG MONEY’s articles are written by college students for college students, the magazine's content addresses the financial concerns specific to this age group. YOUNG MONEY covers a variety of money related matters including:

Money Management

Find the best ways to control your budget and pay off debt. Learn how to save money and cut your expenses.

Investing

Ever wanted to invest in the stock market? Find out everything that you need to know before you invest your money.

Financial Aid

Learn the best ways to finance your education. Get tips on finding and winning scholarships, applying for student loans, and more.

Credit and Debt

Manage debt the smart way – check out tips about credit cards, debt control, and credit reports.

Careers

Find career-building resources, and read about successful job searches, interviews, and resumes.

Consumer Issues

Learn to be a smart consumer by spotting credit-repair scams, Internet service rip-offs, and fraudulent business "opportunities."

Our basic website for young adult cardholders has a range of education topics and includes a listing of frequently asked questions that covers maintaining good credit, avoiding fees, dealing with creditors and the difference in variable and fixed rates. There is also contact information for all three major credit bureaus so customers can track the progress their making in building good credit. Upon instances when our young adult cardholders miss a payment or go over their credit limit, we will forward them a warning email that outlines the importance of paying on time and/or staying below their limit.

Information is available to all consumers online

We have also placed a "Financial Tool Box" on Capital One's website, which includes guides, articles and calculators that give consumers a better understanding of how to use our products. Articles include:

How Credit Works and Your Credit Rights

As a current cardholder, you no doubt have a firm grasp on how credit works. However, your card comes with several important, built-in legal benefits you may not be aware of. The law protects many of these "credit rights."

Your Credit History

Your credit report does more than track your credit and how you pay your bills. It represents your financial profile, and it can affect more than just your ability to obtain additional credit.

Managing Credit and Key Strategies for Money Management

The key to managing your credit is control - control of how much you spend on credit, how quickly you pay it back, and the types of items you purchase. Credit is not a financial cure-all. Used the right way, however, it can help you afford certain purchases and build a powerful credit rating.

Safeguarding Credit and Learning how to Protect Your Credit from Thieves

We provide a number of tips for consumers to avoid identity theft and provide them with the steps they'll need to take if they should ever become a victim.

Our customers also have access to their accounts online where they can view recent transactions and available credit, see payment due dates to help avoid late penalty fees and update account information.

II. Capital One Seeks to be Part of the Solution on Financial Education

Our efforts to improve financial literacy are not limited to our existing customers. Capital One has invested considerable time, effort and money to develop innovative and far-reaching programs to improve financial education.

Capital One's financial education activities have been designed with a focus on effectiveness and impact

Capital One's business success has been driven largely by a highly analytical "test and learn" culture that seeks to customize products and services to the specific needs of individual consumers. Our founders realized that a "one size fits all approach" makes little sense in an environment where each consumer possesses vastly different needs and characteristics. This "test and learn" culture pervades everything we do, from designing our products to meeting the needs of our associates. Not surprisingly, it also influences profoundly how we have chosen to tackle the important issue of financial education.

Several years ago we undertook a major corporate initiative to develop a financial education program. Following the Capital One method of doing business, we started by surveying the market to assess the delivery and methodology used by existing financial education programs. Our research revealed a high level of activity using a wide variety of approaches. While looking for information regarding best practices, we found limited understanding of what types of programs were most effective for which populations. We read training materials that were attractive visually, but we wondered if the language used was too complicated to reach the target populations. We also found quality materials without an effective method for getting the materials to market. Finally, we observed a

limited amount of measurement and evaluation in the programs to assess their effectiveness.

As a result of our research, we initially decided to focus on those most in need – lower-income and under-banked populations. We also spent time thinking about two key goals: first, how to develop content that would be read and understood; and second, how to develop a delivery method that would effectively reach our targeted populations. As a result, we decided the best approach would be to find a strong nonprofit organization with whom we could partner – an organization that would bring both expertise in materials development and have existing relationships with community-based organizations who are best situated to reach underserved communities.

Capital One has formed a partnership with Consumer Action

Following the research and development of our program goals, we contacted Consumer Action (CA) to discuss the feasibility of developing a partnership related to financial education for lower-income communities. Founded in 1971, CA has a long history and strong record of work in this area. Because CA is an umbrella organization whose membership includes more than 7,000 community-based nonprofit organizations throughout the country, we were confident that delivery of the materials to reach our target consumers could be achieved.

Since beginning our partnership, we have developed a highly effective collaboration that has produced measurable results. Capital One has donated approximately \$1.25 million to create and implement *MoneyWi\$e*, a program that offers straightforward, easy-to-read information to address financial responsibility. Together, we have created a four-part series of *MoneyWi\$e* educational materials that provide the building blocks for developing and honing personal finance skills. These four brochures focus on key financial education issues, including:

Building Good Credit

Explains what credit history is, what a credit report is, how to get your credit report, how to establish good credit and where to complain if you have a problem.

Credit Repair

Explains why having good credit is important, your rights if your credit application is rejected, how to check your credit report, how to dispute mistakes on your credit report and how to begin to rebuild good credit.

Basic Banking

Discusses the fundamentals of banking, from opening a bank account to balancing a checkbook, and includes tips for resolving problems such as mixed up deposits and bounced checks.

Basic Budgeting

Explains the importance of wise money management, including budgeting, balancing your checkbook, cutting back on expenses and ways to spend less and save more.

Capital One's financial support of this program ensures that these materials are provided to nonprofit organizations and consumers free-of-charge. In addition, we feel it is critical that they be offered in multiple languages to ensure that we reach immigrant groups, many of which have had negative experiences with banks in their home countries and are vulnerable to unscrupulous financial service providers. The materials are available in four languages in addition to English including Spanish, Chinese, Korean and Vietnamese. Through CA, materials are available to their membership of their more than 7,000 community organizations nationwide, as well as directly to consumers via mail or the Internet. I am proud to report that to date the distribution of these multilingual materials totals more than 1 million brochures.

Our plans for later this year include creating and distributing information on two additional topics: the first is a guide for parents on talking to teens about money and the second is about understanding bankruptcy.

Capital One and CA also joined forces to develop a "train-the-trainer" program for community-based organizations. We liked this approach because it enabled us to leverage the talents of other organizations to achieve a higher impact at the local level. Together with CA, we were able to develop curricula that focus on the key issues contained in the brochures. The results have been phenomenal. To date, more than 800 non-profit organizations across the country have requested the information. They have included a wide variety of types of organizations such as university cooperative extension offices, consumer credit counseling service organizations and community development corporations.

During the Fall of 2002, Capital One and CA co-sponsored state-wide meetings in Tampa, Florida and Oakland, California to train the leaders of nearly 75 community based organizations in each location to use the *MoneyWiSe* materials in their communities. The two-day meetings included sessions to review the materials and train participants on teaching adult populations. They were interactive and included many hands-on activities designed to reflect real-life situations. A follow-up survey on the training sessions found a high satisfaction level among participants. We have two additional meetings planned for later this year; one meeting will take place in Dallas and serve agencies throughout Texas and the other will take place in the District of Columbia and serve agencies in the metropolitan area.

We have also strengthened the program by offering stipends to 18 non-profit organizations around the country that are starting to teach financial education to their constituents – the grants provide them with the funding they need to staff and provide additional resources. We anticipate reaching approximately 60,000 consumers through the reach of the program.

Earlier this month, the *MoneyWi\$e* partnership received the Achievement in Consumer Education award by the National Association of Consumer Agency Administrators.

We have engaged the talent of our employees to deliver financial education to our local communities

Capital One believes in the value of employee involvement in community service. We have a long-standing focus on company-sponsored volunteerism in the areas of youth-at-risk, education and community development. Therefore, it made sense to incorporate financial education into our volunteer activities as we were developing our program.

Trained by CA and equipped with materials and a training/curriculum manual, Capital One employees pilot-tested this approach in its home communities of Richmond and Northern Virginia. Our volunteers have contributed approximately 250 hours to teach the information to constituents of several non-profit organizations. Because of the overwhelmingly positive response from employees, the program is being expanded to other Capital One sites around the country.

Capital One focuses on youth through its partnership with Jump\$tart

Five years ago, to align our financial education program with our philanthropic focus on helping youth-at-risk, we joined Jump\$tart. The premise behind our support of this program is simple: we believe in their mission to teach financial education in the public schools. We believe that the most effective method for reaching a wide population, including lower-income children, is through a public education program.

Based on this belief, we provided financial support for the integration of Jump\$tart's Money Math curriculum into the Virginia school standards. Through this effort, we hoped to provide another tool that Virginia teachers can use to teach their students about personal financial management. At a press conference last Spring, the U.S. Department of Treasury's Office of Financial Education recognized Capital One for this effort.

Targeting and reaching college students

There has been a tremendous amount of concern expressed about college students and the need for financial education. Capital One shares this concern and has developed a unique method to reach this population. Specifically, we decided to experiment with a method that utilizes students' relationships with their peers. Last year, we piloted *MoneyWi\$e for College Students*, a train-the-trainer program that teaches college students how to become "money mentors" and deliver personal finance curricula to other students at their colleges or universities.

MoneyWi\$e for College Students is a program whereby student leaders use their influence to educate fellow students about how to make informed credit decisions. Currently, the program is delivered on three college campuses including the University of South Florida, Texas A & M University, and Washington State University. Because of the

success of this test, we are currently in talks to expand the program to additional universities this coming fall – we have received interest from the University of Maryland, Pennsylvania State University and the University of Alabama.

The workshops cover a broad range of topics from how to maintain a checking account to understanding credit reports. In addition, students attending the workshops receive informational brochures focusing on basic money management. Capital One sets up a page on the website of participating universities that links to VISA's *Practical Money Skills*. The training program results reported by participating students has been impressive:

- 100% would recommend the program to other students.
- 100% reported that the program improved their understanding of basic money management concepts.
- 84% indicated that the program taught skills and concepts that were new to them.
- 95% rated their impression of Capital One and Visa as "very or somewhat positive."

We encourage the media to report on financial topics to help educate the public

Capital One has sought to utilize the media to provide the public with tools to better manage their finances. All of our fact sheets are available on our website's press center, and serve to encourage reporters to write stories on these topics. Earlier this summer, we ran an auto buying campaign that advised consumers to prepare carefully before buying this big-ticket item. This campaign made 26.8 million impressions and was covered by print, television and radio reporters.

Other campaign efforts have focused on key life events: (1) the back-to-school shopping ritual and the importance of parents explaining to their kids how to budget; (2) what newlyweds need to be aware of when they first tie the knot; (3) budgeting for the holidays; and (4) staying fiscally fit, in general.

The financial services industry continues to increase its focus on financial education

Thankfully, we are not alone in our efforts. According to the Consumer Bankers Association (CBA) annual survey on financial literacy, the number of financial institutions sponsoring or partnering on financial education initiatives continues to increase year after year. Not surprisingly, these programs have focused on the most vulnerable segment of consumers.

Youth

The CBA survey confirmed that there is a strong effort among banks to advance personal finance skills among youth. Seventy-seven percent of responding banks indicated that they offer financial literacy programs for students in grades K-12, organizations like Jump\$tart, the national "Adopt-a-School" program, and employees/student mentoring.

At the post-secondary level, 26% of financial institutions offer financial education programs on college campuses.

The Unbanked

For the first time, CBA polled banks on their efforts to address the financial services needs of the unbanked. Seventy-four percent of responding institutions indicated that they offer Individual Development Accounts to such consumers. Fifty-seven percent of responding banks indicated that they have developed a personal finance program or initiative specifically designed for unbanked consumers.

Recent Immigrants and Multilingual Consumers

In addressing the particular needs of a major segment of the unbanked population – immigrants and non-English speaking consumers – 70% of responding banks indicated that their institution provides financial education programs, basic banking literature, or educational brochures in a foreign language, primarily Spanish. Particular attention is being paid to small business development, which has shown a significant upward trend in the percentage of banks offering such programs. This year, 79% of responding banks indicated that they sponsor or partner on programs aimed at providing small business development assistance.

III. Conclusion

At Capital One, we believe in the principle that knowledge is power. It is that power that will enable the American consumer to make better choices about their personal finances.

Our products work best if our customers manage their finances responsibly. Put another way, the less our customers know, the more likely they are to find themselves in financial trouble. When these customers cannot pay their bills, we bear the loss. Higher losses in turn, leads to higher costs for everyone. For Capital One, “educated consumers” – customers who know the annual percentage rate they are paying, who know when their bills are due, and who know and understand how to manager the products we offer – are our best customers.

Mr. Chairman, Ranking Member Sarbanes, and members of the Committee, thank you again for the opportunity to testify before you. I would be happy to answer any questions you may have.