

Mr. Chairman, members of the Senate Banking Committee:

Good morning.

My name is Stacey Stewart. I am the president and CEO of the Fannie Mae Foundation. It is an honor to have the opportunity to address this Committee.

The mission of the Fannie Mae Foundation is to give more Americans access to homeownership and all Americans access to safe, decent, affordable housing. We are driven by the conviction that the expansion of homeownership is both an economic and an ethical imperative. It is a matter of both fiscal health and social justice.

We are, therefore, grateful for this opportunity to discuss the Foundation's activities in promoting financial literacy. As we guide people down the pathway to homeownership, we try hard to help them understand the critical importance of acquiring and maintaining good credit.

Research, anecdotal evidence, and reports from the many national and community-based organizations with which we work all tell us the same unsettling story: Far too many consumers—and far too many aspiring homeowners—do not understand the link between good credit and their ability to get a home mortgage.

In a survey the Fannie Mae Foundation commissioned in 1999, almost 70 percent of African Americans and Hispanics expressed the belief that paying their bills late would represent only a minor problem or no problem at all in obtaining a mortgage.

More recent research tells us that 40 percent of all African Americans and 60 percent of all Hispanic Americans believe you need a perfect credit rating to qualify for a mortgage. And roughly 40 percent of minorities believe you need 20 percent down to get a mortgage.

As those of you before me know, of course, none of those beliefs is true.

Yet the problems run even deeper. The sunshine provisions of the Fair Credit Reporting Act also are not well understood.

In 2002, the Fannie Mae Foundation helped fund research among high school seniors to understand where and how to start encouraging financial literacy. Sixty percent of the respondents did not know the conditions under which they could access their own credit report. And—I think you might find this particularly interesting, Mr. Chairman—more than 12 percent of those graduating seniors expressed the view that one's credit record is the property of the United States Government and can be viewed only by the FBI and lenders.

This suggests a problem that goes far beyond fair credit reporting. It suggests we must do more to overcome the information deficit that remains the most formidable barrier to financial literacy.

Up to this point, I have focused on consumers who misunderstand credit, how it is reported, and what that means for them. But there is a large and growing number of our citizens who are simply excluded from the credit-reporting system.

This is a huge concern. Millions of Americans are operating outside of our country's mainstream financial system. They do not have meaningful credit records, and they do not have the opportunity to benefit from timely payment of crucial monthly charges, such as rent and utility bills.

Without a record of their responsible payment history, these Americans cannot secure credit from mainstream financial institutions. As a result, many turn to high-cost, alternative financial services. In fact, according to the GAO, 22 million households lack as basic a financial service as a bank account.

How likely is it that consumers who lack even a basic bank account understand credit-reporting systems?

These consumers pay high fees for credit from alternative lenders and then receive no benefit in mainstream financial institutions for repaying those loans on time because such transactions are not captured by mainstream credit reporting.

Information such as this defines our challenge. And it explains why consumer education initiatives are at the heart of the Fannie Mae Foundation's agenda.

Our financial literacy efforts are designed to give Americans the information they need to take control of their financial future.

- In 2002 alone, more than 800,000 individuals requested or downloaded our free instructional guides on credit and the home-buying process. Since 1993, we have made these guides available in nine languages and have delivered them to more than 14 million Americans.
- Our 30-minute instructional video, "Knowing and Understanding Your Credit," and its Spanish-language counterpart aired on Black Entertainment Television and Telemundo affiliates, respectively, throughout the nation in 2002.
- Our Foundation invests \$3 million annually in the most effective homeownership education providers around the country. We have also launched research to improve the design and delivery of these services.
- And we are funding promising research aimed at producing innovative strategies for bringing mainstream financial services into underserved and overlooked communities.

At the Fannie Mae Foundation, we are proud of these consumer education initiatives, but we know we must do more. And we are committed to doing so, with an abiding understanding of our responsibility to lift Americans out of the darkness of financial illiteracy and into the light of financial opportunity. I am confident that this Committee shares our commitment.

To expand homeownership and help millions of low- and moderate-income Americans build assets, we must enhance their understanding of credit and the relationship between credit reporting and their ability to secure a mortgage. This is an essential step in helping all of our citizens become active and knowledgeable participants in the financial life of our nation. It is also the first step in helping low- and moderate-income Americans fully participate in the American economy and, ultimately, the American dream.

Mr. Chairman, I thank you, and I will be happy to answer any questions the Committee might have.