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CONSUMER
FINANCE

Factors Affecting the
Financial Literacy of
Individuals with
Limited English
Proficiency



GAO

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Highlights of [GAO-10-518](#), a report to congressional committees

Why GAO Did This Study

According to Census data, more than 12 million adults in the United States report they do not speak English well or at all. Proficiency in reading, writing, speaking, and understanding the English language appears to be linked to multiple dimensions of adult life in the United States, including financial literacy—the ability to make informed judgments and take effective actions regarding the current and future use and management of money.

The Credit Card Accountability, Responsibility and Disclosure Act of 2009 mandated GAO to examine the relationship between fluency in the English language and financial literacy.

Responding to this mandate, this report examines the extent, if any, to which individuals with limited English proficiency are impeded in their financial literacy and conduct of financial affairs. To address this objective, GAO conducted a literature review of relevant studies, reports, and surveys, and conducted interviews at federal, nonprofit, and private entities that address financial literacy issues and serve people with limited English proficiency. GAO also conducted a series of focus groups with consumers and with staff at community and financial organizations.

GAO makes no recommendations in this report.

View [GAO-10-518](#) or [key components](#). For more information, contact Alicia Puente Cackley at (202) 512-8678 or cackleya@gao.gov.

CONSUMER FINANCE

Factors Affecting the Financial Literacy of Individuals with Limited English Proficiency

What GAO Found

Staff at governmental, nongovernmental, and private organizations that work with non-English speaking populations consistently told us that, in their experience, a lack of proficiency in English can create significant barriers to financial literacy and to conducting everyday financial affairs. For example, service providers and consumers with limited English proficiency told us that because most financial documents are available only in English, individuals with limited English proficiency can face challenges completing account applications, understanding contracts, and resolving problems, such as erroneous bills. In addition, financial education materials—such as print material, Web sites, broadcast media, and classroom curricula—are not always available in languages other than English and, in some cases, Spanish. Further, information and documents related to financial products tend to be very complex and can use language confusing even to native English speakers. In some cases, written financial materials are provided in other languages, but the translation may not be clear if it is not written using colloquial or culturally appropriate language. Interpretation (oral translation) can also be of limited usefulness if the interpreter does not fully understand or is not able to explain the material, a problem exacerbated by the fact that adults with limited English proficiency often receive assistance from their minor children.

Many factors other than language also influence the financial literacy of individuals with limited English proficiency. For example, immigrants may lack familiarity with the U.S. financial system and its products, which can differ greatly from those in their native countries. Cultural differences can also play a role in financial literacy because different populations have dissimilar norms, attitudes, and experiences related to managing money. For instance, in some cultures carrying debt is viewed negatively, which may deter immigrants from such cultures from taking loans to purchase homes or cars and building credit histories. In addition, some studies have reported a correlation between financial literacy and levels of income and education. As a result of these issues, some service providers and advocates suggested that efforts to improve the financial literacy of people with limited English proficiency go beyond translation and also address underlying cultural and socioeconomic factors.

Evidence suggests that people with limited English proficiency are less likely than the U.S. population as a whole to have accounts at banks and other mainstream financial institutions. They are also more likely to use alternative financial services—such as payday lenders and check-cashing services—that often have unfavorable fees, terms, and conditions. Further, the Federal Trade Commission and immigrant advocacy organizations have noted that some populations with limited English language skills may be more susceptible to fraudulent and predatory practices. Several service providers we spoke with said that financial education can play an important role in helping consumers with limited English proficiency avoid abusive and predatory practices.

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United States Government Accountability Office
Washington, DC 20548

May 21, 2010

The Honorable Christopher J. Dodd
Chairman
The Honorable Richard C. Shelby
Ranking Member
Committee on Banking, Housing, and Urban Affairs
United States Senate

The Honorable Barney Frank
Chairman
The Honorable Spencer Bachus
Ranking Member
Committee on Financial Services
House of Representatives

The United States has a highly diverse population representing cultures from all over the world. English is not the primary language of many people living in the United States, and significant numbers have limited English proficiency—that is, a limited ability to read, write, speak, or understand the English language. For example, according to 2008 Census statistics, more than 12 million adults reported that they do not speak English well or do not speak English at all. English language ability appears to be linked to multiple dimensions of adult life in the United States, including civic participation and workforce participation and mobility. The ability to speak English can also affect financial literacy—the ability to make informed judgments and take effective actions regarding the current and future use and management of money.

The Credit Card Accountability, Responsibility and Disclosure Act of 2009 mandated GAO to examine the relationship between fluency in the English language and financial literacy.¹ This report responds to that mandate by examining the extent, if any, to which individuals with limited English proficiency are impeded in their financial literacy and conduct of financial affairs. To address this objective, we conducted a literature review of relevant studies, reports, and surveys. We also conducted interviews at and gathered related studies and educational materials from federal agencies, including the Federal Trade Commission and Department of the Treasury,

¹Pub. L. No. 111-24, § 513, 123 Stat. 1734, 1765-66 (2009).

organizations that serve or advocate for populations with limited English proficiency, organizations that provide or support financial literacy and education, and financial services institutions. We also held a series of 10 focus groups, each of which included 5 to 11 participants and addressed the barriers that individuals with limited English proficiency may face in improving financial literacy and conducting their financial affairs. These included two focus groups with individual consumers with limited English proficiency who speak Spanish and Vietnamese, respectively, and eight focus groups with service providers that included staff from community-based organizations, credit unions, credit counseling and financial education agencies, large banks, and community banks, all of which serve consumers with limited English proficiency. While the information we collected from our focus groups and from the organizations we contacted provided context on the issues discussed, it is not generalizable to the entire populations these groups represented. Further, our work may not have addressed all of the different perspectives of the many diverse cultures comprised by people with limited English proficiency in the United States.

We conducted our work from August 2009 to May 2010 in accordance with all sections of GAO's Quality Assurance Framework that are relevant to our objective. The framework requires that we plan and perform the engagement to obtain sufficient and appropriate evidence to meet our stated objective and to discuss any limitations in our work. We believe that the information and data obtained, and the analysis conducted, provide a reasonable basis for any findings and conclusions in this product.

Background

Financial literacy can be described as the ability to use knowledge and skills to manage money effectively. It includes the ability to understand financial choices, plan for the future, spend wisely, and manage the challenges that come with life events such as a job loss and saving for retirement or a child's education. It can also encompass financial education—the process by which people improve their understanding of financial products, services, and concepts. Financial literacy has received increased attention in recent years because poor financial management and decision making can result in a lower standard of living and prevent families from reaching important long-term goals, such as buying a home. Financial literacy has broader public policy implications as well. For example, the recent financial crisis can be attributed, at least in part, to unwise decisions by consumers about the use of credit. Moreover, educating the public about the importance of saving may be critical to boosting our national saving rate, an important element to improving America's economic growth.

The population of adults with limited English proficiency in the United States is diverse with respect to immigration status, country of origin, educational background, literacy in native language, age, and family status. Generally, adults with limited English proficiency have immigrated to the United States and include legal permanent residents, naturalized citizens, refugees, and undocumented individuals, but some of these adults are native born. According to the Census Bureau’s 2006-2008 American Community Survey, about 12.4 million adults in the United States—or 5.5 percent of the total U.S. adult population—reported speaking English not well or not at all.² As shown in table 1, our analysis of the Census data shows that Spanish was the native language of about 74 percent of those adults who did not speak English well or at all, with Chinese, Vietnamese, Korean, and Russian representing the next most common native languages.

Table 1: Native Languages of U.S. Adults with Limited English Proficiency, 2006-2008

Language	Adult limited English proficient population	Percentage of adult limited English proficient population
Spanish	9,172,819	73.7%
Chinese	676,308	5.4
Vietnamese	375,085	3.0
Korean	291,097	2.3
Russian	200,641	1.6
Portuguese	143,350	1.2
Polish	117,401	0.9
French Creole	114,042	0.9
Tagalog	94,105	0.8
Arabic	90,844	0.7
Other	1,171,366	9.4
Total	12,447,058	100.0%

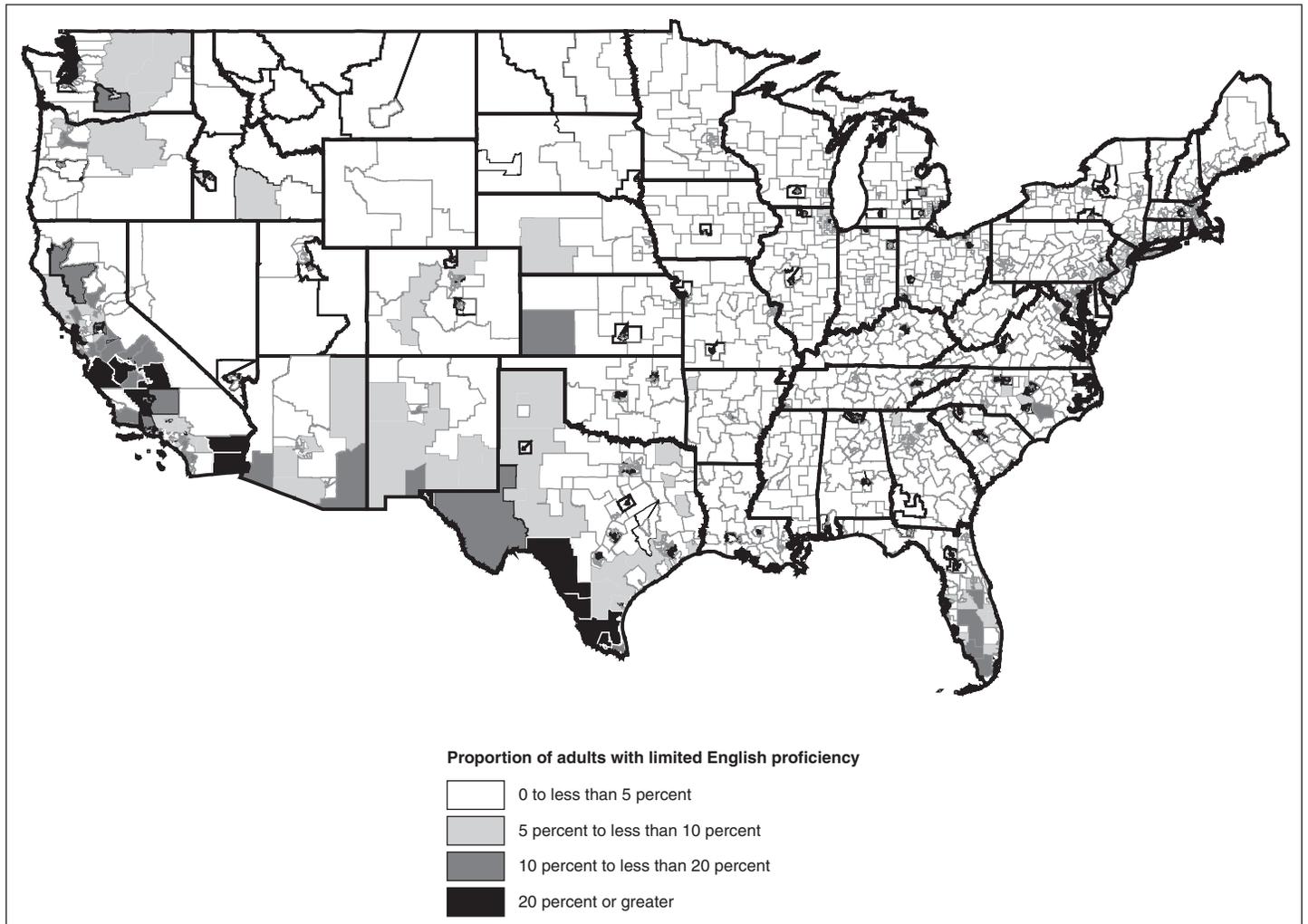
Source: GAO analysis of 2006-2008 American Community Survey data.

Note: “Limited English proficient” here refers to those who reported speaking English “not well” or “not at all.” Numbers may not total due to rounding.

²In the Census Bureau data, English speaking ability is self-reported by adults ages 18 and over who have indicated that they speak a language other than English at home. The survey, which is provided in multiple languages, allows respondents to choose between speaking English “very well,” “well,” “not well,” or “not at all.” For the purposes of this report, we included in our calculations of the adult limited English proficient population those who reported speaking English either “not well” or “not at all,” but other sources may use different definitions for limited English proficiency.

The number of American residents who reported speaking English not well or not at all grew by about 29 percent from the 2000 Census to the 2006-2008 American Community Survey data, as compared to those who reported speaking English very well or well, which grew by about 8 percent during the same timeframe. As shown in figure 1, populations with limited English proficiency tend to be more concentrated in certain parts of the country. More than 13 percent of California's population was limited English proficient in 2008, as were more than 8 percent of the populations of Texas, Arizona, and New York.

Figure 1: Proportion of the Adult Population with Limited English Proficiency, 2006-2008



Source: GAO analysis of 2006-2008 American Community Survey data; GAO (map).

Note: "Limited English proficient" here refers to those who reported speaking English "not well" or "not at all." The geographic unit shown in the map is the Census Bureau's Public User Microdata Area. These areas are shaded according to the value of the estimated percentage of the population with limited English proficiency. The percentage estimates have 95 percent confidence intervals that are within plus or minus 4.5 percentage points of the estimate itself. However, if an estimate is 4 percent and the corresponding 95 percent confidence interval for that estimate is from 3.2 percent to 5.5 percent, the area is shaded "white" even though a portion of its confidence interval exceeds the 0-5 percent range. Refer to appendix I for additional information on the American Community Survey estimates and sampling error.

Persons in the United States with limited English proficiency appear to have lower incomes, on average, than fluent English speakers. While limited data exist specifically on the relationship between limited English proficiency and economic status, an analysis of 2007 American Community Survey data by the Migration Policy Institute found that 20 percent of those who spoke Spanish at home lived in poverty, as did 11.8 percent of those who spoke Asian or Pacific Island languages, and 21.1 percent of those who spoke other languages—as compared with a poverty rate of 11.2 percent among persons who spoke only English.³ A study by the Federal Reserve Bank of Chicago and the Brookings Institution, using 2004 data from the Congressional Budget Office, reported that the median income of a family headed by an immigrant (irrespective of English language proficiency) was \$42,980—and \$34,798 for a family headed by an immigrant from Latin America—compared with \$54,686 for families headed by someone born in the United States.⁴ There are also indications that English proficiency correlates with educational attainment. For example, the Migration Policy Institute analysis found that 41 percent of adults in Spanish-speaking households in the United States did not finish high school, as compared with 12 percent of adults in English-only speaking households.⁵

Little prior research has been conducted specifically on the relationship between financial literacy and lack of proficiency in English. A 2005 research review by Lutheran Immigration and Refugee Service revealed almost no studies that examined how the immigrant experience influences financial literacy.⁶ Similarly, a literature search that we conducted found a significant amount of research on financial literacy in general and with regard to certain populations, but almost nothing that examined the role that language itself plays in financial literacy and financial education.

³Migration Policy Institute, “United States Fact Sheet on Income and Poverty” (2007), <http://www.migrationinformation.org/datahub/state4.cfm?ID=US> (accessed Feb. 23, 2010).

⁴Federal Reserve Bank of Chicago and the Brookings Institution, “Financial Access for Immigrants: Lessons from Diverse Perspectives” (May 2006), http://www.chicagofed.org/digital_assets/others/communities/financial_access_for_immigrants/lessons_from_diverse_perspectives.pdf (accessed Mar. 29, 2010).

⁵Migration Policy Institute, “United States Fact Sheet on Language and Education” (2007), <http://www.migrationinformation.org/datahub/state2.cfm?ID=US> (accessed Feb. 23, 2010).

⁶Lutheran Immigration and Refugee Service, “Financial Literacy for Newcomers: Weaving Immigrant Needs into Financial Education” (Baltimore, Maryland: Mar. 27, 2006), http://www.refugeeworks.org/downloads/rw_financial_literacy.pdf (accessed Aug. 12, 2009).

Further, experts on financial literacy that we consulted in the nonprofit and federal sectors told us they were aware of little or no existing work specifically on the barriers to financial literacy faced by those with limited English proficiency.

Some data do exist on financial literacy among Hispanic populations; however, the data do not generally distinguish between Hispanics who are and are not proficient in English.⁷ (About 70 percent of Hispanics in the United States self-report that they only speak English or they speak it well or very well, according to 2006-2008 American Community Survey data.) Among the studies that did not directly address English language ability, a 2009 survey by the Financial Industry Regulatory Authority found that Hispanic respondents were less likely than Asian Americans and non-Hispanic Caucasians to answer basic financial literacy questions correctly.⁸ Further, a 2003 survey on retirement issues by the Employee Benefit Research Institute found that 43 percent of Hispanic workers described their personal knowledge as “knowing nothing” about investing or saving for retirement, as compared to 12 percent for all workers in the United States.⁹ The institute also found that those with the least amount of knowledge were much more likely to have poor English language skills.

Language Barriers Can Impede Everyday Financial Transactions

Despite a lack of systematic research, a variety of stakeholders agree that a lack of proficiency in English can create significant barriers to financial literacy and to conducting everyday financial affairs, particularly given the complexity of financial products and the language often used to describe them.

⁷The terms “Hispanic” and “Latino” are used interchangeably by the Census Bureau to identify persons of Mexican, Puerto Rican, Cuban, Central and South American, Dominican, and Spanish descent. Throughout this report, we consistently refer to these individuals as Hispanic.

⁸Applied Research and Consulting, LLC for Financial Industry Regulatory Authority Investor Education Foundation, “Financial Capability in the United States: Initial Report of Research Findings from the 2009 National Survey” (New York, New York: Dec. 1, 2009), p. 41, <http://www.finrafoundation.org/resources/research/p120478> (accessed Dec. 15, 2009).

⁹Employee Benefit Research Institute, American Savings Education Council, and Matthew Greenwald and Associates, Inc., “The 2003 Retirement Confidence Survey Summary of Findings” (2003), <http://www.ebri.org/pdf/surveys/rcs/2003/03rcssof.pdf> (accessed Mar. 12, 2010).

Limited English Proficiency Can Create Challenges to Conducting Financial Affairs

Staff we spoke with at financial institutions, federal agencies, and community and advocacy organizations that work with non-English speaking populations consistently told us that, in their experience, a lack of proficiency in English can be a significant barrier to financial literacy. Some explained that because language is the medium most used to access information and ideas, individuals lacking English language skills are limited in their ability to communicate with English-speaking financial service providers and to perform certain tasks necessary to initiate financial transactions and access financial tools and educational materials. For example:

- *Completing key documents.* Service providers and consumers with limited English proficiency told us that most financial documents are available only in English, which limits the ability of individuals with limited English proficiency to complete applications, understand and sign contracts, and conduct other everyday financial affairs without assistance. Several representatives from financial institutions told us that they are reluctant to provide translations of documents, such as disclosures and contracts, because of liability concerns.
- *Managing bank accounts.* Several bankers and others with whom we spoke noted that individuals who can not write in English find it difficult to write checks, which requires spelling out a dollar amount. For this reason, they said, debit card use has become popular among some individuals with limited English proficiency. The financial literacy study by Lutheran Immigration and Refugee Service noted that some refugees with limited literacy skills have difficulty using banks because they are not able to track deposits and withdrawals from their accounts.¹⁰
- *Resolving problems.* Some consumers and service providers we spoke with said that limited English proficiency serves as a particular barrier when it comes to asking questions, such as inquiring about additional fees on credit card statements, or resolving problems, such as correcting erroneous billing statements. One consumer with limited English proficiency told us that although he speaks some English, he has difficulty understanding and negotiating automated telephone menu systems that one must often use to get assistance.
- *Accessing financial education.* Although there is a multitude of print material, Web sites, broadcast media, and classroom curricula provided by

¹⁰Lutheran Immigration and Refugee Service, p. 11.

government, nonprofit, and private sources aimed at improving financial education, these resources are not always available in languages other than English. Financial education initiatives that are provided in languages other than English or that are aimed at particular immigrant populations do exist (see appendix II), but are more limited, especially for speakers of languages other than Spanish.

Financial Products Often Use Language That Is Particularly Complex

Information and documents related to financial products tend to be very complex and can be hard to understand, even for native English speakers. The Financial Literacy and Education Commission, which is comprised of 20 federal agencies, has noted that personal financial management is an extremely complex matter that requires significant resources and commitment for consumers to understand and evaluate the multitude of financial products available in the marketplace.¹¹ Moreover, the language used in financial documents can be extremely confusing. For instance, in 2006 we reported that credit card disclosures were often written well above the eighth-grade level at which about half of U.S. adults read.¹² In a separate report, we similarly found that the disclosures made by various lenders to inform consumers of the risks of alternative mortgage products, such as interest-only loans, used language too complex for many adults to understand.¹³ A study by the Federal Trade Commission in 2007 on consumer mortgage disclosures reported that home loan borrowers were frequently confused by the disclosures about their mortgages and experienced significant misunderstandings about the terms of their loans.¹⁴

Having limited proficiency in English clearly exacerbates these challenges. In 2008, the National Council of La Raza sponsored four focus groups on credit issues and found that, for some Hispanics, language barriers

¹¹Financial Literacy and Education Commission, *Taking Ownership of the Future: The National Strategy for Financial Literacy* (Washington, D.C.: April 2006), p. vii.

¹²GAO, *Credit Cards: Increased Complexity in Rates and Fees Heightens Need for More Effective Disclosures to Consumers*, [GAO-06-929](#) (Washington, D.C.: Sept. 12, 2006).

¹³GAO, *Alternative Mortgage Products: Impact on Defaults Remains Unclear, but Disclosure of Risks to Borrowers Could Be Improved*, [GAO-06-1021](#) (Washington, D.C.: Sept. 19, 2006).

¹⁴Federal Trade Commission, Bureau of Economics Staff Report, James M. Lacko and Janis K. Pappalardo, "Improving Consumer Mortgage Disclosures: An Empirical Assessment of Current and Prototype Disclosure Forms" (June 2007), <http://www.ftc.gov/os/2007/06/P025505MortgageDisclosureReport.pdf> (accessed Mar. 31, 2010).

compounded the difficulties that all participants faced in understanding the jargon and fine print of applications, contracts, and credit reports.¹⁵ The report by Lutheran Immigration and Refugee Service stated that advanced literacy skills are needed to understand the terms and conditions tied to most financial contracts and that it can take up to 5 years of regular English communication and practice for an immigrant who is not a native English speaker to achieve that level of advanced literacy.¹⁶ These findings were corroborated through focus groups we conducted with a wide range of individuals who provide financial and social services to populations who lack English proficiency. These providers frequently noted that the complexity and specialized language of financial services can make conducting financial affairs particularly challenging for individuals with limited English proficiency.

Translation of Financial Information May Not Always Be Effective

In some cases, written financial materials are provided in languages other than English, but the translation may not be fully comprehensible if it is not written using colloquial or culturally appropriate language. A 2004 report by the National Council of La Raza noted that financial education materials are often translated from English to their literal equivalent in Spanish, which may be unintelligible or difficult for the reader to understand.¹⁷ The report recommended the use of translation that attempts to convey images or messages without regard to literal phrasing and that would account for cultural differences and capture and clarify the meaning of terms. Financial service providers we spoke with also noted that many specific terms used in the U.S. financial system—such as “subprime” and “401K”—do not always have equivalent terms in other languages, which can make translation particularly difficult. Some financial education materials for those with limited English proficiency provide English and translated versions side-by-side to help readers improve their financial vocabulary and recognize key terms.

Interpretation—that is, oral translation—can also be problematic. The service providers we spoke with said that individuals with limited English

¹⁵Greenberg Quinlan Rosner Research for National Council of La Raza, *NCLR: Credit Education Materials Development Focus Group Report* (July 25, 2008), p. 1.

¹⁶Lutheran Immigration and Refugee Service, pp. 10-11.

¹⁷Muñiz, Brenda, “Financial Education in Latino Communities: An Analysis of Programs, Products, and Results/Effects,” National Council of La Raza (Washington, D.C.: 2004), p. 11, <http://www.nclr.org/content/publications/detail/28618/> (accessed Aug. 12, 2009).

proficiency frequently rely on friends and family members to serve as interpreters when dealing with financial affairs. However, interpreters may not be reliable because they may not fully understand or be able to explain the material. In particular, advocates for immigrant communities told us that adults often use as interpreters their minor children, who may not have the ability to accurately convey complex information. The Lutheran Immigration and Refugee Service report noted that many immigrants rely on relatives already residing in the United States to introduce them to the American financial system even though their family members may not have complete or accurate information themselves.¹⁸ In focus groups conducted for a report by Freddie Mac on Asian homebuyers, Chinese, Korean, and Vietnamese immigrants said that one of the key reasons they would rather use Asian real estate agents is because they preferred to conduct business in their native language, even when they were proficient in English.¹⁹

Some financial institutions have staff that can interpret or provide information in languages other than English, but it is unclear how widely this occurs. A report by the public interest group Appleseed on expanding and improving services for immigrants noted that the absence of culturally competent bilingual staff and services is a barrier to providing financial services to the low- and moderate-income immigrant market.²⁰ In the same way, the financial education report by the National Council of La Raza stated that U.S. banks do not always employ bicultural, bilingual staff who can meet the diverse needs of Hispanics, especially immigrants.²¹ One provider told us that providing bilingual customer service can be challenging because even bilingual employees may not be able to accurately explain all the financial products offered by the institution. The representative of one financial services firm told us it forbids its staff from translating information or serving as interpreters for fear of providing

¹⁸Lutheran Immigration and Refugee Service, p. 15.

¹⁹Freddie Mac, "Homeward Bound: An In-depth Look at Asian Homebuyers in the United States" (McLean, Virginia: December 2005), p. 19, http://www.freddiemac.com/news/pdf/Asian_Homebuyers_in_the_US.pdf (accessed Nov. 4, 2009).

²⁰Appleseed, "Expanding and Improving Financial Services for Low- and Moderate-Income Immigrant Communities: Next Steps" (Washington, D.C.: 2006), p. 4, www.texasappleseed.net/pdf/report_financial_ExpandImprove_2006.pdf (accessed Mar. 10, 2010).

²¹Muñiz, National Council of La Raza, p.11.

incorrect or incomplete information. Similarly, an article in the trade journal *Employee Benefit News* cautioned that asking bilingual employees to present benefits information can be risky because the employee may lack financial expertise and the knowledge to explain industry-specific terms.²²

Many Factors Other Than Language Influence the Financial Literacy of Individuals with Limited English Proficiency

Federal agency officials as well as financial literacy experts and staff from service providers such as nonprofit organizations, credit unions, and banks that work with immigrant communities informed us that factors other than language often serve as barriers to financial literacy for people with limited English proficiency. These factors can include a lack of familiarity with the U.S. financial system, cultural differences, general mistrust of financial institutions, and income and education levels.

- *Lack of familiarity with the U.S. financial system.* Some immigrants to the United States—some of whom are not proficient in English—lack familiarity with the U.S. financial system and its products, which may differ greatly from those in their native countries. These individuals may not have had exposure to mainstream financial institutions, such as banks, or may not have had experience with credit cards or retirement programs. A 2006 study sponsored by the Inter-American Development Bank noted that many new Hispanic immigrants have never had a bank account and that this is one of the obstacles that stand in the way of greater financial integration of recent Hispanic immigrants.²³ Similarly, in focus groups conducted by Freddie Mac for its report on Asian homebuyers, new Asian immigrants cited unfamiliarity with the U.S. financial system as one challenge that they faced.²⁴ Officials at the Internal Revenue Service told us that individuals with limited English proficiency often face additional challenges understanding the U.S. tax system, in part because the tax system in their home country was very different. Further, in the report by Lutheran Immigration and Refugee Service, service providers noted that new immigrants with limited banking experience were generally unclear

²²Melissa Burkhart and Ferney Colorado, “Encouraging Spanish-speakers’ participation in retirement plans,” *Employee Benefit News* (July 1, 2007), <http://ebn.benefitnews.com/news/encouraging-spanish-speakers-participation-retirement-plans-106968-1.html> (accessed Sept. 2, 2009).

²³Sarah Stookey, PhD, sponsored by the Inter-American Development Bank/Multilateral Investment Fund, *Financial Services Segregation: Improving Access to Financial Services for Recent Latino Immigrants* (July 2006), p. 21.

²⁴Freddie Mac, *Homeward Bound*, p. 8.

about what happens to money they deposit and how they can access these funds; many are also new to the very concept of a credit system.²⁵

Additionally, one service provider told us that many new immigrants do not have their parents' or previous generations' financial experiences and lessons in the United States to learn from.

- *The role of culture.* Cultural differences can play a role in financial literacy and the conduct of financial affairs because different populations have dissimilar norms, attitudes, and experiences related to managing money. For example, in some cultures the practice of borrowing money and carrying debt is viewed negatively, which may deter immigrants from such cultures from taking loans to purchase homes or cars and build credit histories. In focus groups of Asian homebuyers conducted by Freddie Mac, most participants expressed an aversion to debt, and some participants said they were accustomed to spending cash rather than using credit cards because they do not like to be in debt.²⁶ Religious traditions can also influence the use of credit. The Lutheran Immigration and Refugee Service report notes that Muslims who adhere to religious prohibitions against receiving and paying interest face challenges participating in such mainstream financial products as home mortgages and retirement plans.²⁷
- *Mistrust of financial institutions.* Some immigrants' attitudes toward financial institutions have been shaped by their observations and experiences in their home countries. One academic paper on immigrants' access to financial services noted that some U.S. immigrant households do not have bank accounts because of mistrust of banks, particularly if financial institutions in their home countries were marked by instability, lack of transparency, or fraud.²⁸ A study sponsored by the Inter-American Development Bank similarly noted that negative attitudes towards depository financial institutions or a desire to keep financial information

²⁵Lutheran Immigration and Refugee Service, p. 8.

²⁶Freddie Mac, *Homeward Bound*, pp. 4 and 11.

²⁷Lutheran Immigration and Refugee Service, p. 10. A small but growing number of financial entities, nonprofits, and for-profit wholesalers in the United States offer financial products designed to comply with Islamic law, as well as with state and federal regulations. See Chicago Fed Letter, *Islamic finance in the United States: A small but growing industry* (Chicago: May 2005).

²⁸Una Okonkwo Osili and Anna L. Paulson, "Immigrants' Access to Financial Services and Asset Accumulation," *Insufficient Funds: Savings, Assets, Credit and Banking Among Low-Income Households* (New York, New York: Russell Sage Foundation Press, 2009).

private has been an obstacle to using banks among some Hispanic immigrants.²⁹

- *Income and socioeconomic status.* Some studies have reported a correlation between income and financial literacy. As noted earlier, individuals with limited English proficiency have lower incomes, on average, than the U.S. population as a whole. In a 2008 survey of young American adults for the Jump\$tart Coalition for Personal Financial Literacy, respondents whose family income was less than \$20,000 per year received an average score of about 43 percent on a test of personal finance basics, as compared to a score of about 52 percent for students whose parents' income was more than \$80,000.³⁰ A few financial service providers to immigrant communities we spoke with noted that low-income individuals may not have access to tools, such as educational courses and Internet sites, to improve their money management skills and overall financial literacy. The financial education report by the National Council of La Raza stated that the many Hispanic low-wage earners with work schedule restrictions or multiple jobs were limited in the ways in which they could participate in financial education programs.³¹
- *Education.* As noted earlier, there is evidence that people in the United States with limited English proficiency are more likely to have low educational attainment. Moreover, overall levels of education can affect financial literacy. For example, the Jump\$tart Coalition survey found a correlation between test scores on the basics of financial literacy and the educational attainment of test takers and their parents.³² Similarly, researchers with the Board of Governors of the Federal Reserve System who reviewed consumer survey data from the University of Michigan found a statistically significant correlation between respondents' levels of formal education and their ability to correctly answer a series of true-false questions concerning savings, credit, and other general financial

²⁹Stookey, Inter-American Development Bank, p. 21.

³⁰Lewis Mandell, PhD, for the Jump\$tart Coalition for Personal Financial Literacy, *The Financial Literacy of Young American Adults: Results of the 2008 National Jump\$tart Coalition Survey of High School Seniors and College Students* (Washington, D.C.: 2008), p. 12.

³¹Muñiz, National Council of La Raza, p.11.

³²Lewis Mandell, PhD, *The Financial Literacy of Young American Adults*, p. 13.

management matters.³³ Staff at organizations that serve or advocate for immigrants told us that one factor in the ability to conduct financial affairs effectively is basic literacy—that is, the ability to read or write even in one’s native language. People with limited English proficiency who are not literate in any language face clear barriers to learning about and understanding financial issues, which can greatly impede their ability to conduct their everyday financial affairs.

Some service providers and advocates told us that because factors other than language affect the financial literacy of people with limited English proficiency, translations of financial products and financial education materials may not be sufficient to address obstacles to financial literacy. While overcoming language barriers is important, they said, efforts to improve the financial literacy and well-being of people with limited English proficiency must also address underlying cultural and socioeconomic issues.

³³Sandra Braunstein and Carolyn Welch, “Financial Literacy: An Overview of Practice, Research, and Policy,” Federal Reserve Bulletin (November 2002), p. 455, <http://www.federalreserve.gov/pubs/bulletin/2002/1102lead.pdf> (accessed Apr. 5, 2010). The article reported, among other things, on the Survey of Consumers, a monthly telephone survey of a sample of U.S. households conducted by the University of Michigan Survey Research Center.

Consumers with Limited English Proficiency Are More Likely to Use Alternative Financial Services and May Be More Susceptible to Fraudulent and Predatory Practices

Evidence suggests that people with limited English proficiency are more likely than the U.S. population as a whole not to have accounts at banks and other mainstream financial institutions. This condition is commonly referred to as being “unbanked” or “underbanked.”³⁴ A 2009 national survey by the Federal Deposit Insurance Corporation (FDIC) found that 35.6 percent of households where only Spanish was spoken at home were unbanked, compared with 7.1 percent of households in which Spanish was not the only language spoken at home.³⁵ Similarly, another study on the use of financial services by Hispanic immigrants found that they were significantly more likely to be unbanked than nonimmigrants, although it did not report specifically on the role of language.³⁶ The FDIC survey found that among households who had never had a bank account, 9.1 and 6.9 percent cited that it was because “banks do not feel comfortable or welcoming” and “there are language barriers at banks,” respectively.³⁷ Further, as noted earlier, immigrants may come from countries with corrupt or insecure financial systems, which can diminish their trust in mainstream financial institutions in the United States. In addition, persons with limited English proficiency who are undocumented may be further deterred from opening a bank account because of fear that the institution will share personal information with immigration authorities, according to the Lutheran Immigration and Refugee Service study and a few service providers we spoke with.³⁸ According to FDIC, unbanked or underbanked consumers may pay excessive fees for basic financial services, be more vulnerable to loss or theft, and struggle to build credit histories and achieve financial security.³⁹

FDIC has also reported that households that are unbanked are more likely to use alternative financial services, and about two-thirds of these households used pawn shops, payday loans, rent-to-own agreements,

³⁴FDIC has defined “unbanked” households as those without checking or savings accounts and “underbanked” households as those that have such accounts but also rely on alternative financial services.

³⁵Federal Deposit Insurance Corporation, *FDIC National Survey of Unbanked and Underbanked Households* (Washington, D.C.: December 2009), p. 16-17.

³⁶Stookey, Inter-American Development Bank, p. 10.

³⁷Federal Deposit Insurance Corporation, p. 25.

³⁸Lutheran Immigration and Refugee Service, p. 9.

³⁹Federal Deposit Insurance Corporation, p. 13.

nonbank money orders, or check-cashing services in the past year.⁴⁰ There are a number of reasons why populations with limited English proficiency may be more likely to use alternative financial services. First, alternative financial service providers, such as payday lenders and check-cashing outlets, generally cluster in and around neighborhoods with lower-income, minority, and Hispanic families, according to a 2004 analysis by the Urban Institute.⁴¹ The Lutheran Immigration and Refugee Service study said that in each of the five cities researchers visited, alternative financial services appeared to be widely available in neighborhoods where new immigrants lived, noting that immigrants were often aggressively targeted for these services through direct mail, telemarketing, and door-to-door sales.⁴² Some immigrants are attracted to alternative financial service providers because these institutions often cater specifically to their communities by, among other things, requiring little or no documentation, hiring staff who speak the language of their community, and offering convenient hours. However, concerns exist about the widespread use of such alternative financial service providers since the loan fees they charge are generally much higher than those charged by traditional financial institutions, and other terms and conditions of such loans are often unfavorable to the borrower.

Further, evidence suggests that some populations with limited English language skills may be more susceptible to fraudulent and predatory practices. The Lutheran Immigration and Refugee Service report noted that some immigrants may trust financial service providers who speak their native language even if they do not understand the legalities of agreements they make.⁴³ Service providers that work with limited English proficient communities told us that in some cases unscrupulous individuals use their ability to converse fluently in someone's native language to build trust and then take advantage of the person. Some

⁴⁰Federal Deposit Insurance Corporation, p. 12. Payday loans are short-term loans typically extended to consumers who have a checking account and can prove that they are employed. Rent-to-own agreements are agreements to purchase products, such as furniture and computers, under rental-purchase agreements that allow consumers to own the goods at the end of the agreement. See FDIC's "Alternative Financial Services: A Primer" at http://www.fdic.gov/bank/analytical/quarterly/2009_vol3_1/AltFinServicesprimer.html (accessed Apr. 6, 2010).

⁴¹Kenneth Temkin and Noah Sawyer, The Urban Institute, *Analysis of Alternative Financial Service Providers*, prepared for the Fannie Mae Foundation (Washington, D.C.: 2004).

⁴²Lutheran Immigration and Refugee Service, p. 11.

⁴³Lutheran Immigration and Refugee Service, p. 11.

service providers described to us scams they have observed in which individuals with limited English skills are told the terms of an agreement orally in their native language and then asked to sign a written contract in English with terms different than those described. Credit counselors we spoke with said that having limited proficiency in English can make it difficult to understand the distinctions between various financial products. The report by the Appleseed organization notes that language and cultural barriers may also make it harder for immigrants, including those with limited English skills, to register a complaint about an abusive practice or product.⁴⁴

The Federal Trade Commission has similarly noted that Hispanic immigrants, especially those with limited English proficiency, may be more susceptible to consumer fraud such as credit card fraud and other abusive practices. According to the agency, it pursued 37 cases involving Spanish-language frauds targeted at Hispanic consumers as part of its Hispanic Law Enforcement and Outreach Initiative between April 2004 and September 2006.⁴⁵ The Federal Trade Commission has also translated dozens of its consumer education publications into Spanish, in part to reduce the susceptibility of Spanish-speaking consumers to fraud and scams. Several service providers we spoke with said that financial education can play an important role in helping consumers with limited English proficiency avoid abusive and predatory practices.

Agency Comments

We provided a draft of this report to the Department of the Treasury and the Federal Trade Commission for their review and neither agency had any comments.

We are sending copies of this report to the Secretary of the Treasury, the Chairman of the Federal Trade Commission, and interested congressional committees. In addition, the report will be available at no charge on GAO's Web site at <http://www.gao.gov>.

⁴⁴Appleseed, *Expanding and Improving Financial Services for Low- and Moderate-Income Immigrant Communities: Next Steps*, p. 8.

⁴⁵Press Release, "Federal Trade Commission Protecting America's Consumers, FTC Announces New Successes in Campaign to Stop Fraud Targeting Hispanics" (Sept. 27, 2006), <http://www.ftc.gov/opa/2006/09/nyworkshop.shtm> (accessed Oct. 27, 2009).

If you or your staffs have any questions about this report, please contact me at (202) 512-8678 or cackleya@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix III.



Alicia Puente Cackley
Director, Financial Markets and
Community Investment

Appendix I: Scope and Methodology

Our reporting objective was to examine the extent, if any, to which individuals with limited English proficiency are impeded in their financial literacy and conduct of financial affairs. To address this objective, we conducted a review of relevant literature related to financial literacy among immigrants and people with limited English proficiency. To identify existing studies, reports, articles, and surveys, we conducted searches of several databases, including Business & Industry, Banking Info Source, and EconLit, using key words to link financial literacy or financial education to language, English proficiency, and other concepts. We also asked for recommendations for studies, reports, and articles from academic experts and from representatives of organizations that address issues related to financial literacy or limited English proficient communities. We also conducted focused Internet searches, and we reviewed the bibliographies of reports we had already obtained to identify additional material. Each of the documentary sources cited in our report was reviewed for methodological strength and reliability and determined to be sufficiently reliable for our purposes. We performed our searches from August 2009 to April 2010.

To describe the U.S. population of individuals with limited English proficiency, we obtained and analyzed data from the United States Census Bureau's 2006-2008 American Community Survey and the 2000 U.S. Census.¹ The Census Bureau does not define the term "limited English proficient." As such, we developed our measures of the limited English proficient population based on questions in the American Community Survey that asked "Does this person speak a language other than English at home?", "What is the language?", and "How well does this person speak English?" For our purposes, we included in the limited English proficient estimate individuals over the age of 18 who self-reported that they speak English "not well" or "not at all". We determined the total number of limited English proficient individuals as compared to the population that is proficient in English (those who reported they speak English "very well" or "well") for both the 2006-2008 American Community Survey data and the 2000 U.S. Census data to show the growth over a period of time. Because the American Community Survey data is a probability sample

¹The 2006-2008 American Community Survey estimates are based on data collected between January 2006 and December 2008 for selected geographic areas with populations of 20,000 or greater. These estimates represent average characteristics over the 3-year period of time and have larger sample sizes than 1-year estimates. For additional information on the 2006-2008 American Community Survey data or the 2000 U.S. Census data, see http://factfinder.census.gov/home/saff/main.html?_lang=en.

based on random selections, this sample is only one of a large number of samples that might have been selected. Since each sample could have provided different estimates, we express our confidence in the precision of our particular sample's results as a 95 percent confidence interval (e.g., plus or minus 4.5 percentage points). This is the interval that would contain the actual population value for 95 percent of the samples that could have been drawn. In this report, all Public User Microdata Area level percentage estimates derived from the 2006-2008 American Community Survey have 95 percent confidence levels of plus or minus 4.5 percentage points or less, unless otherwise noted.

We also conducted interviews at and gathered relevant studies and educational materials from federal agencies, organizations that provide financial literacy and education, and organizations that serve or advocate for populations with limited English proficiency. We interviewed staff at the Department of the Treasury's Office of Financial Education, Federal Trade Commission, Internal Revenue Service, Federal Deposit Insurance Corporation, and the Department of Health and Human Services' Office of Refugee Resettlement. We also interviewed representatives and gathered documentation from organizations that address financial literacy issues, including Consumer Action, Consumer Federation of America, and the Jump\$tart Coalition for Personal Financial Literacy; organizations that represent the interests of populations that include individuals with limited English proficiency, including the Asian American Justice Center, National Coalition for Asian Pacific American Community Development, National Council of La Raza, and Southeast Asia Resource Action Center; and organizations that represent financial service providers, including the American Bankers Association, Credit Union National Association, and National Foundation for Credit Counseling. We also gathered information from three academic researchers who focus on issues related to financial literacy or limited English proficiency.

In addition, we conducted a series of 10 focus groups to discuss the barriers that individuals with limited English proficiency may face in improving financial literacy and conducting their financial affairs. Information we collected from our focus groups and from the organizations we contacted provided context on the issues discussed, but this information is not generalizable to the entire populations represented by the focus groups. Further, our work may not have addressed all of the different perspectives of the many diverse cultures comprised by people with limited English proficiency in the United States. For each focus group, we used a series of semi-structured questions to learn about participants' observations and experiences related to language and other

barriers that impede financial literacy and how they address these challenges. The focus groups included:

- 1 with 11 limited English proficient consumers whose native language was Spanish and who were enrolled in English-language classes sponsored by the Hispanic Committee of Virginia;
- 1 with 11 limited English proficient consumers whose native language was Vietnamese and who utilize the services of Boat People SOS, a community-based organization based in the Washington, D.C. area;
- 4 that collectively included 20 staff members representing 15 financial institutions—large banks, community banks, and credit unions across the country whose clients include a large number of limited English proficient individuals with a wide range of native languages;
- 1 with 10 staff members representing 5 credit counseling and financial education agencies that provide services in multiple languages;
- 2 that collectively included 19 staff members representing 16 nonprofit community-based organizations that largely serve Hispanic communities; and
- 1 with 9 staff members representing 8 nonprofit community-based organizations that largely serve a variety of Asian communities.

We conducted our work from August 2009 to May 2010 in accordance with all sections of GAO's Quality Assurance Framework that are relevant to our objective. The framework requires that we plan and perform the engagement to obtain sufficient and appropriate evidence to meet our stated objective and to discuss any limitations in our work. We believe that the information and data obtained, and the analysis conducted, provide a reasonable basis for any findings and conclusions in this product.

Appendix II: Examples of Financial Education Targeted at Populations with Limited English Proficiency

Many entities—including federal agencies, state and local governments, financial institutions and other private sector entities, schools, community-based agencies, and other nonprofit organizations—sponsor financial literacy and education initiatives. These efforts cover a wide variety of topics, target a range of audiences, and include classroom curricula, print materials, Web sites, broadcast media, and individual counseling. Highlighted below are selected examples of initiatives taken in the federal, nonprofit, and private sectors that seek to reach, in particular, individuals with limited English proficiency.

Federal Agencies

About 20 different federal agencies operate numerous financial literacy programs and initiatives, several of which are targeted in part or whole at individuals with limited proficiency in English.¹ The federal government's multiagency Financial Literacy and Education Commission sponsors the My Money Web site (www.MyMoney.gov), which serves as a portal to more than 260 other federal financial education sites. The site has both English- and Spanish-language versions. The commission also sponsors a financial literacy telephone hotline that supports both English- and Spanish-speaking callers, as well as a financial literacy "tool kit" of publications available in English and Spanish. One of the most widely used federal financial literacy programs is the Federal Deposit Insurance Corporation's "Money Smart," a financial education curriculum designed to help individuals who are outside the financial mainstream develop financial skills and positive banking relationships. The instructor-led curriculum is offered in English, Spanish, Chinese, Hmong, Korean, Vietnamese and Russian, while the computer-based curriculum is available in English and Spanish. The Federal Trade Commission has developed more than 150 culturally appropriate educational publications in Spanish, according to an agency official, many of which cover financial topics, and its Spanish-language Web site received more than 1 million hits in fiscal year 2009. The Federal Trade Commission has also created Spanish-language videos on such topics as avoiding foreclosure rescue scams, and

¹Executive Order 13166, *Improving Access to Services for Persons with Limited English Proficiency*, which was signed by President Clinton in 2000, sought to clarify the responsibilities of federal agencies and their grant recipients under Title VI of the Civil Rights Act of 1964 to make their programs and activities accessible to populations with limited English proficiency. The order required federal agencies to issue guidance to their funding recipients to avoid discriminating on the basis of national origin. Exec. Order No. 13166, 65 Fed. Reg. 50121 (Aug. 11, 2000).

agency staff have provided interviews on financial issues to local and national Spanish-language media.

Nonprofit Sector

A variety of community-based and national nonprofit organizations throughout the nation have financial literacy initiatives aimed at populations with limited proficiency in English. Many housing counseling agencies approved by the Department of Housing and Urban Development offer services in multiple languages. For example, the Minnesota Home Ownership Center has interpreters trained in homeownership issues and financial terminology and offers homebuyer-education classes in Spanish, Cambodian, Russian, and Hmong. Some community-based organizations also provide financial literacy information through their English as a Second Language programs, using resources such as the Money Smart curriculum, which includes such topics as the U.S. credit system and credit scores, and purchasing a home. Some agencies offer individual counseling. For example, two large nationwide providers of credit counseling and financial education can conduct telephone sessions in at least 15 languages directly and about 150 languages using a translation-services contractor. Many nonprofit agencies offer written publications in multiple languages intended to improve consumer financial literacy. For example, the National Coalition for Asian Pacific American Community Development publishes financial literacy resources in Chinese, Korean, Vietnamese, Hindi, Urdu, and Samoan. Similarly, Consumer Action posts to its Web site consumer financial information in several languages.

Private Sector

Several financial institutions and other private sector entities have sponsored financial literacy initiatives aimed at consumers who speak languages other than English. For example, Freddie Mac's CreditSmart®—a financial education curriculum designed to help consumers build and maintain better credit and become homeowners—is available in Spanish through CreditSmart Español and in Chinese, Korean, and Vietnamese through CreditSmart Asian. The American Bankers Association provides a newsletter in Spanish called Money Talks that is tailored to varying age groups and offers personal finance booklets in Spanish on such topics as saving, credit, budgeting, checking accounts, and mortgages. The Credit Union National Association offers "El Poder es Tuyo," a Spanish-language personal-finance Web site that provides culturally relevant articles, videos, and worksheets specifically designed for Hispanics.

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

Alicia Puente Cackley, (202) 512-8678 or cackleya@gao.gov

Staff Acknowledgments

In addition to the contact named above, Jason Bromberg (Assistant Director), Grant Mallie, Linda Rego, Rhonda Rose, Jennifer Schwartz, Andrew Stavisky, and Betsey Ward made key contributions to this report.

Related GAO Products

Reports Related to Financial Literacy

Financial Literacy and Education Commission: Progress Made in Fostering Partnerships, but National Strategy Remains Largely Descriptive Rather Than Strategic. [GAO-09-638T](#). Washington, D.C.: April 29, 2009.

Financial Literacy and Education Commission: Further Progress Needed to Ensure an Effective National Strategy. [GAO-07-100](#). Washington, D.C.: December 4, 2006.

Credit Reporting Literacy: Consumers Understood the Basics but Could Benefit from Targeted Educational Efforts. [GAO-05-223](#). Washington, D.C.: March 16, 2005.

Highlights of a GAO Forum: The Federal Government's Role in Improving Financial Literacy. [GAO-05-93SP](#). Washington, D.C.: November 15, 2004.

Reports Related to Limited English Proficiency

Centers for Medicare and Medicaid Services: CMS Should Develop an Agencywide Policy for Translating Medicare Documents Into Languages Other Than English. [GAO-09-752R](#). Washington, D.C.: July 30, 2009.

Medicare: Callers Can Access 1-800-MEDICARE Services, but Responsibility within CMS for Limited English Proficiency Plan Unclear. [GAO-09-104](#). Washington, D.C.: December 29, 2008.

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