

CRITICALLY IMPORTANT FOR INDIVIDUALS TO BECOME FINANCIALLY LITERATE

Bernanke stresses economics for youth

- In a nationwide survey, high school seniors got fewer than half the questions on personal finance right.

By JEANNINE AVERSA
Associated Press

WASHINGTON - Young people's financial know-how has gone from bad to worse.

High-school seniors, on average, answered correctly only 48.3 percent of questions about personal finance and economics, according to a nationwide survey released Wednesday by the Federal Reserve. That was even lower than the 52.4 percent in the 2006 and marked the worst score of the six studies conducted so far.

With home foreclosures at record highs, Fed Chairman Ben Bernanke stressed in a speech that young people must sharpen their financial knowledge so that they are in a better position to make sound

investment decisions throughout their lives.

"The financial preparedness of our nation's youth is essential to their well-being and of vital importance to our economic future," Bernanke said at the Fed event about financial literacy. "In light of the problems that have arisen in the subprime mortgage market, we are reminded of how critically important it is for individuals to become financially literate at an early age so that they are better prepared to make decisions and navigate an increasingly complex financial marketplace."

When the housing market collapsed, home values fell and interest rates rose. That especially clobbered people who had tarnished credit or

low incomes and were holding more risky "subprime" mortgages. As these homeowners found it increasingly difficult — or impossible — to make their monthly mortgage payments, home foreclosures took off, some lenders went out of business and financial institutions suffered huge losses as mortgage-backed investments soured.

Problems spread into other areas, affecting more credit-worthy borrowers. And the housing, credit and financial slumps threaten to push the economy into deep recession.

In this year's survey, only 16.8 percent correctly answered that stocks likely would offer the most growth over 18 years of saving for a child's education, while 37.3 percent thought that a U.S. savings bond — one of the most conservative investments — would

offer the highest growth.

Nearly 53 percent said they would have no liability if their credit card was stolen and a thief ran up \$1,000 worth of debt. (Liability is limited to \$50 after the credit-card issuer is notified.) Only 13 percent knew they might have to be responsible for \$50.

"The survey demonstrated that graduating high-school seniors continue to struggle with financial literacy basics," said Lewis Mandell, a professor at the State University of New York Buffalo School of Management.

The surveys, done every two years, were sponsored by the Jump\$tart Coalition for Personal Financial Literacy.

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