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# High school seniors get 'F' in finance

By Jeannine Aversa, AP Economics Writer

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 previous survey in 2006 and marked the worst score out of the six surveys 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 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 on 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," the Fed chairman added.

When the housing market collapsed, home values fell and interest rates rose. That especially clobbered people with tarnished credit or low incomes holding more risky "subprime" mortgages. As these homeowners found it increasingly difficult or possible to make their monthly mortgage payments, home foreclosures took off, some lenders went out of business and financial institutions suffered multibillion losses as mortgage-backed investments soured.

Problems spread into other areas, affecting more creditworthy borrowers. And the housing, credit and financial slumps are threatening to push the economy into a deep recession.

Bernanke, in his remarks, didn't talk about the state of the economy or offer clues about the Fed's next move on interest rates.

Many economists believe the Fed will lower rates later this month as part of a multi-pronged approach to bolstering the economy and trying to ease the credit crunch.

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

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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, professor of finance and managerial economics at SUNY Buffalo School of Management.

The latest survey -- the sixth -- was released by the Federal Reserve. The surveys, done every two years, were sponsored by the Jump\$tart Coalition for Personal Financial Literacy, which wants students to have the skills to be financially competent.

College students' financial literacy also was tested this year. They answered 62 percent of the questions correctly.

The surveys were paid for by the Merrill Lynch Foundation.

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