

Credit Related Stressor Events and Negative Incidents in New Clients' Financial Lives

Prepared by Benoit Sorhaindo¹ and E. Thomas Garman²

Introduction

The people who telephone a credit counseling agency seeking assistance are almost always experiencing serious distress about their personal finances. They may have budget problems due to a temporary reduction in income. Or they find themselves overextended on credit cards and unable to make the minimum required repayments. Over time they experience various credit related stressor events and negative incidents, such as receiving overdue notices from creditors, telephone calls from collection agencies, taking cash advances on credit cards, and writing bad checks. This report describes the frequency of negative incidents in the financial lives of new InCharge Debt Solutions clients. The respondents were clients for two, three or four months, thus the findings pertain to “new” InCharge credit counseling clients.

Purpose and Findings

The InCharge Education Foundation (ICEF) conducted this study. Its purpose was to describe the financial lives of a large national sample of financially distressed adults who were new clients of InCharge Debt Solutions. The findings from one question asked in the research study are presented. The findings pertain to over 3,000 new InCharge clients, and totals may not add to 100 percent due to rounding.

“How often in the past 12 months did you experience any of these negative financial incidents?” See Table 1; Variable 13_A, B, C, D, E, F, G, H, I, J, K, and L; N ranges from 3,076 to 1,040.

Nine out of ten (87.6%) of the new credit counseling clients experienced one or more of twelve credit related stressor events and negative incidents during the past 12 months. Those experienced most frequently were “Paid a late fee for paying a bill late” (88%), “Received an overdue notice from a creditor” (86%), “Paid a credit card bill late (beyond the due date)” (83%), and “Reached the maximum credit limit on a credit card” (80%). About half of the new clients had in the past 12 months experienced, from a credit history perspective, the rather serious incidents of “receiving a phone call from a collection agency about a past due bill” (56.8%) and writing a check with insufficient funds, or a “bounced check” (48.4%). Three in 10 new InCharge clients (30.1%) could not afford to make their vehicle payments in the past year.

¹ Director of Research, InCharge® Education Foundation, 2101 Park Center Drive, Suite 310, Orlando, FL 32835; email: bsorhain@incharge.org; Phone: 407-532-5704; web: www.InChargeFoundation.org.

² Advisor and Author; Fellow and Professor Emeritus, Virginia Tech University; 8044 Rural Retreat Court, Orlando, FL 32819; Phone (407) 363-9048; email: tgarman@bellsouth.net; web: EthomasGarman.net.

Table 1 V13_A_4, B, C, D, E, F, G, H, I, J, K, L_4
Frequently of Negative Financial Incidents During Past 12 Months

Negative Financial Incidents	1 Never	2 Once	3 More than Once	4 (1+2+3) Total	5 (2+3) Once + More than Once	6 (5/4) Once + More than Once % of Total
A. Paid a late fee for paying a bill late	377	483	2177	3037	2660	87.65
B. Received an overdue notice from a creditor	428	457	2179	3064	2636	86.0
C. Paid a credit card bill late (beyond the due date)	535	461	2069	3065	2530	82.5
D. Reached the maximum credit limit on a credit card	595	450	1989	3034	2439	80.4
E. Received a phone call from a creditor about a past due bill	687	403	1986	3076	2389	77.7
F. Could not afford to go out when desired	773	435	1736	2944	2171	73.7
G. Paid one or more utility bills late (beyond the due date)	877	539	1621	3037	2160	71.1
H. Did not have enough money to pay for a minor emergency	1283	764	975	3022	1739	57.5
I. Received a phone call from a collection agency about a past due bill	1308	480	1240	3028	1720	56.8
J. Took cash advance on a credit card	1529	432	1069	3030	1501	49.5
K. Bounced a check	1565	544	925	3034	1469	48.4
L. Could not afford to make vehicle payment*	727	129	184	1040	313	30.1

*Low response due to data collection error on questionnaire that omitted the response spaces for this item.

Methodology and Data

The data for this study were collected from a national population of overly indebted and financially distressed clients of a large non-profit credit counseling organization, InCharge[®] Debt Solutions, who telephoned seeking assistance with managing their debts during February, March and April 2003. Data were collected in June, thus the respondents were clients for two, three or four months.

The average age was 39 years, and they had an average debt load of 20 percent. A debt-to-income ratio is calculated by dividing monthly minimum debt payments (excluding mortgage or rent) by monthly income. The higher the ratio is the riskier the likelihood of an inability to repay debts.

A questionnaire was mailed to a random sample of 7,200 of the 7,818 who enrolled in a debt management program. Six percent (443/7,200) were returned as undeliverable, usually because of an incomplete address, a person moved without providing a forwarding address, or the person was deceased. The resulting sample was 6,757 and of those 3,131 respondents returned useable questionnaires. This 46 percent response rate was more than twice the return of previous studies of similar populations.

Males comprised 31% of the clients and 69% were female, which is a typical distribution of gender for credit counseling clients. Approximately six in 10 (64%) were either married (54%) or living with a partner (10%), and 36% were unmarried. Their median annual family income was between \$30,001 and \$40,000. Four out of five (79.58%) were employed, and of those 85% were working full-time.

The respondents reported their feelings about their personal finances for retirement as very insecure (32%), somewhat insecure (37%), somewhat secure (28%), or very secure (3%). The respondents reported their health as very good (23%), good (44%), satisfactory (26%), or poor (7%). Their family relationships were noted as being very good (37%), good (42%), satisfactory (17%) or poor (3%). They reported their life at work as very good (24%), good (50%), satisfactory (21%), or poor (5%). When asked about their intentions to quit or leave their primary job within the next 12 months, the respondents disagree (79%), tend to disagree (8%), tend to agree (7%), or agree (6%) with the statement.