Financial Behaviors of Consumers in Credit Counseling[4]

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The purpose of this study is to identify factors that are associated with the financial behaviors of consumers who use credit-counseling services and to examine whether or not the behaviors are associated with these consumers' financial stress and satisfaction. Specifically, this study will: (1) Develop a framework to examine financial behaviors of consumers who use credit counseling services; (2) Identify factors that are associated with financial behaviors of these consumers; (3) Examine, in particular, whether or not the behaviors are associated with these consumers' financial stress and satisfaction; (4) Based on the findings, develop implications for credit counseling professionals to better meet the needs of consumers in credit counseling.

Method

Data

The population for this study was a group of financially distressed consumers who telephoned a large national non-profit credit counseling organization, InCharge® Debt Solutions, seeking assistance with outstanding credit. In mid-June 2003, a 32-item "Personal Finances Survey" questionnaire was mailed to a sample population of 7,200 of the 7,800 clients who joined the program between February and April 2003. This sample population was chosen to yield a required sample size of 1800 assuming a response rate of 25 percent. Four hundred and forty three questionnaires were undeliverable resulting in an adjusted sample population of 6,757. The number of completed questionnaires numbered 3,131 for an actual response rate of 46.6 percent, based on the adjusted sample population. Excluding observations with missing values of variables relevant to this study, the sample size used for data analyses is 1,913.

Variables

Financial behaviors. This concept was measured with two variables. The first is the number of positive financial behaviors, an objective measure. Respondents were asked to respond to binary questions (yes - 1 or no - 0) on nine self-reported positive financial behaviors. The total score of these questions was used as the number of financial behaviors. All the questions were used in earlier research. The second variable is the self-evaluation of financial behaviors, a subjective measure. This second variable came from the question "On the whole, how would you characterize your financial behaviors?" very good-1, good-2, satisfactory-3, and poor-4. In the analyses, the values were reverse coded.

Financial stress. A single measure of financial stress was used. The question is "What do you feel is the level of your financial stress *today*?" with five options: 1-overwhelming, 2-severae, 3-moderate, 4-low, 5-none. In the analyses, the values were reverse coded for convenience of reading the findings.

Financial satisfaction. It was measured by a self-anchoring ladder that was originally developed in 1965 and revised and used by other researchers. In this measure, 1 referred to dissatisfied and 10 referred to satisfied.

Demographic and other control variables. The demographic variables included employment status, marital status, number of family members to support, family income, age, gender, and year of residence. In addition, perceived retirement security, perceived health, perceived family relationship, debt load percentage, and credit card debt balance were included. Debt load percentage is defined as the ratio of average annual debt payment to annual family income. The log of credit card debt balance and the log of family income were used in the regression analyses.

Findings

Factors Associated with the Number of Financial Behaviors

Two regression models were used to examine factors associated with the number of financial behaviors, one without the self-evaluation of financial behavior as an independent variable and the other with it. The second model improved the explaining power by 34% and these results are discussed. Regression results at the significance level of 5% indicate that age, employment status, family income, retirement security, family relationship, and self-evaluation of financial behaviors are associated with the number of positive financial behaviors. Consumers who are older, have a part time job (versus being unemployed) and a higher family income, who see prospects for a more secure retirement, who enjoy a better family relationship, and who report a higher score on self-evaluation of financial behaviors tend to report significantly more positive financial behaviors.

Factors Associated with the Self-evaluation of Financial Behaviors

Two models were used to examine factors associated with self-evaluation of financial behaviors, one without the number of financial behaviors as an independent variable and the other with it. The second model explained the variances better by 45%. The results from the second model are discussed. Credit card debt balance, retirement security, health, family relationship, and the number of positive financial behaviors are associated with the self-evaluation of financial behaviors. Consumers who have a higher balance of credit card debt, perceive a more secure retirement, have better health, and a better family relationship, and report more positive financial behaviors tend to report a higher score on self-evaluation of their financial behaviors. The effect of age is marginally significant ($p=.0643$) but the sign is minus, different from that in the number of financial behavior model, which implies that the two variables, the number of financial behavior and self-evaluation of financial behavior may be perceived differently as consumers age.

Factors Associated with Financial Stress

Three models were used to examine factors associated with the financial stress variable. The first model excluded the two behavioral variables while the second model included them. The purpose of the third model is to explore what specific behaviors are associated with financial stress. We first report findings from the second model. Financial stress is associated with employment status, marital status, debt load percentage, age, retirement security, family relationship, number of financial behaviors, and self-evaluation of financial behaviors. Consumers who are unemployed, single, and with a higher debt load percentage are associated with a higher stress level, while consumers who are younger, perceive a more secure retirement and have a better family relationship, report more financial behaviors, and perceive a higher score of self-evaluation of financial behaviors are associated with a lower stress level. Two additional variables showed weaker effects on financial stress: number of persons to support and gender ($.05<p<.10$ in model 2). Consumers who support one person (versus. those who are single and support only themselves) are likely to have a higher stress level. Females tend to report a higher level of stress.

Further examination (model 3) found that two specific financial behaviors may reduce stress significantly. Having started or increased their savings and having followed a budget or spending plan are associated with a lower level of stress. However, other behaviors do not show significant associations with financial stress.

Factors Associated with Financial Satisfaction

Similar to financial stress, three models were used to examine factors associated with financial satisfaction. Findings from the second model are presented. Financial satisfaction is associated with age, year of residence, credit card debt balance, perceived retirement security, perceived family relationship, number of financial behaviors, and self-evaluation of financial behavior. Consumers who are older, live longer years in their residence, have a lower balance of credit card debt, perceive a more secure retirement and a better family relationship, report more financial behaviors, and provide a higher score of self-evaluation of financial behaviors are associated with a higher level of satisfaction.

Further examination (model 3) found that three financial behaviors may increase financial satisfaction. The three financial behaviors are: having developed a plan for my financial future, started or increased my savings, and reduced some of my personal debts. If weaker effects ($.05<p<.10$) are considered, three more behaviors are positively related to financial satisfaction. They are: having followed a budget, contacted a financial planner, and tried to determine how much money was needed to live comfortably in retirement. However, two behaviors (having participated in flexible spending program and contributed to my employer's retirement plan) are negatively associated with financial satisfaction. One possible explanation is that consumers who participated in a flexible spending program and contributed to their retirement plan while having debt problems have to sacrifice their current spending and divert their resources for debt repayment that decreases satisfaction about their finances.

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[4] Sincere appreciation is extended to the InCharge Education Foundation and the InCharge Institute of America for their support of this research. Both Xiao and Garman are InCharge Scholars.