Consumer Debt

- Individually, socially and societally meaningful consumer problem
- Total household debt rose to $13.5 trillion in the second quarter of 2018
- Total household debt is now $837 billion higher than its previous peak in 2008, just as the last recession took hold
- More than one quarter of HH earning $55K to 90K annually have less than 3 months of savings
A bygone era

The U.S. personal saving rate long hovered in the 10%-12% range, but in the last two decades it has generally remained at a much lower level.

Source: St. Louis Fed *Personal savings rate shown for Jan. 1 of each year
How consumer debt has evolved

The composition of U.S. debt has changed in the last 10 years: more owed on auto and student loans, less on mortgages

Source: New York Fed Consumer Credit Panel/Equifax
indebted consumers have several repayment options:

- SLOWER, REPAY MORE DEBT, LESS DAMAGE TO CREDIT SCORE
  - repay debt by cutting expenses, raising income
  - enroll in a debt management program (DMP)
  - debt consolidation
  - debt settlement
  - bankruptcy
  - default
  - leave the country

- FASTER, REPAY LESS OR NO DEBT, MORE DAMAGE TO CREDIT SCORE
for consumers, DMPs are often the best option+

**PROS**
- receive financial counseling
- less damage to credit score
- lower fees than alternatives
- DMP manages creditors

**CONS**
- give up credit cards
- little debt forgiveness
- program lasts 4-5 years

low completion rate: 25.91% (data from CCCS-OC, n=27,709, 12 years of observations)
Context of Study

• Consumers enrolled in a Debt Management Program (DMP)
• The National Foundation for Credit Counseling has 90 member agencies and 700 offices throughout the U. S.
• Agencies are nonprofit and community-based
• Program only works if consumers will live on a budget – typically counselors design budgets with little room for discretionary spending
Financial Literacy Course

CHAPTER ONE

Use the “Economic Way of Thinking” to Choose Between “Wants” and “Needs”

“There is no such thing as a free lunch.”

Let’s begin helping you change your money behavior. The first step in that process is to encourage you to try a new way to make money choices in your life. We call it the “Economic Way of Thinking.”

The “Economic Way of Thinking”

An important economic concept is that nothing in life is free. Every action has costs. Every decision has consequences; some good and some bad. Smart decision-making involves weighing the costs and benefits of the different choices. The economic way of thinking is based on the following principles:

• People cannot have everything they want.
• People must make choices.
• Every choice involves a cost.
• People’s choices have consequences.

Personal Decision-Making

The personal resources that an individual uses to satisfy his/her wants include time, money, and talents. These resources are used to purchase goods and services. But we all know that we cannot have all of the goods and services we want and that we have to make choices. In the next few pages, we will walk you through one example to illustrate thoughtful decision-making.

Hit the Road Jack—A Decision-Making Exercise

Jack’s 1989 car has just broken down. His mechanic says that he will be able to repair it for $300. Jack does not have the money on hand to pay for the repair—but unless he manages some other expenditure that is in his budget, Jack must decide whether or not to make the repairs or to temporarily stop using the car. Among the most important issues he must weigh are how and at what cost he can travel the 20 miles to work if he fixes the car or if he doesn’t.

Using the Decision-Making Grid, let’s evaluate Jack’s alternatives.

Step #1: Define the problem.

Jack needs transportation to his job which is 20 miles from his home. He must decide whether to fix his car or find other means of transportation.

Step #2: List all the alternatives and possible solutions.

Jack has identified four possible solutions to his problem:

1. He can pay the $300 to fix his car. That would disrupt his budget plan, but he prefers the freedom and reliability of driving to work each day.
Our Research Focus

• Lived experience of temptation while in a DMP
• Consumers in a DMP are likely to have a history of giving into temptation
• Consumers in a DMP now face temptation with constrained resources
• How DMP clients deal with temptation affects their success/failure in the program
Our Research Design – CCCS-OC

- CCCS-OC identified DMP clients who have email addresses
- Accepted participants until sample reached 100
- Participants who completed initial questionnaire emailed a questionnaire link once each week for the next 11 weeks
- Incentives for participation
- Also, we have a complete data set with payment histories and outcomes along with demographics for all CCCS-OC participants – 1600+
Why did DMP Clients Get Into Debt?

• Many participants start out by listing “understandable” reasons for their debt (medical expenses, job loss, school)
  • And finish by listing clearly excessive reasons for debt (travel, buying too much stuff, living beyond our means)
During temptation episodes, participants...

1. Try to justify purchases of hedonic products
2. Attempt to manage emotions related to temptation
3. Focus on “working the program,” on the temptation, or both
4. If successful, develop a new and improved financially sober identity
Program Success

• It is now 2018 – we know a lot about who failed in the program (failure = missed two consecutive payments; success = finished programs or still making payments)
• 73 out of 100 participants either completed the program, or self-administered
• 23 failed
• What’s the difference between failure and success?
What We Predicted

- Less social support ➡ failure
- More stress ➡ failure
- More perceived financial stress ➡ failure
- More temptation episodes ➡ failure
- Style consciousness ➡ failure
- Smaller budget float ➡ failure
What We Predicted

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WRONG!
What *did* predict success?

Positive Attitude!

- Quantitatively
  - Checking off more “coping skills” from our list of 21
  - Much more likely to choose “Looking for the positive” as the most important coping skill
- Qualitatively – even more interesting – 3 attitude patterns:
  - Mindless
    - more likely to exit the survey after first week
    - Those that stayed exhibited anger and/or lack of acceptance
    - Self-discourse is limited: e.g. I want it, have the money in bank, etc.
  - Acceptance
    - Battling back the negative with positive emotions; still tempted, but small temptations worked into budget; Self-discourse includes belief that previous buying was “to fill a hole” (consistent with “ego depletion” theory)
    - May say they felt like they “deserved” the item that tempted them, but know they don’t
  - Mindfulness
    - Resisting temptation seen as victory and development of new skill
    - OR Business-like, temptations very limited
Attitude Patterns

Mindlessness & Avoidance
• Anger and frustration over their predicament
• Disengagement even as the situation became increasingly dire

Acceptance
• Trying to separate wants from needs
• Disappointment and struggle make resistance effortful

Mindfulness
• Self-congratulatory stories about successfully resisting temptation
• Developing new financial skills
Mindfulness/Victory!

- Pausing
- Bringing to mind important core values or goals
- Experiencing mixed emotions related to temptation, then letting them pass
- Experiencing pride from resisting
Mindful, Accepting and Mindless Responses to Temptation

<table>
<thead>
<tr>
<th></th>
<th>Mindful</th>
<th>Accepting</th>
<th>Mindless</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emotion Management</td>
<td>Automatic resistance or mixed emotions with pride upon resistance</td>
<td>Mixed emotions with disappointment upon resistance</td>
<td>Desperation, panic, anger, avoidance</td>
</tr>
<tr>
<td>Goal Focus</td>
<td>Working the program with limited setbacks</td>
<td>Working the program with occasional setbacks</td>
<td>Occasionally works program; often avoids or rebels</td>
</tr>
<tr>
<td>Evoked Financial Identity</td>
<td>New and improved; financially sober</td>
<td>Financially sober, but misses the old free-spending self</td>
<td>None</td>
</tr>
<tr>
<td>Sense of Entitlement</td>
<td>Rarely entitled</td>
<td>Feels entitled, but may counterargue their sense of entitlement</td>
<td>Frequently entitled</td>
</tr>
</tbody>
</table>

Perceived Coping Self Efficacy
# Mindlessness to Mindfulness by Program Outcome

<table>
<thead>
<tr>
<th>Participant Category</th>
<th>Drop out</th>
<th>Complete</th>
<th>Self-Admin</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mindful</td>
<td>1</td>
<td>25</td>
<td>4</td>
<td>30</td>
</tr>
</tbody>
</table>
|                      | 3.3%     | 83.3%    | 13.3%      | 100.0%
| Accepting            | 11       | 19       | 9          | 39    |
|                      | 28.2%    | 48.7%    | 23.1%      | 100.0%
| Mindless             | 11       | 5        | 1          | 17    |
|                      | 64.7%    | 29.4%    | 5.9%       | 100.0%
| Total                | 23       | 49       | 14         | 86    |
|                      | 26.7%    | 57.0%    | 16.3%      | 100.0%|
Conclusion

• When tempted, participants either successfully exerted counteractive control and (1) resisted, (2) planned, (3) limited their purchases OR (4) they gave in.
• Participants who used more coping skills, and who coped by having a positive outlook, were more likely to succeed in the program.
• Acceptance led to compliance with the program; mindfulness led to embracing higher-level meanings and values related to resisting temptation.
What Credit Unions are Doing for Indebted Members

• Many credit unions offer financial education and referral to debt counseling
• One credit union offers advice on debt consolidation and a specific loan for debt consolidation
• Other credit unions partner with Consumer Credit Counseling Services to offer DMPs to members
• Some offer online educational offerings for indebted consumers
A Mindfulness Journal Available on Filene’s Website