An evaluation of the consumer credit counseling service in Butte, Montana
by Lola Ardelle Lueck Krueger

A thesis submitted to the Graduate Faculty in partial fulfillment of the requirements for the degree of MASTER OF SCIENCE in Home Economics
Montana State University

Abstract:
The purpose of the study was to determine the effectiveness of the Consumer Credit Counseling Service in Butte, Montana, Evaluation of the service depended on the evaluation of the clients, the board of directors, and the businesses that belonged to the association and contributed to it.

In order to evaluate the service, the following people were interviewed: (1) the chairman of the board of directors; (2) the Counselor Manager of the Consumer Credit Service of Butte, Montana; (3) the 27 businesses that belong to the association and are contributors; (4) the clients who are being actively served by the Consumer Credit Counseling Service, In addition to the interviews, the clients who could not be interviewed in person or by telephone were sent questionnaires. In addition, the bankruptcies filed for the years 1967-1968 and 1968-1969 were investigated in the Federal Building, Butte, Montana from the federal files, and found for Silver Bow County, Anaconda and Whitehall.

It was found that the Consumer Credit Counseling Service as managed now Was adequately filling a serious need in Butte, Montana. It was also found that most of the indebtedness in Butte resulted from the strikes, and the unemployment resulting from the strikes. The average client was represented as being married 11 years, having 3 children, being skilled, as working in the mines, was between 25 and 50, and had an annual income of $5,233.

The clients were very satisfied with the Consumer Credit Counseling, as well as the board of directors and the businesses and the majority of them agreed that it prevented bankruptcy. There were several clients interested in taking a course on money management.

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Date March 3, 1970

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A thesis submitted to the Graduate Faculty
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Bozeman, Montana

June, 1970

ACKNOWLEDGEMENTS

Association with Dr. Clark Swain, the committee chairman has been a source of inspiration and pleasure. He and Dr. Marjorie Keiser, provided counsel, advice and encouragement in planning this research. Dr. Simpson, my other committee member, gave invaluable assistance. Dr. Elinora Wright, Mrs. Jordan, Mr. Tureck, Mrs. Ann Stagg, and Miss Cynthia Bryson are thanked for assistance, encouragement and inspiration. The graduate students who participated in the pretesting and made the instrument reliable, are also given my appreciation.

The director of the Butte Consumer Credit Counseling Service, Mr. Owen Bush and Mrs. Marian Coughlin, the Counselor Manager of the Consumer Credit Counseling Service, were most helpful in giving assistance and information for this study. The Board of Directors are also given my appreciation as they were responsible for starting the Consumer Credit Counseling Service, and through it, making a contribution to the Butte community. I would like to express my appreciation to the clients for cooperation with my questionnaire. It is hoped that the conclusions of the study may be of some service in the

ACKNOWLEDGEMENTS
(continued)

future planning of the Butte Consumer Credit Counseling Service.

A special word of thanks is due my family for the patience with which they endured many inconveniences.

Notwithstanding the substantial contributions made by others, any errors or omissions in the study are the responsibility of the author alone.

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ABSTRACT

The purpose of the study was to determine the effectiveness of the Consumer Credit Counseling Service in Butte, Montana. Evaluation of the service depended on the evaluation of the clients, the board of directors, and the businesses that belonged to the association and contributed to it.

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CHAPTER I

INTRODUCTION

IMPORTANCE OF THE STUDY

Consumer credit buying is a characteristic of the Mid-twentieth century. The revolution in the way goods are produced, as well as the desire for increased service, has brought a concomitant change in the concept of purchasing for the American family. There was a time that debt was considered "sinful", discounts were given for cash purchases and debt was contracted only if there were no other way. Many a melodrama has made the lender of money, the villain. Today, however, credit buying is encouraged. The seller realizes that in addition to profit included in the cost of the item, profit can also be made on the interest charged for the use of the money with which it is bought. The creditor with this "buy now-pay later" philosophy uses credit cards, installment purchases and charge accounts sometimes with a total disregard of his monetary responsibilities.

NEED FOR THE STUDY

Because the contemporary American family is a consumer unit more than a producer of goods and services, credit cards and easy installment credit with high hidden interest charges can involve a family with an overburdened indebtedness within a short time. While some can manage well, there are others who cannot. They are sometimes threatened with garnishment of wages or bankruptcy.

For those who are aware of the problems of credit purchasing, terms and contracts are evaluated just as for every other family purchase. Others have no concept of money management, their wants far exceeding ability to pay and little understanding of contracts signed.

"Some families are so emeshed in financial difficulties, they are of very little economic value to themselves or their communities. The effects of individual debt problems can be far reaching and costly beyond the personal impact upon those in difficulty. When debt problems become acute, they become social problems that affect the whole community. Worry over debt can affect a family's health and solidarity. In fact, "the battle of the budget at home is rapidly becoming the number one cause of divorce."[1]

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[1] Plans and Working Suggestions, National Foundation for Consumer Credit, Inc., Washington, D. C., 1968, p. 3.

Sometimes the solution for the creditor is garnishment of wages. In the county of Milwaukee, Wisconsin, there have been as many as 13,000 garnishments of wages in a year or an average of fifty garnishments a day.[2] The solution for other families may be bankruptcy. Bankruptcies have risen from 18,510 in 1948 in the United States to 208,389 in 1967, a 700% increase.[3] In 1968, it is said to have risen to 220,000 a year.[4] This may result in losses to both creditor and debtor. It has been estimated one and a half billion dollars is lost in bankruptcy courts annually. Ninety-five percent of these bankruptcies are personal ones.[5]

When the financial strain becomes too great in a family, it reduces the efficiency of the employee. He becomes a greater accident risk. It affects his physical and mental health, his personal well being, and dignity, as well as family members. It can contribute to family

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[2]Eisendrath, Jack, "The Primrose Path from Easy Credit to Bankruptcy", Consumer Credit in Family Management, Proceedings of a National Workshop, Oct. 9-12, 1967, p. 93.

[3]Ibid, p. 93.

[4]Twiner, Linn, Consumer Credit in Family Management, Proceedings of a National Workshop, Oct., 1967, p. 32.

[5]Ibid, p. 32.

and marital difficulty, separation and divorce, harrassment by creditors, alcoholism, desertion and even suicide.

> According to Hackbrath, "most debtors are confused and unhappy people, not deadbeats and many get into a financial jam through no fault of their own, rather because of sickness, hospital bills, family difficulties, unemployment, elimination of extra pay and other understandable reasons. A third neutral party between the debtor and his creditors is needed--one experienced in family finance and able to re-educate the consumer caught in a credit bind."[6]

Indeed there are at least 20,000 American families using credit counseling at any given time.[7]

Ideally, the purpose of a Consumer Credit Counseling Service is to advise and give counsel to a family concerning budgeting and money management, and to develop and carry out a plan for the liquidation of debts. It is also necessary, during this time to maintain an adequate standard of living for the family; to fulfill its nutritional and other needs, as well as to keep the family an established social unit, cooperating with the creditors. In the process there is re-education of family members so that further debt problems do not arise.

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[6]Hackbrath, A., "Consumer Counseling", Bankers Monthly Magazine, Jan. 15, 1967.

[7]Gay, K. R., "Help for Debt Ridden", Kiwanis Magazine, May, 1966.

When commercial pro-raters or debt adjusters established businesses to consolidate or pool debt payments, many of these services further victimized helpless debtors by charging high fees. Their clients therefore became further indebted. A preferable method is to have consumer counseling services, organized and operated on a non-profit basis.[8] This aids the rehabilitation of the individual consumer. In addition, his education in family finance management is essential to both the nation's economy and general family well-being. Educators, home economists, welfare workers, sociologists and family life experts, therefore interested in the well-being of the family, have created such services to help in this aspect of family life.

PURPOSE OF THE STUDY

In Montana, the Consumer Credit Counseling Service has been in existence since 1967. In Butte, the service has been in operation since September 26, 1968. Whether or not this service has been successful has yet to be

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[8]Hall, Perry B., Family Credit Counseling--An Emerging Community Service, Family Service Association of America, New York, New York, 1968, p. 18.

determined. The purpose of this study, therefore, is to evaluate the effectiveness of the service. It is believed that success of the program is intimately related to the personal background of the families seeking help, the extent of their need, approach and expertise of the counselor.

DEFINITION OF TERMS

To forestall any misunderstandings in terms used in relation to consumer debt counseling in this study, a list of words and phrases has been placed in Appendix A.

CHAPTER II

REVIEW OF LITERATURE

Mass production has increased the quantity and the quality of goods available to the family. Consumer durables increased in production from $49.5 billion to $72 billion in 1967.[1] It is not surprising therefore, that one of the major activities in the family is the organization and effectuating the consumption of goods and services. As described by Willard Waller:

> "Perhaps no family in history has been so puny in home production and so conspicuously a consuming group as the American middle class family. It is likely that future studies of the family will view it increasingly as a consuming group--the family, not the individual, is the unit of consumption, and this applies clearly to our emerging democratic middle class family. . . The effects which this shift in activities has had on family forms show clearly the close relationship between the economic system and changes in the structures of individual families."[2]

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[1] Booth, S. Lees, Finance Facts, 1968 Yearbook, Washington, D. C., 1968, p. 26.

[2] Waller, Willard, The Family, A Dynamic Interpretation, revised by Reuben Hill, Holt, Rhinehart and Winston, New York, 1951, p. 65.

RISE IN USE OF CREDIT

The emergence of consumer credit is very important in our American economy and family. This has been recognized by economic experts as well as lay people. Consumer credit is accepted as a common occurrence in our everyday life. Outstanding consumer credit today totals \$111 billion. The interest costs on this consumer credit amounts to \$13 billion.[3] Short and intermediate term consumer credit increased from \$45.3 billion in 1957 to \$95 billion in September, 1967.[4] By the end of 1967, the consumer credit outstanding, totaled \$99.2 billion.[5] Today, it is not uncommon, not only to purchase a house or car by credit, but many luxury items such as travel and dining out.

As Campbell states, "Credit permits the use of future income to satisfy present needs and wants".[6] In this way, consumers can raise their level of living.

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[3] New York Times, "Consumers Spend to Reduce Debts", March 6, 1969, CXVII 40584:57:3.

[4] Booth, op. cit., p. 5.

[5] Ibid, p. 38.

[6] Campbell, Sally, "Teaching in the Classroom", Journal of Home Economics, 60:1, Jan. 1968, p. 42.

There are many reasons why younger or middle-aged families are the biggest users of consumer credit in the United States. Young people want to upgrade their status and enjoy materialistic things in the present. There is a general loosening of credit requirements in an effort to lend more money and sell more merchandise. Many store owners use credit as a selling device. While some say it puts the debtor on a regular monthly budget, many times the family has too many payments to meet them all.

IMPORTANCE OF CREDIT IN MARITAL ADJUSTMENT

It has been said that "The ability of the American family to live within its income is surely the foundation of our economy."[7]

> "Just a decade or two ago, money management called for good common sense and plain dealing, and thriftiness in itself was sufficient for a family to prosper. Certainly the forces of increased taxes, inflation and consumer credit have changed the concepts from 'budgeting' to broader economic concepts. . . .It is hard to get across to them benefits of sound financial planning if they are enmeshed in day to day problems of living. Every adult sees the management of money through his own eyes. It can mean different things to different people at different times in their lives. . . .Adults today cannot visualize the whole money manage-

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[7]Feeley, Mary, "Consumer Credit in Family Financial Management," Journal of Home Economics, vol. 60, No. 1, 1968, pgs. 41-44.

ment picture because their focus is limited to the immediate problem. They lack ability to provide the self discipline needed to control spending on items that have only monetary value. Consumer credit is used to satisfy immediate needs, but consumers are frustrated as income diminishes month after month in payment of small bills."[8]

Today, credit purchasing has become so much a part of the American way of income management that three out of five persons say "charge it" in buying household items, clothing and food.

To be overindulged in credit purchasing can prove to have disastrous results. As reported by Vontress and Thomas in their study, it was shown that "family relationships are disrupted by a major crisis in the lives of family members"..."as economic insecurity"..."are contributing factors of family discord or unhappiness."[9] This is further supported by Wilson, whose former college women (now housewives) showed that thirty-eight out of fifty, mentioned money and its management, as a problem in their marriage. In fact, only parental relationships

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[8]Campbell, op. cit., p. 42.

[9]Vontress, Clemmont E. and Thomas, Harold A., "Counseling Adults", <u>Adult Leadership</u>, 17,6, Dec. 1968, pgs. 723-7.

and adjustments in sex, ranked higher as sources of futility.[10]

Even upperclass or upper middleclass familes suffer from money mismanagement. Terman found very frequently that insufficiency of income was mentioned as a negative factor of these marriages. In relation to marital happiness, he stated that the way the income was handled was more important than the absolute size of income.[11]

A "security rating" was developed by Williamson in his study of marital happiness. Ratings of high, medium and low were derived from a number of economic items. He concluded that the highest proportion of happy wives were among the highest security ratings. Medium security was associated with significantly happy marriages. About twice as many unhappy marriages were found among the couples with the low security ratings. "Incomes of less than $463 a month, prevailed among the unhappy individuals" and conversely, there was a higher percentage of happily

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[10]Wilson, Pauline Park, "College Women Who Express Futility," Bureau of Publications, Teachers College, Col. Univ. 150, p. 54.

[11]Terman, Lewis M., Psychological Factors in Marital Happiness, New York, McGraw Hill Book Co., 1938.

married couples with incomes over $463 a month.[12]

The Williamson study gives support to Locke's study, that "security or a higher economic level is associated with marital happiness." Locke[13] found a significantly higher percent of married men rating their wives "very satisfactory" in financial management and home management than divorced men. Williamson concluded that $445 a month income, home ownership, small indebtedness and insurance over $5,000 were associated with happiness in marriage. It is not only what the mate is able to provide that is important, but "more important is the question of what his own background, his youthful training, and his family experiences have led him to expect as 'normal' in the way of provision. For our idea of what is 'normal' in the way of comfort-providing items, luxury items, food, and housing is contingent upon our family and social background."[14] The use or misuse of money

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[12]Williamson, Robert, Economic Factors Associated with Marital Adjustment, Abstract of Doctoral dissertion, Univ. of California, 1951.

[13]Locke, Harvey J., Predicting Adjustment in Marriage, A Comparison of a Divorced and A Happily Married Group, Henry Holt & Co., 1952, p. 282.

[14]Williamson, op. cit., p. 156.

seems to be important in marital adjustment. "Money may be said to be 'earned' if by wise management the total overhead of a home is substantially reduced."[15]

Williamson[16] and Locke[17] also confirmed that professional and semi-professional occupations are associated with marital happiness and adjustment. The white collar, professional and executive groups were significantly associated with marital happiness, and the wives of these men belong to the well adjusted, happily married group, in greater percentages than in the lower income laborer group.[18] These findings also confirm Lang's and Week's[19] study concluding "security or a higher economic level is associated with marital happiness." Both concluded that accumulated savings, small indebtedness and possession of life insurance helped a good adjustment in marriage.[20]

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[15] Ibid, p. 154.

[16] Williamson, op. cit., p. 162.

[17] Locke, op. cit., p. 282.

[18] Peterson, Education for Marriage, Charles Scribner's Sons, New York, N.Y., 1956, pgs. 160,341.

[19] Locke, op. cit., p. 282.

[20] Williamson, op. cit., 182.

The number one cause of marital conflict among students according to Pace was money management. Thirty-five percent of them found it difficult to stay out of indebtedness, forty percent wanted financial help and information on economic planning and fifty percent had no plan for spending their income wisely.[21]

"Families sometimes sacrifice happiness and security because of environmental pressures for status."[22]

TYPES OF CREDIT

There are many types of credit, the four most common being: mortgages, installment buying, charge accounts, and credit cards.

Mortgages

Chattel mortgages is defined as a promissory note. The item purchased, therefore, is mortgaged. If non-payment occurs, it can be repossessed and resale of the item at a public auction can result. The sale money is applied to the promissory note. If it does not pay off the debt, the person holding the mortgage suffers the loss.

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[21]Pace, Robert, They Went To College, University of Minn. Press, Minneapolis, Minn., 1941, p. 882.

[22]Peterson, op. cit., p. 341.

This type of debt increased from \$98.4 billion in 1957 to \$221.9 billion in 1967.[23]

Installment Buying

Installment buying involves signing a contract defining the terms of the sale between the buyer and seller. Often times the purpose of the contract is to protect the "seller." "Add on clauses" enable the family to add other purchases on the same contract. Failure to make the final payment, however, may make it possible for repossession of all the merchandise.

"Balloon contracts" are sometimes used to sell merchandise and allow easy payments for 12 months. Sometimes a large payment is due at the end of the payment period and the buyer may be unable to make the payment, thus losing the item. There are differentials in all types of installment buying. Shopping for a low price in merchandise as well as in financing is important. Two thirds of the families in credit debt trouble have total installment payments that amount to about three-fourths of their annual income.[24]

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[23] Booth, op. cit., p. 5.

[24] Hall, op, cit., p. 18.

In 1967, 63 percent of the non-farm families owned their own homes, 93 percent owned television, 21 percent owned air conditioners, 30 percent owned clothes dryers, 12 percent owned dishwashers, 79 percent owned automobiles, 25 percent owned two automobiles, and almost all of these were bought or being bought on the installment plan.[25]

This overabundance of installment credit has created many problems. The young families, who do not realize the hidden carrying charges and hidden interest rates are often too involved in installment purchasing and become overwhelmed in debts. Installment buying[26] increased by $853 million in the month of August, 1968, the highest in 27 years.

Charge Accounts

"Charging" can mean several things. "Just put it on my account", or that "I'll pay in 90 days", or "put it on the revolving charge credit account", are examples.

In the beginning, the total charge incurred each month had to be paid. Usually there were no interest charges. In addition, there was a "90 day" same as cash

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[25]Booth, op. cit., p. 29.

[26]"Increase in August in Consumer Credit Largest on Record," New York Times, Oct. 4, 1968, CXVII: 40431:69:2

agreement which required three equal payments over a three month period. This, too, required no interest payment.

Because people tended to extend payments beyond the agreed payment dates, budget accounts were initiated. A budget account is one in which there is 3 - 12 months to pay. After 90 days, however, a service charge is made. There is also a maximum amount that can be charged. This evolved to a revolving charge account. Currently, it is the fastest growing form of credit. It has the convenience of a thirty-day charge with installment buying. Under this system, the store will set a "credit level" or a maximum of perhaps $150, the client can charge up to the $150, and pay for the purchases over a 6 - 12 month period, the time limit depending on the store's regulations. Usually the service fee of ½ percent is paid in advance and 1½ percent is paid on the unpaid balance monthly or 18 percent annually. Another popular method of "charging" is to have a combination charge account and revolving charge or option. In this case, the bill is paid in 90 days or can be extended to a year. A monthly service charge is assessed.

Still another method is the Continued Secured Account.

It is a combination installment charge and revolving account. The usual installment contract is required for the first item purchased. A new contract is not required for each major purchase thereafter as there is an "add on clause".[27] Interest is charged monthly on remaining balance.

Credit Cards

There have been predictions that eventually the credit card will replace checking accounts. There is very little one cannot buy with one of these credit cards. There are two major types, one which the purchaser can use to buy items from many stores and receive one bill and the other that permits all purchases of one item to be accumulated.

Retail or Shoppers Cards.--Two principles operate in the use of this card. Some, such as the Bank Americard, operated by the Bank of America and the Master Charge Card, under the auspices of the Interbank Corporation, can be used in almost all the cities of the United States and Canada, as well as some foreign countries. Many

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[27] Bell, Carolyn Shaw, Consumer Choice in the American Economy, Random House, New York, 1967, p. 30.

types of stores are authorized to accept them and these are given out without much investigation. The bank notifies the person how much credit is permissible, and there is no charge made until something is purchased.

If paid within 25 days, there is no cost. If the time is extended, however, you pay 1½% interest on the balance, or 18% annually. In some cases, the interest may go up to 24%-36% interest annually.[28]

The Bank Americard is used by 615 million people and is licensed in thirty-four states (April 18, 1968) however now it is no doubt authorized in almost every state since its beginning in 1958.[29] The Interbank credit card claims to have 13.2 million holders. It is estimated that $2 billion in retail sales with bank credit cards, was expanded in 1968 compared to two thirds that amount in 1967.[30] Figures by the Federal Reserve Board show that the total credit outstanding under the bank credit card plans totaled $800 million. The Federal Reserve Bank of San Francisco estimated bank credit cards accounted

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[28]Cole, Robert J., "Credit Cards Make Shopping Easier, But Careless Use Creates Problems," <u>New York Times</u>, April 18, 1969, CXVII 40,262:67:4.

[29]Ibid, p. 67:4.

[30]Ibid, 67:4.

for 80% of the Twelfth Federal Reserve District's credit plan outstandings against 50% elsewhere.[31]

Another type of shoppers card is the American Express, Diners Card and Carte Blanche. These are mainly for entertainment and travel. In this case an annual fee of about $12.00 is paid for membership. A minimum income is also a prerequisite. It may be more convenient than money and easier to use than checking accounts.[32]

Company Credit Cards

These are for a specific item, and are issued by major oil companies, telephone companies, airlines and railroads. These are requested by the individual. In some cases, however, cards are sent to names purchased on a list such as college graduates. The card is accepted at the various gas stations, airlines or railroads. The charges go on a monthly bill, but if not paid in a month, the customer is charged a service charge.[33]

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[31] Ibid, 67:4.

[32] Heinemann, H. Erich, "Cards Won't Replace Currency Yet", New York Times, July 28, 1968, CXVII, 40,363, III, p. 1:1.

[33] Cohen, Jerome and Hanson, Arthur, Personal Finance Principles and Case Problems, Richard Irwin Co., Homewood, Illinois, 1964, p. 95.

OVERINDEBTEDNESS

Ease of Attainment of Credit

Consumer credit is easier to get than in any time in history. Herein lies the danger as "easy credit encourages over-extending or contracting more debts than can be repaid without undue hardship."[34] Partly to blame, are the credit lenders and retailers who extend credit too generously, to people already overloaded with debt.[35]

Poor Money Management

> Burk states that. . . "characteristics of family problems is a disequilibrium between family resources and needs and wants. There is a difference in making decisions about the earning and use of income and accumulations of assets and therein, is an unsatisfactory timing of decision making and the allocation of resources and cause. . . undesirable aftermaths of decision making . . . .and the interrelationships with social and psychological problems become evident."[36]

Impulse buying, credit card misunderstandings, and

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[34]Goodyear, Margaret, & Klahr, Managing for Effective Living, Wiley and Sons, New York, 1965, p. 193.

[35]Burk, Marguerite, "In Search of Answers About Family Economic Behavior," Journal of Home Economics, 58:6, June, 1966, pgs. 440-4.

[36]Ibid, p. 440-4.

lack of knowledge of interest rates on installment and other credit are all problems of the debtor and the poor decisions made by these consumers have increased their indebtedness. Comparison shopping is the key to finding the individual credit and credit terms to meet these individual needs.[37]

The difference between going into debt and being able to control and manipulate personal income is having a financial plan or budget. Budgeting should not be a dreary bookkeeping procedure recording every penny spent. Many people abandon budgeting because it becomes too tedious.

> "No family ever has enough money. A budget is simply an application of will power to the management of personal finances. It is a plan for spending, not simply a record of expenditures. It is designed to keep one out of financial trouble, to help one live with that--in terms of your wants and desires--is always an inadequate income. It helps put first things first and enables you to set priorities in spending and to plan to get the most out of your money."[38]

Relation to Income

Income has been found to be related to credit pur-

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[37]Campbell, op. cit., p. 42.

[38]Cohen, op. cit., p. 38.

chased. In Bressler's study, families with $15,000 income or more had no installment payments; families with incomes of $7,500 or $15,000, sixty percent used installment credit. Families having less than $3,000, those families having incomes between $3,000 to $4,999, and those with incomes of $5,000 to $7,999, were likely to be heavily committed in installment payments. Ten percent, 13 percent and 12 percent of those groups, respectively, owed 20 percent of their previous year's income.[39]

> "Consumer decisions have become more complex as their incomes have increased productivity. They have had more choices open to them as results of increasing variety of new goods and services on the market. The results of their decisions reflecting individual preferences, give rise to widely varying patterns of consumer behavior.[40]

Mohr's study concluded that there was no automatic proportionality between the levels of living and wasted expenditures, which result in a multiple of initial amounts, presuming that levels of material wealth is an universal desire.[41]

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[39]Bressler, Barry, The Measure and the Effect of Unemployment Upon Income, Inequality and the Income Distribution, Abstract of Doctoral Dissertion, N. Y. Univ., 1966.

[40]Booth, op. cit., p. 5.

[41]Mohr, Lillian, Holman, Abstract of Doctoral Dissertion, Syracuse Univ., 1966.

Relationship to Education

The more years spent in formal schooling, the more productive the employment, and the higher rate of income for the wage earner. The gap between the upper and lower income, however, is narrowing. The top five percent had more formal education and the lower income group is headed by those with little education, as two-thirds of the lower income group had not gone beyond the eighth grade.[42]

Gower found, however, that upper class housewives' money management did not vary much from the lower class housewives'. Two implications from this study are: That in group instruction of consumer education, it would be applicable at all socioeconomic levels, and secondly, that even though the upper class were of higher educational level, it had not changed or helped their manner of money management.[43] Olsen also found in her study that even though consumer credit counseling had helped the clients out of indebtedness, there had not been enough education in consumer buying and money management to keep them out

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[42]Cohen, op. cit., pgs. 2, 12.

[43]Gower, David, "Money Management," Some Implications for Teaching, Journal of Marriage & Family, 26:2; pgs. 231-33.

of further indebtedness in the future.[44]

Skilled and unskilled workers make up 61.6% of installment buyers because of their lack of educational training for employment.[45]

Relationship to Age

Certain demands on the family income are determined by the stage of life cycle in which the family is. The beginning period, that of the young, married family includes the accumulation of furniture and expenses of childbirth. Later, the maintaining costs of family rise when children are in school. For older people the demands are not so great. They have accumulated their household belongings and their children are raised.[46]

When Jain studied the concerns of the life cycle and the social class, he determined that socioeconomic difference in income, education and leisure time and movements to suburbia, cut across the traditional groupings

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[44]Olsen, Nancy Ellen, The Effectiveness of Debt Counseling Services in Seattle, Washington, Univ. of Wash. 1968.

[45]Unger, Maurice & Wolfe, Harold, Personal Finance, Allyn & Bacon, Inc., Boston, 1969, p. 84.

[46]Goodyear, op. cit., p. 151.

of social class and stage in the family life cycle and in the environment.[47]

Healey concluded that young couples "desire the scale of living experienced by older people in our society." One way of financing this demand is through the use of installment credit. These couples are "a complex segment of the installment credit market even though there appears to exist a significant lack of knowledge concerning its use both on the part of the creditors and the consumer."[48]

Teenagers entering into marriage with expectations for their first home are so optimistic that they think they can have material things immediately. "Without adequate counseling, these expectations and attitudes are certain to become stumbling blocks for young couples."[49]

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[47]Jain, Study Concerns and Concepts of the Life Cycle and Social Class, Abstract of Doctoral Dissertion, University of Oregon, 1966.

[48]Healey, Phillip Basil, The Knowledge and Use of Consumer Credit by Young Married People of Lansing, Michigan Area, Abstract of Doctoral Dissertion, Michigan State University, 1963.

[49]Hermann, Robert O., "Expectations and Attitudes as a Source of Finance Problems in Teen Age Marriages", Journal of Marriage and Family, Feb. 1965, Vol. 27:1, pgs. 89-91.

Relationship to Social Status

Social changes are evident from past history. With increased education and increased ease in transportation, young families live great distances from their parents and other relatives in the family.[50] Several years ago, in the thirties, only the wealthy belonged to golf country clubs but now it is a prestige symbol for the middleclass society.

In this affluent society, there is a great trend to gain status with material wealth or durable goods. Neighbors have a great influence on the choice of consumers and "keeping up with the Joneses" has had an influence on the expenditures of the individual family's wants and desires.

SOLUTIONS TO THE PROBLEMS OF OVERINDEBTEDNESS

There are three major solutions to the problems of overindebtedness: Garnishment of Wages, Bankruptcy, and Aid to Financial Management (Consumer Credit Counseling).

Garnishment

Garnishment of wages by the creditors allow the employers to withhold payments for goods purchased from the

[50]Cohen, op. cit., p. 14.

employees wages. It has probably caused more personal bankruptcies than any other reason. Before the "Truth in Lending Bill"[51] was passed in 1968, there was no limit on the amount or percentage of garnishment.

Bankruptcy

A bankrupt is an insolvent person, one whose property is turned over by court action to a trustee to be handled for the benefit of his creditors. For every family experiencing bankruptcy, there are twenty more who are in serious credit obligations or in financial strain or crisis. The greatest number of couples who are vulnerable to bankruptcy are those whose credit commitments are so great that with a lessening of income, they become desperate.[52]

Other studies of bankruptcy show that the bankrupts had marital difficulties as well.[53, 54]

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[51]Morris, John D., "Congress Passes Truth in Lending" New York Times, May 23, 1968, CXVII, 40,297,40:1:1.

[52]Hall, op. cit., p. 10.

[53]Brunner, George Allen, Personal Bankruptcies in Ohio, Abstract of Doctoral Dissertion, Ohio State Univ. 1964.

[54]Mathews B., A Study of Forty Families in Bankruptcy in Ohio, Ohio State Univ., 1966.

In 1967, over 200,000 debtors became bankrupt and over $500 million losses were suffered by creditors.[55] Personal bankruptcies increased 503% between 1950 and 1963.[56]

Between 25% and 45% of the persons or families going into bankruptcy could have avoided it, if they had been properly advised. Of those who have consulted with the Consumer Counseling Services, 50 percent have liquidated their debts and only two percent have resorted to bankruptcy.[57]

Results from studies reveal that bankruptcies have tripled since 1950 and 95% of these were personal bankruptcies. The majority of these bankrupts were blue collar workers, in the late twenties or early thirties, married, with an average of three children, ten years of education, unskilled or semiskilled in employment and thus were in the low income bracket in proportion to the median

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[55] Plans and Working Suggestions, National Foundation for Consumer Credit, p. 7.

[56] Dolphin, Robert, Jr., A Study of Bankruptcy in Flint, Michigan, Abstract of Doctoral Dissertion, Univ. of Mich., 1958.

[57] Cole, Robert J., "For Someone Who is Heavily in Debt, Good Counseling is Often Near at Hand", N. Y. Times, Feb. 15, 1968, CXVII, 406,99, p. 44.

of incomes in their areas in 1959.[58]

It has been shown that 80% of the bankrupts had unsatisfactory records in paying their bills, been involved in repossession of their purchases, and nine percent had filed for bankruptcy more than once. Misbach concluded that "bankruptcy does not provide any permanent solution . . ."[59]

With this high state of recidivism, financial counseling should be required of all the people seeking bankruptcy.[60]

Aids in Financial Management

Legislation

The purpose of legislation is to protect the consumer from unnecessary risks and to help the creditors from taking advantage over the person to whom the credit

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[58] Hermann, Robert O., "Families in Bankruptcy, A Survey of Recent Studies, "Journal of Marriage and Family", 28, no. 3, pgs. 324-30.

[59] Misbach, Grant, Personal Bankruptcy in the United States and Utah, Abstract of Doctoral Dissertion, Salt Lake College of Business, Univ. of Utah, 1964.

[60] "The Rising Tide of Bankruptcies," U.S. News and World Report, Wash., D. C., Feb. 1, 1965, Vol. LVIII, No. 6, pgs. 89-90.

is extended. Effective legislation generally provides for licensing, supervision, maximum rate, maximum loan size, full disclosure, prepayment privileges, prohibition of judgment notes, prevention of wage buying, subterfuge, prohibition of false advertising and penalties.

Federal

Many types of consumer protection is provided by federal government. All banks, for example, are under the Federal Reserve Act.

The most recent bill is the "Truth in Lending" bill. Passed by the Congress in May, 1968, and effective on July 1, 1969, except for the garnishment provision which isn't effective until July 1, 1970, it makes it mandatory for the lender to show the annual interest rate for loans and credit buying in dollar value. Other portions of the bill makes extortion a federal crime, protects the consumer from unsolicited credit cards, and prevents garnishment of wages (of over 25% of the weekly pay of employees).[61]

State

In general, state legislation concerning credit is similar to that of the federal government, except details

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[61] Morris, op. cit., p. 40:1:1.

vary from state to state.

In Montana, the commercial prorator, or an organization that charges a fee to distribute payments amongst the creditors from the individual debtor, is permitted.[62] It has been outlawed in 22 states because of the tremendous interest rates charged.[63]

There is also a Montana Retail Installment Act which permits a charge of 11% on the first \$300 borrowed and 9% on \$301-\$1,000 and 7% for any amount over \$1,001.[64]

Educational Programs in Money Management

Colleges, universities, and high schools offer courses in consumer buying, often these courses are found in the home economics curricula.

Many studies have been made as to the content of these courses and subsequential consumer patterns have been developed from kindergarten through high schools and college.

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[62] Busch, Owen, June 24, 1969, Interview, Vice-President, Metals Bank, Butte, Montana.

[63] Hall, op. cit., p. 8.

[64] Busch, op. cit., Interview, June 24, 1969.

Consumer Credit Counseling Services

Definition of Consumer Credit Counseling Services

Consumer Credit Counseling refers to budget counseling with payment adjustment provisions.[65] A sound money management plan is constructed at a reduced standard of living, so that basic living expenses can be met, while paying a reasonable amount of the indebtedness to the creditors, regularly once a month. This is established in an interview after which the debtor couple agrees in writing to turn over a certain amount of his income to the Consumer Credit Counseling Service, who in turn, distributes this payment to the creditors in accordance to the plan upon which the creditors and the debtor has agreed. Generally, it involves an extension of time on the original installment debt and smaller payments. In many instances, the carrying charges, interest rates or late charges may be reduced or eliminated.

Historical Development

The National Foundation for Consumer Credit, Inc., has been in operation 26 years. The Board of Trustees approved the Consumer Credit Counseling package in Nov.

[65] Hall, op. cit., p. 8.

1961 and the program was made nationally available in March, 1962.[66]

Probably the first community-based Consumer Credit Counseling was started in Columbus, Ohio in 1955. It was called the Free Economy Budget Plan and was under the auspices of a finance company. It was established because of the need to help the debtor families in financial trouble.[67] A second non-profit corporation was organized in January, 1958 in Phoenix, Arizona. The Family Debt Counselors of Phoenix and the Economy Budget Service of Columbus, Ohio were the prototypes used for the national movement. Similar credit programs were studied in the state of Washington and Philadelphia. The first family counseling agency to use the certified name and logo

Consumer
Credit
Counseling
Service

was South Bend, Indiana, in 1963. Salina, Kansas; Kansas City, Missouri; Salt Lake City, Utah; Atlanta,

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[66] Hackbrath, A. C., Director of National Foundation for Consumer Credit, letter, September 5, 1969.

[67] Ibid, letter, September 5, 1969.

Georgia; Charleston, South Carolina; and Cleveland, Ohio opened their Consumer Credit Counseling Services in 1964. Programs began in states of California, Florida, New Mexico, and Indiana in 1965.[68] Since that time there have been more developed throughout the United States until they have totaled 88 in early 1969. They are organized according to the individual needs, plans, and size of the cities that organize these services. They are affiliated with the national organization in Washington, D. C. and receive an official charter. Guidelines for organizing a Consumer Credit Counseling Service are available in a manual, Family Credit Counseling--An Emerging Community Service.

When the national organization began in November, 1961, it was formed under the auspices of The National Foundation for Consumer Credit. A group of national and local social agency leaders, attorneys from legal aid services, lenders of consumer affairs and family life experts met to discuss the principles of a national organization concerned with Consumer Credit Counseling because of the role it played in community services. Mr. S. C. Patterson of J. C. Penney's, was authorized

[68]Hackbrath, letter, September 5, 1969.

to appoint a Working Committee of 15 members to meet at frequent intervals from early 1966 through the middle of 1967, to plan the study of the Consumer Credit Counseling services already in operation, to consider their organizational plans, to consider their progress reports, and to review the final report. The purpose of this study as defined by the Working Committee was:

> 1. "To study the best ways to aid families and individuals to extricate themselves from heavy indebtedness.
>
> 2. To facilitate bringing together viewpoints of various organizations and interests with responsible use of consumer credit.
>
> 3. To attempt to appropriate models for non-profit debt adjustment and credit counseling services, including staff training, kinds of sponsorship, financing, accountability, etc."[69]

It was agreed the results of this study of Consumer Credit Counseling services should be offered to the general public. Phase I established a mailing list of all identifiable consumer credit counseling programs, of which, at that time, there were 40-50 services operating in that many different cities. Phase II was to study the variations in structure or operating methods

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[69] Hall, op. cit., p. 27.