

Relationships Among Credit Counseling Clients' Financial Well-being, Financial Behaviors, Financial Stressor Events, and Health

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The present study examined the relationships among credit counseling, financial behaviors, financial stressor events, perceived financial well-being, and health. Data were collected from clients of a large credit counseling organization on two occasions, once in June 2000 and again in January 2002. Path analysis was employed to assess relationships among the variables. Credit counseling and debt management program directly affect financial stressor events in a helpful way and indirectly affect perceived financial well-being and health of the participants after 18 months. Results provide some evidence of the effectiveness of credit counseling in improving financial and health variables.

Keywords: *Credit counseling, financial well-being, stress*

Introduction

American consumers are falling behind on credit card bills. On average, U.S. households had \$8,940 in credit card debt in 2002, compared with \$3,275 ten years ago. Federal Reserve statistics show that in January 2003 consumer debt was over \$1.7 trillion and revolving debt accounted for \$711 billion of this amount. As consumer debts rise, more consumers find difficulty repaying. A recent poll by the Cambridge Consumer Credit Index found that about 40% of credit card holders are paying only the minimum payment.

Seeking credit counseling is a popular strategy for those with credit problems. Oftentimes it is a strategy taken to avoid bankruptcy; for some it is a step taken prior to bankruptcy. Providing assistance to consumers with financial troubles has become a fast growing industry. Consumers can obtain counseling and advice about their money matters either in a face-to-face counseling session or via the telephone.

The New York Times reports that an estimated 9 million consumers sought help from credit counseling services in 2002 (Bayot, 2003). Taking data from a variety of sources, Garman (2003) asserts that there are 30 million consumers (including those who contact credit counseling agencies) who are overly indebted and/or distressed about their personal finances.

A debt management program (DMP) is one of the services offered by credit counseling agencies. It gives individuals a plan for paying off their liabilities by consolidating their unsecured debts into one monthly payment. The debtors make the payment to the counseling agency, which in turn disburses payments to creditors. Clients who enroll in the agencies' payment plans may benefit because the agencies can negotiate lower interest rates, smaller minimum payments and eliminate late charges (Bayot, 2003). Many clients also benefit from stress reduction, because they claim that the stresses caused by their financial difficulties are reduced after they joined a credit counseling program.

The credit counseling industry has grown quite rapidly since the early 1990s. In recent years, it has been subject to increasing attention. Scrutiny has come from consumer advocates, state governments, and federal agencies, including both the Internal Revenue Service and the Federation Trade Commission (Internal Revenue Service, 2003). Some credit counseling organizations have been accused of using aggressive and abusive marketing practices, misusing their non-profit status, charging consumers excessive fees, and paying excessively high salaries to executives.

While there has long been much anecdotal evidence that credit counseling can be beneficial to consumers, there is limited research on its effectiveness. Does

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credit counseling produce any significant, positive measurable effects? Does it reduce people's financial stress? Do clients adopt positive financial behaviors? Does it improve their perceived financial well-being? If valid and positive answers are not found for these questions, consumers may lose time and money to counseling agencies and end up worse off than if they had not engaged in counseling.

The industry always has been challenged to prove its value. The creditors must have internal evidence suggesting that the concessions they make to credit counseling clients are worth it or they would not have continued to participate as a partner in the process for over 50 years. Recently, the credit counseling industry has attempted to prove the case that credit counseling helps consumers (NFCC, 1999; Consumer Reports, 2001; Staten, Elliehausen, & Lundquist, 2002).

One national study provided some answers (Staten et al, 2002). It found that credit counseling by itself, without a debt management program, affects credit use and payment behavior in positive ways. Three years after their initial participation in credit counseling session, the clients had significantly better credit risk scores, fewer credit accounts, lower debt, and fewer credit delinquencies compared to a control group.

Financial stress is something that many adults experience. Prolonged financial stress over credit problems, for example, can have negative effects on physical and mental health. Drentea and Lavrakas (2000) found individuals with high credit card debt had higher levels of physical impairment and worse overall health than others. Stressor events associated with high levels of credit card debt and poor financial behaviors can increase financial stress. High levels of financial stress negatively affect perceived financial well-being and health (Weisman, 2002).

Experts believe that some people can benefit from credit counseling by improving their budgeting and credit management. Some consumers also benefit from participating in a debt management program particularly when creditors provide consumers with reduced interest rates and eliminate late charges. While growing numbers of consumers struggle with debt and turn to credit counseling agencies for assistance, there is a need to learn more about credit counseling clients and the effectiveness of their participation in credit counseling services.

There is little published research on the impacts of credit counseling along with a debt management program, which is the most common combination of

services offered to financially distressed consumers by credit counseling agencies. While many credit counseling clients reportedly experience extreme financial stress, little is known about any effects of credit counseling on financial and health variables.

Thus, this study was undertaken to determine if participation in a credit counseling and debt management program is a significant factor in improving financial well-being and health. Specifically, the purposes of this study are to 1) examine the relationships among financial behaviors, financial stressor events, financial well-being, and health, and 2) determine any effects of credit counseling on financial behaviors, financial stressor events, financial well-being, and health.

Literature Review

Financial behaviors, Financial Stressor Events, and Financial Well-being

Financial well-being is a function of individual characteristics, financial behaviors, and financial stressor events. Financial well-being also is an outcome of financial behaviors (Kim, 2000). A number of studies have been conducted to examine people's financial behaviors and the processes they use to manage their financial resources to achieve financial success (Joo, 1998; Kim, 2000; Porter, 1990; Scannell, 1990). Researchers also have applied the systems approach to understand the role of financial management practices in determining financial well-being (Fitzsimmons & Leach, 1994; Hira, Fanlson, & Vogelsang, 1992). A common finding is that financial management behaviors are associated with financial well-being.

Financial stressor events are non-normative financial events such as "home went into foreclosure," "had items repossessed," and "had wages garnished or attached." These events are believed to indicate financial stress during the recent past, such as one year (Bagwell, 2000; Tokunaga, 1993). Accumulation of financial stressor events may cause financial stress and lower financial well-being. Research has shown that as one repeatedly reacts to events that are stressful, the disastrous effects on the body accumulate so that the individual becomes increasingly susceptible to emotional problems, accidental injuries, physical illnesses, and behavioral disorders (McGuigan, 1999). It is logical to deduce that credit counseling clients who are in serious trouble financially are also experiencing distress about their financial situation, but the degree of stress is unknown.

Generally speaking, the typical credit counseling client goes to a credit counseling agency because he or she cannot manage debt repayments and he or she experiences high levels of financial stress. The client's poor financial behaviors affect his or her financial well-being negatively. Research has shown that credit counseling clients experience financial stressor events very frequently (Sorhaindo & Garman, 2002). However, there is limited research on relationships among financial management behaviors, financial stressor events, and financial well-being of credit counseling clients.

Health and Financial Well-being

Financial stress has been related to health (Hendrix, Steel, & Schultz, 1987). Financial stress is not dependent on income but on whether one is able to meet his/her economic responsibilities (Aldana & Liljenquist, 1998). It is influenced by psychological and physical needs. Lack of financial well-being may cause social, physical and emotional stress (Bagwell, 2000). Although the level of income and net worth are used as objective indicators of one's financial situation, subjective measures of perceived financial well-being are frequently used to measure individual's well-being (Bagwell, 2000; Fox & Chancey, 1998; Garman, Camp, Kim, Bagwell, Baffi, & Redican, 1999; Joo, 1998; Kim, 2000; Mills, Grasmick, Morgan & Wenk, 1992).

Prior research showed that financial well-being is associated with health and well-being. Financial stress affects individuals' health in a variety of ways. Drentea and Lavrakas (2000) found that both credit card debt and stress regarding debt are associated with health. Individuals who reported higher levels of financial stress showed higher levels of physical impairment and those with higher levels of credit card debt had worse health. Pearlin and Radabough (1976) found that financial stress was positively related to anxiety and the anxiety was related to drinking to cope.

People in similar financial situations as defined by objective measures, such as assets or income, could perceive their financial well-being differently. Mills et al. (1992) examined the effects of economic strain on psychological well-being and found that it was negatively related to married couples' psychological well-being. Fox and Chancey (1998) examined the relationships among six different measures of economic stress and seven measures of individual and family well-being. They found that perceived economic well-being was the strongest predictor among five other objective and subjective measures of individual and family well-being. Despite the

intuitive relationship between financial well-being and health, little is known about these factors in credit counseling clients who generally experience low levels of financial well-being and high stress (Garman et al, 1999).

Credit Counseling and Debt Management Programs

Credit counseling has been a place to seek assistance for many people with excessive debt burdens for the past 50 years. Consumers with credit problems typically seek advice and assistance from a credit counseling agency as an alternative to bankruptcy or prior to seeing an attorney about declaring bankruptcy. Credit counseling agencies provide credit counseling and a debt management program to prospective clients.

Individuals who receive credit counseling have their financial situation reviewed by a counselor who (a) examines ways to solve current financial problems, (b) assists them in developing a realistic spending plan to manage money and credit, and (c) helps them to achieve financial goals to prevent future financial difficulties (NFCC, 2000). Credit counseling provides personalized advice on an individual borrower's specific circumstances. Counseling is often conducted in one-on-one in-person sessions or over the telephone.

The first requirement for credit counseling clients is to cut up all their credit cards and close the accounts. This is also a requirement of participating creditors. For many clients, this action causes additional stress; for others, having no credit cards provides some relief from stress.

When talking with consumers, credit counselors often suggest that clients adopt better financial management behaviors. After all, the purpose of such programs is to help people to begin to practice good financial behaviors so they get out of debt. Typical counseling advice includes "find ways to increase income," "decrease household spending," "be clear about priorities and pay high priority debt first," "keep fewer lines of credit open," "reduce debt levels," "pay larger amounts on those accounts that have a combination of larger balances and higher interest rates," "make consistent and timely monthly payments," "adjust or reformat existing accounts through refinancing," and "resolve credit reporting inaccuracies," "don't apply for credit just to see if you can get accepted," "avoid accumulating unnecessary inquiries on the credit report," "review legal rights and options available," and "save for upcoming major expenditures" (Staten et al., 2002).

A debt management program provides an individual with a plan for paying off his or her liabilities by consolidating unsecured debts (e.g., bank cards, retail accounts, medical bills, finance company loans) into one monthly payment. Consumers on a debt management program make payments to one agency. All payments are then sent to creditors by the agency. Credit counseling agencies typically can establish more affordable lower payments for their consumer clients by negotiating with creditors to lower interest and provide other favorable terms. As a result, a greater portion of each payment may be applied toward the consumer's outstanding principal balance on their debts. Some creditors may agree to accept a smaller payment and adjust finance charges and fees (Bagwell, 2000).

Credit counseling agencies can alleviate a client's stressful experiences with their creditors because they intervene with the creditors on the client's behalf. The credit counseling agency then requests that the participating creditors not try to contact their consumer clients for debt collection while they are enrolled in the debt management program. Instead, creditors are asked to work with the credit counseling agency to develop a debt management plan to help the consumer clients succeed financially by paying back what they owe. (Staten et al., 2002).

The credit card issuers' most profitable customer has been a cardholder with a high-interest account who made only the minimum monthly repayment. Such customers could pay on their accounts for many years before paying off the principal balance. Starting in the early 1990s, however, new telephone-based non-profit credit counseling companies entered the industry and advertised aggressively seeking as clients overly indebted consumers who wanted to but could not seem to get out of debt on their own. These credit counseling clients were the same favorite customers of the creditors. (Consumer Reports, 2001; Loonin, & Plunkett, 2003; Simpson, 2002).

Recently, non-secured creditors and the credit card issuers in particular reduced their fair-share contributions to the counseling agencies. Historically, creditors returned a fair-share contribution of 15 percent of each client's monthly payment back to the counseling agency. Today not only have most creditors reduced their fair-share contributions to 8, 6 or 4 percent; some creditors no longer give any fair-share contributions. As a result, credit counseling agencies have had no choice but to increase fees charged to consumers. Some agencies have reduced their education and counseling programs. Another reported result is that after providing initial

counseling and advice more consumers are encouraged to participate in a debt management program, since it is the primary source of revenue generation for the credit counseling industry. (Loonin, & Plunkett, 2003).

There are a lot of unknowns in the credit counseling industry. Three studies have been published on certain aspects of credit counseling (Bagwell, 2000; Staten et al, 2002; Consumer Reports, 2001). Bagwell (2000) surveyed credit counseling clients who participated in credit counseling and debt management programs at two points. She found that after one year respondents instituted some positive financial behaviors and experienced decreased financial concerns and financial stress than when they joined the program. Respondents reported improvements in their health status since receiving credit counseling one year earlier. Due to data limitations, it was not possible to compare those who remained in the program and those who did not.

The Staten study (2002) showed that credit counseling itself, with no debt management program, affected later credit use and payment behavior in a positive way. They found that most counseled borrowers improved their credit risk scores compared to other borrowers with similar risk scores in the three-year evaluation period following counseling. The large majority of counseled borrowers had significantly fewer credit accounts, lower total debt, and fewer delinquencies relative to a control group of other borrowers. This study did not include any subjective measures of financial well-being or health.

The National Foundation for Credit Counseling (NFCC), the larger of the two trade associations in the credit counseling industry, reports that in 2002 they managed more than 539,000 debt management plans (NFCC, 2003). Of the DMPs closed during the year, 25% were successful program completions and 23% were closed the clients themselves. In an earlier article (Consumer Reports, 2001), that magazine reported that 1999 NFCC data showed that 21% successfully completed a debt-management plan, another 21% decided to administer their own pay-back plans, 4% filed for bankruptcy, and 47% simply stopped payments and dropped out of the program.

Credit counseling clients sometimes are forced to drop out of a DMP program because creditors require that consumers who fail at any time to make two consecutive payments are removed from the DMP. Others drop out because of positive reasons, including situations where clients' income increased enough that they wanted to manage their own

financial affairs. Half the people who drop out of a DMP program do not give a reason (Sorhaindo & Garman, 2002).

Moreover, there is limited evidence on the effectiveness of credit counseling. Despite the anecdotal evidence on stress reduction and some research findings on program effectiveness, little research exists to provide understanding of the any of the several variables, including health and financial well-being, which may be associated with credit counseling programs.

Methodology

Data Collection

The present study used the database available from a large non-profit credit counseling agency with clients from all across the United States. It includes two data collections at two points in time, 18 months apart. The first began with a mail survey sent to new clients in June 2000. A random sample of 1,800 was drawn from a population of 4,000 new clients who telephoned between January and the end of April 2000 and agreed to commit to signing a contract agreeing to participate in a debt management program to repay their creditors. A 57-item questionnaire was mailed to the sample and about 20% (n=355) of those individuals returned it. The second data collection was conducted 18 months later, in January 2002, to those who responded to the first data collection. Fifty-two were undeliverable due to change of address. Among those who received the mail (n=303), a total of 180 surveys were returned and 175 were usable in the final data analysis (57.7% usable response rate).

Participants

This study included only the individuals who responded to both data collections. A client identification number included on the questionnaire was used to match records from the first and second data collections. Among the 175 individuals who responded to both data collections, 71 (40.6%) were active debt management program clients and 104 (59.4%) were inactive by January 2002. Active clients remained in the debt management program after they committed while inactive individuals did not make the first payments or dropped out of the program within 18 months.

Sixty-eight percent of the respondents were female. Fifty-two percent were married, 35.9% were not married, and 12.6% were living with a partner. The average age was 37 and the average household size was 2.39. Sixty five percent were White, 16.8% were African American, and 6.9% were Latino. The level

of educational achievement varied with 37.7% having a high school diploma, 23.4% having attended some college, and 25.7% holding a bachelor's degree or higher. Eighty-two percent had a full-time and/or part-time job(s). Median household annual income was between \$30,001 and \$40,000. Appendix A shows the individual characteristics of two groups. Chi-square and t-test were performed to determine if there existed any differences in variables between two groups. There were significant differences in age and household income but not in race, gender, marital status, education, and employment. Those who participated in credit counseling (active group) were older and had higher levels of household income than others.

The characteristics of the participants in this study were very similar to those of the population of clients of the credit counseling organization. According to the internal report of the credit counseling organization, over 60% of their clients are female, 48% are married, half are high school graduates, and 45% are college graduates or attended some college. Median age is between 30 and 39 and median household size is three. Fifty-three percent of clients have less than \$10,000 unsecured debt. Median monthly net income is \$1,500. Over half of the clients have unsecured debt amounting to over 50 percent of annual take-home pay. Thirty percent carry unsecured debt in excess of their take-home pay. There might be some self-selection bias among those who did not respond to the first data collection compared to those who did. However, information about those who did not respond to the first data collection was not available.

Measures

Financial behaviors were measured with five variables: "developed a plan for my financial future," "started or increased my savings," "reduced some of my personal debts," "followed a budget or spending plan," and "cut down on living expenses." Responses were coded into 1 (Yes) and 0 (No). All five items were summed to make a financial behaviors score. The Cronbach's alpha of these five items in the first data collection (financial behaviors—pre) was .73 and .65 for financial behaviors--post.

The *financial stressor events* variable was conceptualized as events that have the potential to cause change and raise an individual's level of financial stress (Bagwell, 2000; Garman, Leech & Grable, 1996). A financial stressor event is not the same as the degree of financial stress. Respondents indicated how frequently they had experienced 23 stressful financial events in the previous twelve

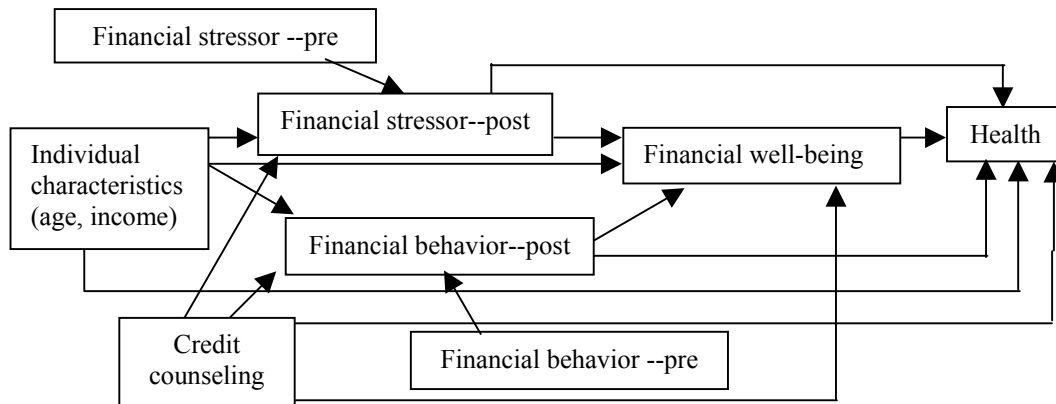
months. All events reflected the onset of financial hardship and were coded 0 (never) and 1 (once and more than once). Both categories (once and more than once) were collapsed into 1 because this study focused more on whether they experienced the event or not than the degree or frequency of each stressor event. All the items were summed to make a financial stressor events score. This scale was adapted from Fitzsimmons, Hira, Bauer and Hafstrom (1993), Camp (1999), Bagwell (2000), and Garman et al (1999). The Cronbach's alpha of 23 items was .80 in the first data collection (financial stressor events—pre) and .87 for financial stressor events--post. Examples of stressor events were “received an overdue notice from a creditor,” “got phone call from creditor about past due bill,” “home went into foreclosure,” “had items repossessed,” and “had wages garnished.”

Perceived financial well-being is a perception of one's financial situation. Financial well-being in this study was delimited to subjective measures. It was measured with four items: “satisfaction with personal financial situation,” “perceived financial wellness,” “feeling about current financial situation,” and “level of stress about personal finance.” Responses to the four financial well-being questions were summed to form a composite financial well-being score. The questions were adapted from Porter (1990) and Joo (1998). The Cronbach's alpha in both the first and second data collections was .88. Perceived financial well-being was used in the study because perceptions often affect stress and stress-related health problems and people perceive stressful events differently.

Health was measured with four items: “self-reported health status,” “experience of health problems,” “experience of stress,” and “comparison of physical health with people their age.” All four items were summed to make a composite health score. The reliability for health was .65 in the first data collection and .80 in the second.

Credit counseling. Since not all the cases were closed at the data collections, the status of client activity was used as a variable. The participants in this study represent two categories, active and inactive clients as of January 2002, based on their status with the credit counseling organization. Active clients were coded 1 and inactive individuals are coded 0. The active group in this study received credit counseling and remained in the debt management program as of January 2002. The inactive group committed to the debt management program but either did not make the first payment or made one or more payments but dropped out. The active group received credit counseling and participated in a debt management program. All contacts and counseling were conducted over the telephone. Active participants participated in 30 to 50 minute sessions on basic budgeting and financial management with the counselor and they remained in the debt management program. Active clients also have received follow-up phone calls, free bi-monthly newsletters, and on-line educational materials about personal finance on such topics as budgeting, debt management, and money saving tips.

Figure 1
Research Model



Research Model

Kim and Garman (2003) investigated the relationships among financial well-being, health, organizational commitment and absenteeism of white-collar employees, and they suggested that further research was needed with different populations. This study examines relationships among financial behaviors, financial stressor events, financial well-being, and health of credit counseling clients and explores the effects of credit counseling on these variables.

Hypotheses

H1: Individual characteristics, financial behaviors--pre, and credit counseling influence financial behaviors--post.

H2: Individual characteristics, financial stressor events--pre, and credit counseling influence financial stressor events--post.

H3: Financial well-being is influenced by individual characteristics, financial behaviors--pre, financial stressor events--pre, and credit counseling.

H4: Health is influenced by individual characteristics, financial behaviors--pre, financial stressor events--pre, financial well-being, and credit counseling.

Data Analysis

Data analysis was conducted using the database of people who responded to both data collections (n=175). Variables were properly recoded, if necessary, and some of them were summed to make a composite score. Initial procedures for the study included frequency distributions, t-test, correlations, reliability, and factor analysis for each scale. Descriptive analysis and t-tests were conducted to determine if any differences in financial behaviors, financial stressor events, financial well-being, and health existed between those who stayed with credit counseling and those who did not. Pearson product-moment correlations showed that there were no multicollinearity problems.

Path analysis was performed to test the research model presented in Figure 1. All analyses were performed using the SAS System's CALIS procedure. These analyses used the maximum likelihood method of parameter estimation, and all analyses were performed on the variance-covariance matrix. The relationships among individual characteristics (age and income), financial behaviors (pre and post), financial stressor events (pre and post), financial well-being, health, and credit counseling were examined. The focus of this study is the effect of credit counseling on financial and health variables.

The path analysis included four regression equations; standardized regression coefficients are used in the figures depicting the path analysis. The first regression analysis used financial behaviors--pre as the dependent variable. The second regression analysis used financial stressor events--pre as the dependent variable. The third regression analysis used financial well-being as the dependent variable. The fourth regression analysis used health as the dependent variable. Independent variables were age, income, financial stressor--pre (financial stressor from the first data collection), and financial behaviors--pre (financial behaviors from the first data collection).

Results

Results of T-Test Analysis

To test if credit counseling improves financial behaviors, financial stressor events, financial well-being and health, a number of t-test analyses were conducted. Datasets from both the first and second data collection were included in the data analysis. Paired t-test analysis was employed to examine any changes in financial behaviors, financial stressor events, financial well-being, and health scores from the first data collection to the second. A separate paired t-test was conducted for the active (n=70) and inactive (n=100) groups and 170 cases were included in the data analysis due to missing data. The results of the paired t-test from the active group showed significant changes in financial variables and health scores from the first data collection and the second. Active clients reported improved financial behaviors, fewer financial stressor events, higher levels of financial well-being, and improved health. Unlike the case for the active clients, there were no significant changes in health among inactive individuals. Active clients also experienced a greater drop in the incidence of financial stressor events.

Results of Path Analysis

Path analysis was employed to further assess relationships among credit counseling, financial behaviors, financial stressor events, financial well-being, and health. Figure 2 presents the standardized path coefficients of path model. Lines represent significant paths. Eight hypothesized relationships were supported. Path coefficients and R-square are shown in Table 2. A total of 138 cases were included in the path analysis due to missing data.

Table 1
T-test results of financial and health variables

	Means	
	Active group (n=70)	Inactive group (n=100)
Financial behaviors		
Pre	3.15	2.67
Post	3.78	3.14
	t=3.24 **	t=2.30 *
Financial stressor events		
Pre	9.39	12.04
Post	5.26	9.81
	t= -8.30 **	t= -3.69 **
Financial well-being		
Pre	9.60	8.21
Post	10.56	9.39
	t= 2.62 *	t=2.35 *
Health		
Pre	10.60	10.68
Post	10.98	10.60
	t=2.07 *	t=-.29

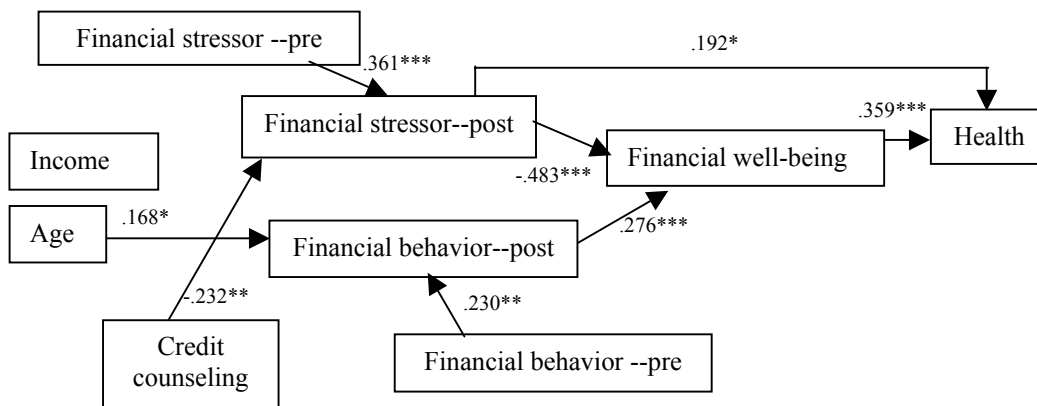
p*<.05, *p*<.01

The first hypothesis included financial behaviors as the dependent variable. Age and financial behaviors--pre had significant effects on financial behaviors--post. Those who were older and practiced better financial behaviors in the initial data collection are likely to have better financial behaviors after 18 months. Credit counseling and income did not have any significant effects. Income, age, financial behaviors--pre, and credit counseling explained 10.9% of variance in financial behaviors. Some support for Hypothesis 1 was found.

The second hypothesis included financial stressor events--post as the dependent variable. Income and age were not significant while financial stressor--pre was significant. Those who had more financial stressor events before they participated in credit counseling and debt management are likely to have more financial stressor events after 18 months controlling for other variables. Credit counseling had a significant effect on financial stressor events controlling for age, income, and financial stressor events--pre. Those who participated in credit counseling and the debt management program reduced financial stressor events significantly. Income, age, financial stressor events--pre, and credit counseling explained 29.5% of the variance in financial stressor events. Some evidence was found to support hypothesis 2.

The third hypothesis included financial well-being as the dependent variable. Financial stressor events and financial behaviors were significant variables in explaining financial well-being. Those who experienced more financial stressor events had lower levels of financial well-being than others. Those who practiced more positive financial behaviors had higher levels of financial well-being than others. Although credit counseling did not have direct significant effect on financial well-being, it had indirect effects via financial stressor events. Income, age, financial stressor events, financial behaviors, and credit counseling explained 33.4% of variance in financial well-being. Hypothesis 3 was partially supported.

Figure 2
Path Analysis Results



* *p* < .05, ** *p* < .01, *** *p* < .001

Table 2
Standardized Path Coefficients ($n=138$)

	Income	Age	FS--pre	FB--pre	CC	FS--post	FB--post	FW	R^2
Financial behaviors	.045	.168*	--	.230**	.088	--	--	--	.109
Financial stressor events	-.096	-.129	.361***	--	-.232**	--	--	--	.295
Financial well-being	-.038	.120	--	--	-.093	-.483***	.276***	--	.334
Health	.067	-.044	--	--	.001	-.192*	.087	.359***	.273

* $p < .05$, ** $p < .01$, *** $p < .001$

The fourth hypothesis included health as the dependent variable. Financial well-being and financial stressor events were significant variables. Those who had high levels of financial well-being and experienced fewer financial stressor events had better health than others. Although credit counseling did not have direct significant effect on health, it had indirect effects through financial stressor events and financial well-being. Income, age, financial behaviors, financial stressor events, financial well-being and credit counseling explained 27.3% of variance in health. Some support for Hypothesis 4 was found.

Discussion

Overall there was some evidence on the effects of credit counseling on financial and health variables. T-test results showed that financial behaviors, financial stressor events, and financial well-being improved for both the active and inactive groups although the increase is slightly higher for the active group. Also, the active group had a significant improvement in health while the inactive group did not. Among those who dropped out of credit counseling, some reported a decrease in financial stressors and improvements in financial behaviors and financial well-being. Although those who participated in credit counseling made slightly better progress in variables than others, both groups reported significant changes in financial stressor events, financial behaviors, and financial well-being except health. The inactive group could have improved their personal finances by getting a better job, filing for bankruptcy or managing their debts by themselves. There is a possibility that those who made some progress financially were likely to respond to both surveys whether they were active or inactive. Additional information on this topic was not available on the non-respondents from the credit counseling agency.

Path analysis results provided additional information about relationships and effects of credit counseling. There were some supports for the hypotheses 1 and 2.

Credit counseling was effective in decreasing financial stressor events of clients those who stayed in the program for 18 months after controlling for the initial financial stressor score, age, and household income. However, the effects of credit counseling on financial behaviors were not significant in the path analysis while the results were not consistent with other research (Staten et al., 2002) that found credit counseling changed financial management. This finding may be due to the fact that active clients in this study participated in the debt management program that includes the benefits of negotiation with creditors. Clients also received credit counseling and education via telephone, e-mail, Internet, and/or mailings. That may or may not be the most effective ways to provide counseling and education. It is possible that changes in financial behaviors might take longer than 18 months controlling for the initial financial behaviors before they received credit counseling. The initial score was a significant variable to predict both financial behaviors and financial stressors events after 18 months. These results suggest that credit counseling could be more effective when overly indebted consumers seek for help before their financial situation becomes totally bleak.

Hypothesis 3, relating to financial well-being was partially supported. Financial well-being was influenced by financial behaviors and financial stressor events, which was consistent with Joo's study (1998). However, individual characteristics, such as household income and age, were not significant in explaining financial well-being. This finding is not consistent with previous studies conducted by Drentea and Lavrakas (2000), Jackson, Iezzi, and Shultz (1997), and Kim (2000) that found socio-economic variables predicted financial well-being. Experiencing more financial stressor events negatively affects financial well-being. Also, people who practiced positive financial behaviors more frequently had higher levels of financial well-being. The results suggest that improving financial

behaviors and reducing financial stressor events could enhance financial well-being. This study found that credit counseling had a significant effect on financial stressor events; therefore, there was an indirect effect of credit counseling on financial well-being although the direct effect of credit counseling on financial well-being was not significant. It might take longer than 18 months to see the direct effects of credit counseling on financial well-being.

Hypothesis 4 held that health was predicted by financial well-being, financial stressor events, financial behaviors, credit counseling, and individual characteristics. Path analysis showed that health was influenced by financial well-being and financial stressor events controlling for financial behaviors, age, income, and credit counseling. The results are consistent with previous research (Drentea & Lavrakas, 2000) that examined debt, financial stress, and health. Drentea and Lavrakas found that having more stress regarding overall debt was related to declining health. In the present study, higher levels of financial well-being were associated with better health, measured using a composite of four self-reported health variables. The present study adds to the literature by increasing understanding about health. Traditional individual characteristics, such as income, may not be sufficient to understand health inequality. These results suggest that financial well-being, a perception of one's financial situation, could be considered a key factor in understanding health. Credit counseling also had an indirect effect on health via financial stressor events and financial well-being.

This study showed that there were no significant and direct effects of credit counseling on financial behaviors, financial well-being, or health. Eighteen months may be too short to achieve significant changes in their financial well-being and health. Typical debt management program clients have to stay in the program for 3 to 5 years to repay their liabilities. Sixty-three percent of the participants reported that they started to accumulate unsecured debts more than five years earlier. The impacts of credit counseling on financial behaviors, financial well-being, and health may take more time than 18 months. However, there was a direct effect of credit counseling on financial stressor events and indirect effects on financial well-being and health. Credit counseling reduces clients' financial stressor events and could improve financial well-being and health by doing so.

The intuitive link between poor health and financial distress now has concrete support from credit counseling clients who specifically responded to questions about that relationship. This study supports the Bagwell (2000) findings of a relationship between financial stressor events and financial well-being. This study further establishes relationships among financial stressor events, financial well-being and health. The results of the relationships among variables suggest that if clients acquire and exhibit positive financial behaviors and reduce their levels of financial stressor events, they are likely to improve their financial well-being and health as a result of credit counseling and a debt management program.

Recommendations

This study examined subjects with financial difficulties who sought help from a credit counseling agency. Although the results found some evidence on the effects of credit counseling on financial and health variables, this study has limitations. The present study did not include health risk behaviors or other potential variables that could mediate the effects of financial well-being on health. Other research suggests that people adopt more health risk behaviors such as smoking, drinking, sleeping, or eating as a way of coping with stress (Pearlin, Menaghan, Lieberman, & Mullan, 1981; Peirce, Frone, Russell, & Cooper, 1994). Some of these variables could be mediating variables between financial well-being and health. Anxiety or depression could also mediate the effects of financial well-being on health (Tokunaga, 1993).

While the present study tested the effects of financial well-being on health, financial well-being may be affected by health. For example, unemployment and income loss as a result of bad health can affect financial well-being. A longitudinal study could be used to examine the cause-and-effect relationships. In addition, further research should examine other health status indicators to better understand the relationships between financial distress and health.

This study did not include objective measures of financial well-being variables and instead used perceived financial well-being because it focused on the relationships between health and stress recognizing that people in similar economic situations perceive financial situations differently. Objective financial well-being variables such as number of credit card accounts, debt-to-income ratio, and total debt could be included in a future study. Improved subjective measures of financial well-being are also needed, particularly if they are valid and reliable.

The low response rate (20% in the first data collection) could have biased the results. High attrition rates have been reported in retaining credit counseling clients. Different strategies such as more providing more incentives and multiple follow-up communications could be used to increase the response rate in future studies. Follow-up studies with those who drop out of debt management or credit counseling programs are suggested.

There were no direct effects of credit counseling and a debt management program on financial behaviors, financial well-being, or health after 18 months. However, the present study provides evidence that the combination of a credit counseling and debt management program is an effective way to reduce financial stressor events in credit counseling clients' lives and indirectly improve their financial well-being and health. There could be a long-term indirect effect on financial well-being and health as a result of credit counseling and debt management program if clients retain positive changes in financial stressor events. A longer time period, such as three or four years, is suggested to measure the direct effects of credit counseling on financial behaviors, financial well-being or health.

These results have some important implications for consumers, credit counselors, financial educators, and policymakers. The initial scores were the most important factors in explaining financial behaviors or financial stressor events in the second collection. To maximize the benefits of credit counseling and debt management programs, consumers need to get into the program before their personal finances become too overwhelming.

Ways need to be devised and effectively communicated to consumers to help them more quickly ascertain when they are at risk of falling into a severe poor financial situation. Financial ratios, such as debt-to-income and solvency ratios, need to be better understood and used by consumers to help monitor their financial condition. Perhaps a simple and accurate financial distress scale could be developed to help consumers and financial professionals quickly determine when a person is at risk financially.

The alternatives for people experiencing severe financial difficulties with credit problems include cutting back on expenses, increasing income, returning secured assets to creditors, using the proceeds from selling assets to repay creditors, renegotiating credit repayment terms with creditors, obtaining a debt consolidating loan, seeking

budgeting and credit management assistance from a credit counseling organization, and contacting an attorney regarding the possibility of declaring bankruptcy.

Some credit counseling agencies reportedly have reduced general credit and budget counseling as well as educational services due to reductions in their fair-share contributions. However, debt management programs can be most effective when there is continuing counseling and education to improve individuals' financial behaviors. Without these changes in financial behaviors, the positive impacts of credit counseling on financial stressor events and financial well-being may not be sustained over time. Effective credit counseling and education should be offered to clients to improve their financial behaviors so they can get out of debt and not fall back into dire financial straits again.

The results also suggest that congressional policymakers rethink the pending bankruptcy bill that will mandate credit counseling for bankruptcy petitioners as well as require them to participate in a financial education experience. It is well known that bankruptcy petitioners are typically in a much worse financial situation than credit counseling clients. The findings of this study suggest that a short-term credit counseling experience and some financial education is not likely to impact in a positive manner the financial behaviors of bankruptcy petitioners. It is more likely that the most effective credit counseling and financial education programs are those that occur over a long time period.

Finally, if credit counseling and debt management programs offer benefits to overly indebted consumers, the effects of these programs should be further examined and proven to the satisfaction of consumers, consumer advocates, policymakers and government. Creditors and the credit counseling industry should strongly support this type of research, and the findings should be publicized. The rapid growth and increased public visibility of the credit counseling industry in recent years has raised the interest of public policymakers. Quality research findings would add much to the discussion.

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