

Recognizing and Addressing Financial Needs

Financial counselors are often asked to help research the need for financial counseling and then design an effective program to meet the needs of members at their credit unions. This process begins with recognizing the factors that lead members to experience financial difficulties.

Who Has Problems?

Financial problems can happen to virtually anyone, from any economic background, in any community. Almost all of us are vulnerable to occurrences that can be devastating to our financial health, including job loss, natural disasters, and chronic or catastrophic health conditions.

The Consumption Lifestyle

Unfortunately, there is another factor that too often plays a significant role in undermining members' financial health. The "consumption lifestyle" is a term used to describe Americans' addiction to high levels of spending and debt. Some financial counselors prefer to refer to it as the "disease" of "affluenza" to reflect how possessions and debt drain members' vitality, both now and in the future.



A steady stream of dismal reports about Americans' financial health reflects this dependence on borrowing to support a lifestyle based on "wants" instead of "needs." The average American household set aside approximately 19% of its disposable income to pay interest and principal on debt at the end of 2007, according to the Federal Reserve Board. During that same period, Americans' savings rate was just over 0%, meaning that few Americans are consistently saving more than they spend and many Americans continue to deplete savings and other assets to support spending.

Recognizing financial need is summarized in Figure 1.1.

Four Troubling Habits

Four financial habits often combine to indicate that members are living the "consumption lifestyle."

1. **Spending too much.** The most significant sign of spending problems is typically a confu-

Figure 1.1

Rule of Thumb:
Recognize the
need for financial
counseling

NCUA cites the following as examples of some factors that can contribute to losses:

- Never assume anyone is exempt from financial problems.
- Look for confusion of wants vs. needs as a warning sign.

sion of wants and needs, which is marked by ongoing high spending levels.

2. **Saving too little.** When members focus on spending, they tend to ignore the need to save. Changing their habits requires teaching them the role and purpose of savings.
3. **Carrying too much debt.** Instead of tightening their belts, people who rely on debt continue to borrow to support their lifestyle. Members who embrace this habit tend to see each new debt in minimum payment terms, rather than adding up the total impact of all debt.
4. **Caring too little about their financial future.** Members who “live for today” typically have little motivation to avoid debt or set aside funds for savings. Many young members who fall into this category may suffer from “Mom and Dad Syndrome,” or the reliance on parents to rescue you from financial mistakes or financial shortfalls long after you reach adulthood.

Only Half Save Enough

The American Savings Education Council and America Saves found that just half of U.S. households are making adequate progress in their attempts to save money, according to a *CUNA News Now* article on Feb. 26, 2008.

About 53% of survey respondents save at least 5% of their income, which is sometimes used as a target for building adequate savings.

Another 57% of survey respondents said they were saving enough to retire with a “desirable standard of living.”

The survey also noted that most Americans tend to believe they are doing better with their saving efforts than they actually are.



Learned Behaviors

Most financial habits are “learned behaviors” that members adopt after watching others or listening to messages sent by our society. There are five sources for these learned behaviors:

1. **Learned patterns:** Habits learned as a child or young adult often persist long after income and obligations have changed.
2. **Parents:** As the key role models for young spenders, parents tend to be highly influential in the transfer of financial habits from one generation to the next. Unfortunately, children often repeat their parents’ mistakes.
3. **Society:** Advertisers and peers alike may send messages encouraging consumers to treat themselves well, even if that means buying things they cannot afford. Spending messages consistently outnumber savings messages.
4. **Creditors:** Credit card issu-

Young Members Have Financial “Disconnect”

There is a disconnect between what young Americans know about money and what they practice, according to a study released in March 2008 by the American Savings Education Council and Divided We Fall.

The study found that Americans born after 1968 know more about how to use their iPods than how to make their money work for them with measures such as filing taxes, buying a house, or saving for retirement.

In addition, the study found that only about half of this group regularly saves for the future, while more than eight out of ten have some form of non-mortgage debt.



ers send the message that using credit to get what you want, when you want it, is “priceless.”

5. **Lenders:** Responsible lenders may help consumers understand appropriate uses for borrowing, the costs created by borrowing, and the need to repay loans in a timely manner. Unfortunately, irresponsible lenders contribute to problems by encouraging consumers to assume debt they cannot afford to repay.

Money Cycles

Consumers’ money habits and learned behaviors are typically expressed by their choice of four different money cycles.

1. **Earn/spend/earn/spend:** Members in this category tend to live paycheck-to-paycheck. Financial counselors should help these members devise budgets or spending plans that divide the paycheck into categories to “capture” the money before it is spent. The

“captured” funds are used to pay down debt or placed in savings.

2. **Earn/spend/borrow/spend:** Members often become locked in this cycle because they have difficulty separating wants from needs. These members want the object of their desire right now. Perhaps equally important, they feel they “deserve” the desired item right now. The result of this impatient desire for immediate gratification is a high reliance on debt, since it is the only way to support the standard of living they “deserve.” Financial counselors should aim to help these members “unlearn” the desire to borrow as they acquire new financial habits. Again, money may have to be “captured” early in the cycle to set aside funds for savings and debt.
3. **Earn/spend/save:** While these members avoid borrowing, they also place a low priority on savings. Surveys show these members often claim to value saving, even as they fail to commit to setting aside money to save or invest. To motivate these members to change, financial counselors must give them a reason to save.
4. **Earn/save/spend:** This is the most desirable money cycle because it delivers long-term financial stability. Members who practice this “pay yourself first” philosophy understand the role of savings.

An exercise that will help you

Figure 1.2

Vital Terms

Financial counselors are often asked to “translate” financial terms and jargon for members, who may be bewildered by how these terms impact their budget. Be prepared to explain these vital terms to members.

- **Debt** is what you owe.
 - **Secured Debt** is backed by property, so a lower interest rate is charged.
 - **Unsecured Debt** is backed only by your promise to repay it, so a higher interest rate is charged.
 - **Debt Ratio** is a comparison of total debt to annual income to determine whether you can afford new debt.
- **Credit** is what you can borrow. It also may be described as your “capacity” for debt.
 - **Credit History** is your financial performance over time.
 - **Credit Report** is a document that provides selected details of your credit history.
 - **Credit Score** is a statistical number that projects your ability to pay for an item or services.
- **Assets** are what you own that has financial value.
- **Cash flow** is a comparison of income to expenses, including the timing of both.
- **Equity** is the worth of an asset after subtracting any debts registered against it.
- **Net worth** is the value of all items or property owned after any debt owed is subtracted.

improve your understanding of money cycles is provided on the online FiCEP site (<http://training.cuna.org/playpage/fined.html>).

Cycles 1 and 2 are likely to produce most of the members who seek financial counseling, although some members in Cycle 3 also may experience difficulties or ask for help to improve their financial situation. The most desirable cycle is Cycle 4, but even members in Cycle 3 often find it difficult to make the changes required to move saving into first place on their household list of financial priorities.

Creating a Program for Your Credit Union

Some financial counselors are asked to help create a program for a credit union and may even be asked to complete a training program for counselors for that purpose. Creating a credit

union financial counseling program involves three elements: examining the need, designing an appropriate program, and implementing it effectively.

Examining the Need

Assessing the need for financial counseling in your market is the first step toward developing a financial counseling program. Monitoring local and national media reports about economic issues will provide background, including the results of surveys such as the Summary of Research Findings on Financial Distress and Dissatisfaction, which found that one in four workers in America consider themselves seriously financially distressed.

Within your credit union’s membership, you can typically find additional information that reflects the impact of poor habits on member’s financial health as well as the credit

union's bottom line. Four elements should be examined:

1. Chargeoffs
2. Delinquencies
3. Late payments
4. Bankruptcies

A planning sheet that can be used to help develop your credit union's program can be found on the online FiCEP site (<http://training.cuna.org/playpage/fined.html>).

Credit unions that have successfully implemented financial counseling programs often point to improved statistics in one or more of these four areas to show that the program is paying for itself. In the long run, the credit union also gains members who are better positioned to use a variety of products and services.

When time allows, counseling experts say it can be beneficial to offer at least two individual sessions per member.

Designing the Right Program

Counseling may be designed to meet three different types of member needs. Depending on the nature of the program developed by the credit union, a single program may address one or more of these needs.

- **Remedial programs** help members cope with existing problems.
- **Preventive programs** help members gain and practice good financial habits. These programs are often described as “financial education.”
- **Productive programs** help members use resources to improve their financial status.

Within these different program structures, credit unions may choose to offer five different types of financial counseling.

1. **Budget counseling** teaches members to allocate earnings to spending, saving, and debt.
2. **Credit counseling** helps members learn to manage earnings to create a credit history or rebuild a credit score.
3. **Debt counseling** helps the member learn to structure debt to create financial stability.
4. **Financial counseling** manages finances for long-term stability and may include elements of the other three types of counseling.
5. **Financial planning** addresses retirement savings and investments. This typically falls outside the scope of the financial counselor, who may refer members who want or need this information to investment specialists.

Information about your credit union's structure, goals, and operations is also likely to impact the design of a financial counseling program. The following questions that must be answered in this process:

- What is the organization's attitude toward financial counseling?
- What level of support is the organization willing to provide?
- Where does financial counseling “fit” within the credit union's department structure?
- How will trained personnel be provided? Financial counseling may be provided by offering training to existing staff, hiring experienced employees, or seeking partnerships with community agencies.
- How will you gain the support of the board? Gaining board support

may require multiple presentations as you introduce the idea and explain its significance.

Implementing a Program

Once a credit union makes the decision to offer a financial counseling program, key issues related to staffing and facilities must be addressed.

- **Hiring the right personnel:** The credit union must specify the level of training required for the position, the employee positions that will be allocated to the counseling service, and how and when hiring will take place.
- **Offering the right facility:** Counseling facilities must provide privacy so that members feel comfortable talking about their financial problems. It must also protect the security of the counselor by ensuring that the counselor never works alone and always has help readily available.
- **Creating appropriate policies and procedures:** Policies and procedures are essential to guide the counselor's actions. Ideally, these policies and procedures should be oriented toward both the goals and the values of the organization. A

complete set of policies and procedures will address current needs as well as potential issues that may arise in the future.

Session Structure and Content

Counselors may organize their counseling sessions with members in different ways based on the design and goals of their credit union's counseling program. Some credit unions opt to offer only individual sessions, others offer only group sessions, and some choose to begin the process with a group introduction to budgeting before offering one-on-one counseling that addresses individual needs.

When time allows, counseling experts say it can be beneficial to offer at least two individual sessions per member. The two-session model may be organized in two different ways. In the first option, one meeting is used for budget analysis, with the second used for a spending plan. In the second option, the first meeting is used to develop the budget, the action plan, and action steps, while the second is used for follow-up and fine-tuning of the action plan.

Ten Vital Skills to Share

While the financial counselor can certainly offer ideas, the member should take control of solutions. Financial counseling is not about doing it "for" the member; it's about giving members the skills needed to create their own financial stability.

To achieve this goal, members need to be able to:

1. plan for the future.

Paying for Necessities

Many Americans are having difficulty paying for necessities, according to a study conducted in February 2008 by the Pew Research Center.

The study found that six of every ten Americans say it is difficult to afford gasoline, while 56% have difficulty saving for retirement and 51% have trouble paying for taxes.

Paying for necessities is even harder for low-income Americans, defined as households with incomes below \$20,000. For this low-income group, 65% say they have difficulty affording home heating and electric bills, while half have trouble paying for food.

2. find reliable information
3. budget their funds.
4. save for emergencies, ongoing needs, and other goals.
5. prepare for retirement.
6. create a spending plan.
7. use credit carefully.
8. manage risk.
9. invest.
10. avoid consumer fraud.

Credit unions often combine face-to-face counseling sessions with group classes to fully address all 10 items on the list. Another option is making referrals to investment counselors, insurance agents, and other specialists as the member's finances improve so he or she can move beyond addressing day-to-day needs to focus on long-term

goals, such as using investments to enhance retirement savings.

Setting Goals

It's vital to set goals that help determine which members will be served by your counseling program, what type of counseling will be offered, and how your credit union will structure services within your organization. Creating a clear vision for your counseling program will help you move beyond identifying the need to start the process of creating a program that effectively equips members to tackle their financial problems. Once this structure is in place, you can begin effectively applying the fundamental rules of financial counseling to reach out to members.

