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Don't Go Into Debt Assuming Everyone Is Going Into Debt

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By Frank J. Diekmann

Imagine this: you've made it to the Final Jeopardy round and game show host Alex Trebek unveils the final category question: Consumer Financial Concerns. You bet everything you have and would even bet the credit union's assets if you could, not even bothering to save that final $1 in the event your two fellow contestants are also wrong. And why not? You're a credit union professional well-versed in consumer finance who only grows more confident when Mr. Trebeck reveals the Final Jeopardy answer/question: "It's the No. 1 reason consumers are calling financial assistance/counseling hotlines in October 2008."

You race to write down your question/answer, "Worries over debt," self-assured you'll be headed to the next day's competition. But in a minute or so you're going to find yourself headed home.

At least that's according to one company that offers financial planning and counseling services to credit union employees and members, which says it believes many consumers have put their debt concerns behind them and are now mapping out plans to deal with their problems and build wealth.

"We've been doing this for nine years and we've always said we are a leading indicator, not a trailing indicator," explained Liz Davidson, CEO of Financial Finesse. "People call us before they take action. I think if you look (at calls) from an economy basis, the numbers are good news."

That good news, according to Davidson, is that calls to Financial Finesse related to debt peaked in 2006 when 49% of callers had worries over their financial obligations. In the third quarter of this year, calls related to debt fell to 34%. Budgeting and savings calls now make up 19% of calls.

Manhattan Beach, Calif.-based Financial Finesse works with companies and credit unions across the country; it pitches its service as providing people with the "unbiased information and guidance they need to become financially independent and secure."

"Secure" is the key word there, and Davidson said that while it may surprise many CU execs, more consumers, not fewer, are taking steps to build security. "We saw the debt bubble become extreme," she explained. "Now people are getting real about it. It's not a quick fix. For some it can be like therapy."

Financial Finesse categorizes all calls, including what it defines as "money mangement" calls; when a consumer or member makes such a call it means "you are ready to take action," Davidson said.

"Certainly, people are struggling right now. But they are also ready to make changes. We do behavioral change studies with people 30 days after they have participated in one of our money management workshops. We find that most have reduced debts and are spending less." The company does approximately 1,000 such workshops annually at company, credit union and even SEG worksites.

"In Q2 07, 2% of calls were investing related. Now it's 8%. That four-fold increase means people are very focused right now on asset allocation," continue Davidson. "Some people are very panicked, some are withdrawing money, others are moving everything into stable value funds. Others are very thoughtful about what their real risk tolerance is."

Like others, Davidson believes the sour economy is a sweet opportunity for credit unions. "If you can become a resource during the hard times, people will be much more loyal to you during the good times," she said. "There are signs people are shifting and asking, 'How do I change the way I manage my money? If you can get them to start building wealth you will have a much better and more loyal member."

But can Americans ever really be savers, or is all this talk of belt-tightening and financial planning just lip service after an economic fat lip, like people talk of dieting after a big dessert.

"I think it's a lack of education. I don't think it's genetic," laughed Davidson. "All the images we get as kids and adults are to spend, spend, spend and to accumulate things. Among all those messages are very few about managing money. We are seeing more workplaces and schools, and in some schools it's mandated, teaching money management, so it's a macrotrend."

Davidson said Financial Finesse, whose clients are reflective of the 80% of Americans in the economic middle, has encountered what may be one other piece of encouraging news, even if the news is just anecdotal: it has seen an increase in recent weeks in calls from consumers with questions about buying homes out of foreclosure. "That could be an early sign of a bottoming out."

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