The Impact of Changes in Financial Stressor Events on Financial Well-Being of Debt Management Program Clients*

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The current study examined whether changes in credit card debt, financial stressor events, and time in a debt management program (DMP) influenced levels of financial distress/financial well-being of credit counseling clients. Mailed surveys were returned by 828 DMP clients, and results revealed that less credit card debt, fewer negative bill-paying events, less exhaustion of liquid assets, and increased time in a DMP predicted less financial distress/more financial well-being. Reduction in both negative bill-paying events (e.g., paying bills late and receiving overdue notices) and exhaustion of liquid assets were the best predictors. Findings offer implications for financial practitioners.

Introduction

Lack of financial literacy and over-indebtedness force many Americans to struggle with debt management. Many consumers turn to credit counseling agencies to seek help with their debt management. As credit counseling agencies have become an increasingly important resource for debt management, the effectiveness of the financial counseling and education provided to their clients has been a topic of interest to family economics researchers. Previous studies have found that credit counseling programs have decreased financial stressor events (Kim, Sorhaindo, & Garman, 2003) and improved individuals' credit performance (Staten, Elliehausen, & Lundquist, 2002).

Purpose

The purpose of this study was to determine whether changes in outstanding credit card debt, frequency of financial stressor events, and length of participation in a debt management program would make a difference in the financial distress/financial well-being of financially distressed consumers. The current study measured financial distress/financial well-being using a recently developed instrument which has been shown to be both valid and reliable in the measurement of the construct, financial distress/financial well-being (Prawitz et al., 2006).

Results

Financial distress/financial well-being was measured using the InCharge Financial Distress/Financial Well-being Scale (Prawitz et al., 2006). The instrument is now called the Personal Financial Well-Being Scale, or PFW. PFW scores were regressed on age, monthly income, outstanding credit card debt, negative bill-paying behaviors, exhaustion of liquid assets, and number of days in the debt management program. Length of participation in the debt management program as well as all of the individual characteristics and the occurrence of both negative bill paying behaviors and exhaustion of liquid assets were significant in predicting financial distress/financial well-being. Those with more credit card debt and higher frequency of both negative bill-paying events and exhaustion of liquid assets reported more financial distress/less financial well-being. Holding other variables constant, longer participation in the debt management program resulted in less financial stress/more financial well-being.

Implications

The results provide important implications for financial counselors and educators. Scores from the PFW Scale can serve as a barometer of levels of financial distress for use with those experiencing financial problems, both initially and following interventions designed to help consumers make positive changes in financial behaviors. Since financial distress lessens as the time spent in a debt management program increases, the credit counseling process needs to be sustained for a period of time long enough to produce positive results. The structured bill-paying procedures of the DMP help clients develop timely bill-paying habits; practitioners should emphasize continuation of such behaviors (e.g., automated bill-paying) in order to sustain the reduction in financial distress.

References

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