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CREDIT USE AND FINANCIAL SATISFACTION

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Consumer credit provides the means by which many Americans acquire goods and services for immediate use while paying for them out of future income. In this sense, credit helps families to coordinate the demands of the family life cycle and the income flow to maximize overall household utility. Economic investment theory [4] and research [5] suggest that judicious use of consumer credit can contribute to financial satisfaction, a major factor in determining life satisfaction. However, some consumers have jeopardized their health, marriages, and jobs through the overuse of credit [2]. This study examined the relationship between the financial satisfaction of the family money manager and the money manager's credit attitudes, credit practices, and socioeconomic characteristics.

Methodology

The population was the membership of a community credit union. Five hundred subjects (6.4 percent of the population) were selected at random by computer. An instrument developed by the researcher (some questions were derived from earlier studies) was mailed to the sample with a cover letter, co-signed by the credit union president, that explained the study. Data were collected according to methods developed by Dillman [3]. A total of 276 questionnaires were returned, of which 274 (54.8 percent) contained sufficient data for analysis.

The dependent variable was the financial satisfaction of the family money manager. The independent variables were categorized into three groups: socioeconomic characteristics of the family money manager, the money manager's attitudes toward credit, and the money manager's credit practices. The dependent variable, financial satisfaction, was measured by a multi-item index [1] created by summing the responses to six statements related to financial satisfaction: level of income, money for family necessities, ability to handle financial emergencies, amount of money owed, level of savings, and money for future needs. (The

six statements are listed in the Appendix.) Each item was scored from 1 (extremely dissatisfied) to 6 (extremely satisfied); total scores could range from 6 to 36.

Two variables measured attitudes toward credit use: total amount of monthly debt payment the family money manager felt comfortable with and the money manager's perception of appropriate purposes for borrowing money. Survey items that measured credit practices were: number and types of credit cards used, amount of monthly credit payment, percent of monthly income used for credit repayment, and feelings about current credit obligations. Monthly credit payments included mortgages, home equity loans, and consumer credit payments. Credit card use by respondents was categorized as either convenience use (do not incur finance charges) or installment use (usually incur finance charges). The t-test, analysis of variance (ANOVA), and correlation (Pearson r) were used to determine if financial satisfaction was associated with scores on the independent variables.

Results

Respondents were evenly divided by gender; the mean age was 37.5 years. The majority of respondents were married (78.8 percent), and the median education level was completion of some college. The mean number of earners per family was 1.6 with an average of 4.1 household members and $34,398 of annual household income. The mean amount of savings in 1988, including IRAs and other retirement accounts, was $3,316. Over 70 percent of respondents were homeowners and the mean estimated home value was $70,336.

The vast majority of the respondents indicated that credit could most appropriately be used to purchase a home (95 percent), car (82 percent), education (80 percent), or medical care (65 percent). Over one-half of the respondents (55 percent) were installment credit card users, 31 percent were classified as convenience users, and 14 percent indicated they did not use credit cards. The mean value of the maximum monthly credit payment, including mortgage, with which they felt comfortable was $640. The mean monthly credit payment was approximately $643, which was, on the average, 25 percent of household income. Over one-half of respondents (53 percent) were very concerned or somewhat concerned with their credit obligations while 4 percent did not have any credit obligations.

Financial satisfaction scores ranged from 6 to 36 with higher scores representing higher satisfaction; the mean score was 19.8 (see Table 1). Mean responses to each item in the financial satisfaction scale are shown in the Appendix. Respondents were most satisfied with money for family necessities but substantially less satisfied with their level of savings and money for future family needs.

Table 1. Financial Satisfaction of Respondents (N = 271)

Score	n	Percent
6 - 9	18	6.6%
10 - 13	25	9.1
14 - 17	43	15.7
18 - 20	71	25.9
21 - 24	71	25.9
25 - 28	28	10.2
29 - 32	13	4.7
33 - 36	2	0.7

Scores ranged from 6 to 36; a higher score represents greater satisfaction.

Eighteen of the 24 independent variables were significantly related to financial satisfaction ($p<.05$). The socioeconomic variables age, education, household income, market value of the home, and savings were positively related to financial satisfaction. Both measures of credit attitudes were positively related to financial satisfaction ($p<.05$). Financial satisfaction was positively related to larger monthly credit payments with which the money manager felt comfortable; however, further analysis revealed that comfort with higher credit obligations was highly correlated with higher income.

Table 2. Financial Satisfaction Scores in Relation to Feelings about Credit Obligations (N=263)

Feelings about Credit Obligations	n	Mean Scores
Very concerned	28	12.3
Somewhat concerned	117	18.3
Not at all concerned	106	23.4
No credit obligations	12	22.6

Scores ranged from 6 to 36.

Convenience credit card users were significantly more satisfied than installment users, while the percent of household income used for credit repayment was negatively related to financial satisfaction. A comparison of respondent feelings about their credit obligations revealed significant differences between those who were very concerned, somewhat concerned and not at all concerned (see Table 2).

Discussion

Not surprisingly, many of the attributes found to be related to higher levels of financial satisfaction correlate with the socioeconomic variables of age, education, and income. While the abilities of consumer educators to influence these variables is limited, educators can have an impact on savings and credit behavior.

Credit practices were closely related to financial satisfaction and the degree of concern about individual credit use was the most important factor explaining financial satisfaction. Clearly those respondents who felt that they were in control of their credit obligations were most satisfied. The fact that wise use of credit involves more than mastering the mechanics of credit should be emphasized when teaching consumer credit. Students should understand that effective credit use also relates to maintaining control of the situation, a subjective feeling that must be defined by the individual involved. The results also suggest that a simple ratio such as debt-to-income may not reflect financial satisfaction.

Implications

This study supports the value of teaching students to develop and follow a credit management strategy. More than one-half of the respondents (53 percent) were concerned about their credit obligations, suggesting a high level of anxiety regarding debt. The results further illustrate the importance of integrating a credit management plan with a savings plan. Responses to the financial satisfaction scale indicated a lack of satisfaction with savings. Perhaps some of the respondents minimized credit use by sacrificing savings. Always paying cash is not necessarily the best financial strategy. Educators can provide examples to illustrate the integration of these concepts.

When selecting a text, educators should carefully review the books for effective presentation of credit management strategies rather than a focus on memorizing formulas. The text should facilitate class discussions which help students to evaluate credit decisions within the framework of a financial plan.

Educators can use the six-item financial satisfaction scale (see Appendix) to introduce the unit on credit. A discussion of responses to the scale can be used to encourage students to honestly evaluate their own attitudes and situation. The instructor might provide students with two copies of the instrument, one to keep and one to submit (anonymously) for class tabulation. The instructor can use class means to assess areas in need of special attention; for example, the subjects in this study needed more emphasis on implementing a regular savings plan. A discussion of class mean scores offers students the opportunity to compare their responses to their peers.

Cooperative Extension educators could use the scale as the basis for a newsletter article to assist readers in evaluating their financial satisfaction. For example, the range of scores (6-36) could be broken down into five or six levels. The evaluation for a score of 6 to 10 might be, "needs professional help," coupled with information about local resources; for a score of 31 to 36, the evaluation might be, "doing great, keep up the good work."

This study illustrates how one simple tool, the financial satisfaction scale, can be used to teach consumer credit concepts. While much of the literature about personal finance is based on "common sense," it is vital to test these relationships with research. This study provides practical application of research-based information for consumer educators.

References

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Appendix: Financial Satisfaction Scale

How Satisfied Are You With:	Mean Scores
A. Your level of income	3.41
B. Money for family necessities	3.59
C. Your ability to handle financial emergencies	3.47
D. Amount of money you owe (mortgage, loans, credit cards)	3.53
E. Level of savings	2.90
F. Money for future needs of family	2.92

Scores ranged from 1 (extremely dissatisfied) to 6 (extremely satisfied).