

# Families at Risk Deciding about Personal Debt: Report on the Qualitative Study

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# Families at Risk Deciding about Personal Credit: Report on the Qualitative Study

## 1 Overview

The aim of our study is to understand how families at risk make decisions about personal debt. We can then address what needs to be done to empower consumers and alleviate debt problems amongst the most vulnerable families in Australia.

This is the third of our series of five reports<sup>1</sup>.

### 1.1 Making decisions about personal debt

There are three groups of factors that influence the way families at risk decide about personal debt.

- The first relates to culture, family and money.
- The second deals with priorities relating to marriage, family and self. It also depends on the availability of family and community support.
- And thirdly, skills and strategies are important when making decisions.

Skills and strategies have been the focus of much attention in research and policy relating to consumer credit. Our research also points out that decisions are made on the basis of aspirations, relationships and family experience. Money is a matter of relationships as well as a matter of finance.

### 1.2 Defining families at risk

The core group of families at risk are those with an annual household income of under \$25,000. We have also included households including parent/s and children which have an annual household income of less than \$50,000. This cut off point was chosen for three reasons:

- Research by the Brotherhood of St Laurence found that except for couples or people over 65 on support pensions, all households that receive Centrelink payments fall below the poverty line. Employed singles are the most disadvantaged, but in the second category are employed couples and single parents with children (Brotherhood of St Laurence 2004).
- The HILDA survey found that a high percentage of people in the first two income quintiles were financially constrained (Cava and Simon 2005).

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<sup>1</sup> The first two were:

- Singh, Supriya; Myers, Paul; McKeown, Warren and Shelly, Marita (2005) Literature Review on Personal Credit and Debt in Australia: Families at Risk Deciding on Personal Debt. <http://mams.rmit.edu.au/fjefpb2zv2q7.pdf> accessed 9 September 05
- Singh, Supriya; Myers, Paul; McKeown, Warren and Shelly, Marita (2005) Literature Review on Personal Credit and Debt: Families at Risk Deciding on Personal Debt. <http://mams.rmit.edu.au/2jcm510srqg7.pdf> accessed 9 September 05

Another two reports will follow this paper. They are:

- Singh, Supriya and Shelly, Marita (2005 forthcoming) Decisions about personal debt among families at risk: Personas and Scenarios.
- Singh, Supriya; Shelly, Marita; Myers, Paul and McKeown, Warren (2005 forthcoming) Decisions about personal debt among families at risk: Education and Policy implications.

- Over time many people move from the financially constrained category to those who are managing well or vice versa.

### **1.3 The qualitative study**

We conducted open-ended interviews lasting an hour to an hour and a half with 15 people from families at risk between mid-May 2005 and the end of August 2005. The people were accessed through the networks of financial counsellors, community organisations and personal networks.

Thirteen of the 15 people were women. This was primarily because women most often came to financial counsellors for in low income families women frequently managed the money. It was also because single parents who were financially stressed were also women.

We had a range of age groups and household incomes. More than half our sample however had a BA education or higher.

- Eight of the 15 had an income below \$25,000. The remaining seven had an income between \$25,000 and \$49,999.
- Four were aged between 25-34 years; four between 35-44; five between 45-54; 1 between 55-64 and 1 was 65 plus.
- Eight had a BA or higher; one Year 12, one a certificate, four below Year 9 and one who didn't say.

We transcribed the interviews and analysed them with the help of N6, a computer program for the analysis of qualitative data. This helped us test the fit between data and our conclusions. It also helped ensure that the negative cases, that is the cases that did not fit our conclusions, were taken into account.

### **1.4 Culture, family and money**

People across different cultures have different expectations of how money will be managed, shared within the marriage or family, how money will flow between generations, and how people talk about money. We found:

- Money often flowed from parents to children particularly in low-income families. It was only in exceptional cases in Australia that money goes from children to parents. This however is more common in cultures where money is seen to belong to the family rather than the individual or couple.
- Attitudes to spending, savings and credit are shaped by what a person has seen within his or her family.
- In low income households in Australia, as with the United Kingdom, women manage the money. They pay the bills and worry whether the money will stretch. However men are often involved in the getting of credit.
- Relationship debt is debt or costs incurred by a partner often without the knowledge of the other.

### **1.5 Priorities and support**

In the stories we heard from families dealing with consumer debt, we were impressed by the importance of priorities, family and community support.

- Having priorities relating to marriage, family and self helped actively structure the direction of spending, savings and credit.
- Family and community support help a family at risk deal with crises without getting into unaffordable debt.

## **1.6 Skills**

There are three categories of skills that are important for making judicious decisions about consumer credit. These skills are influenced by education and family background, though a higher education does not necessarily result in better financial decisions. These are:

- Financial skills; that include budgeting, spending and savings strategies.
- Information skills; about the availability of different kinds of credit; evaluating the cost of getting credit; and judging one's ability to repay.
- Communication skills; that is the ability to talk about money and financial strategies within the family and often with friends.

## **1.7 Education and policy implications**

Our study on financial decision making among families at risks points to three major recommendations relating to education, the provision of credit and the possibility of increasing income:

- Education relating to consumer credit and financial literacy should include training in setting positive priorities that can then shape saving, spending and credit. People should be encouraged to talk of money within their family and with friends so that there is a built-in check against over-commitment and its financial and social costs.
- There is the need to ensure that credit is offered on the basis of an ability to repay. In addition community based credit which is appropriate and sustainable should be encouraged.
- Time and again our participants argued for the need to be able to increase their income without drastically losing their welfare benefits. This would at the least mean that work for cash will become accountable and more transparent.

These educational, policy and welfare recommendations will be discussed in a forthcoming report.

## 2 Introduction

The aim of our study is to understand how families at risk make decisions about personal debt. We can then address what needs to be done to empower consumers and alleviate debt problems amongst the most vulnerable families in Australia.

This is the third of our series of five reports. The first two were:

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## 3 Methodology

We are reporting on a qualitative “grounded” study of how families at risk decide on personal debt. We chose to do a qualitative study to understand the complex social and cultural factors that lie behind decision making. We also needed to understand the issues of consumer credit from the consumers’ perspective. It was a ‘grounded’ study in that there was a fit between data and emerging theory, rather than a testing of hypotheses (Glaser and Strauss 1967)

Once the different facets of decision making are understood, we translate the insights to education and policy outcomes.

### 3.1 Families at risk

We have defined families at risk as those with an annual household income of under \$50,000. The \$25,000 - \$49,999 applies to a family including parent/s and children. This cut off point was chosen for three reasons:

- Research by the Brotherhood of St Laurence found that except for couples or people over 65 on support pensions, all households that receive Centrelink payments fall below the poverty line. Employed singles are the most disadvantaged, but in the second category are employed couples and single parents with children (Brotherhood of St Laurence 2004).
- The HILDA survey found that a high percentage of people in the first two income quintiles were financially constrained (Cava and Simon 2005).
- The measurement of poverty taken in the HILDA (2004) study is more dynamic than the widely used Henderson Poverty Line, as poverty is seen as both short and long term. The HILDA study shows that households can move in and out of poverty due to changing circumstances<sup>2</sup>.

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<sup>2</sup> Singh, Supriya, Myers, Paul, McKeown, Warren and Shelly, Marita (2005) Literature Review on Personal Credit and Debt in Australia: Families at Risk Deciding on Personal Debt. <http://mams.rmit.edu.au/fjefpb2zv2q7.pdf> accessed 9 September 05

Over time many people move from the financially constrained category to those who are managing well or vice versa.

Following Kempson et al (2004) we use the term 'debt' to refer to people " 'in debt' if they have fallen behind with the payments on their household bills and commitments" (Kempson, McKay et al. 2004). This is similar to the notion of "financially constrained" households, that is households who are having difficulty paying their bills (Cava and Simon 2005).

Cava and Simon (2005) interpret financial constraint as having difficulty paying bills because of a lack of cash. They identify seven measures drawn from the HILDA (Household, Income and Labour Dynamics in Australia), 2001 and HES (Household Expenditure Survey) 1993-94 and 1998-99 data.

Financially constrained households are those that:

- (i) could not pay their utility bills due to a shortage of money;
- (ii) could not pay their registration or insurance on time (rent and mortgage in HILDA);
- (iii) pawned or sold something due to a shortage of money;
- (iv) went without meals due to a shortage of money;
- (v) were unable to heat their home due to a shortage of money;
- (vi) sought assistance from welfare organisations due to a shortage of money; and
- (vii) sought financial help from friends or family due to a shortage of money (Cava and Simon 2005)<sup>3</sup>.

### **3.2 The sample and open-ended interviews**

We conducted open-ended interviews lasting an hour to an hour and a half with 15 people from families at risk between mid-May 2005 and mid-September 2005. The interviews were tape recorded and transcribed. Except in one case of a shared household, we interviewed one person in each household. The participant is the one who makes the money decisions in the household. In two other cases we had access to the perspectives of another family member, which were not included in our sample. It is most likely the picture may have been different if the same decision had been presented from multiple angles and memories.

We accessed the people through the networks of financial counsellors, community organisations and personal networks. It was particularly important to go beyond the clients of financial counsellors for we wanted to understand how people can manage their debt in a way that does not put them into a crisis situation.

We interviewed the participants at a place of their choice. Only those we accessed through personal networks wanted to be interviewed in their homes. Those who came through financial counsellors or community organisations did not want us to come to their homes and chose to be interviewed in the offices of the financial counsellor services or in one case in an office at the university.

We had an interview guide that served as a check list rather than a format for questions. This interview guide was constantly revised.

The insights from consumers were discussed with our consultative group drawn from community organisations, financial counsellors, community legal centres, regulators, and providers.

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<sup>3</sup> For a more detailed discussion, see Singh, Supriya, Myers, Paul, McKeown, Warren and Shelly, Marita (2005) Literature Review on Personal Credit and Debt in Australia: Families at Risk Deciding on Personal Debt. <http://mams.rmit.edu.au/fjefpb2zv2q7.pdf> accessed 9 September 05

Thirteen of the 15 people were women. This was primarily because women most often came to financial counsellors for in low income families women frequently managed the money. It was also because single parents who were financially stressed were also women.

More than half our sample had a BA education or higher. Eight had a BA or higher; one Year 12, one a certificate, three below Year 9 and one who didn't say.

We had a range of age groups, household incomes and ethnicities.

- Eight of the 15 had an income below \$25,000. The remaining seven had an income between \$25,000 and \$49,999.
- Four were aged between 25-34 years; four between 35-44; four between 45-54; one between 55-64 and one was 65 plus.
- Nine of the 15 were born in Australia, three in Greece, one in Scotland, one in the Netherlands and one in Sudan.

### 3.3 Analysis

We transcribed the interviews and analysed them with the help of N6, a computer program for qualitative research. This helped us to test the fit between data and our conclusions. We were also able to investigate the negative cases.

This meant we first broadly coded the data, then organised the data into matrices to check emerging themes in a transparent manner. We also used the N6 program to identify negative cases so that the study was rigorous. As Morse and Richards (Morse and Richards 2002) say:

The key to rigorous qualitative inquiry is the researcher's ability ... of being constantly aware and constantly asking analytic questions of data, which, in turn, constantly address the questions asked. Qualitative inquiry constantly challenges assumptions, constantly challenges the obvious, reveals the hidden and the overt, the implicit and the taken for granted, and shows these in a new light (p. 170).

## 4 Decision making about personal debt

Decision-making is hard to study for it is difficult to correctly record or recall decision-making within the everyday rhythms of life. Often there is no single remembered point when a decision was seen to be taken. The main conclusion from a longitudinal study of decision making was that no one model of decision making was possible (Kirchler, Rodler et al. 2001).

The economic approach dominates current policy work on consumer credit in Australia. We found much that was valuable in that approach and have taken the Treasury's consumer behaviour model as a starting point for our model of decision-making about personal credit (See figure 1). In our study we have drawn on behavioural finance and sociological studies of money to frame our approach to decision making<sup>4</sup>.

We have kept the model approach so as to better communicate with policy makers and finance providers. The main differences between the consumer behaviour model (figure 1) and the credit decision making model (figure 2) are:

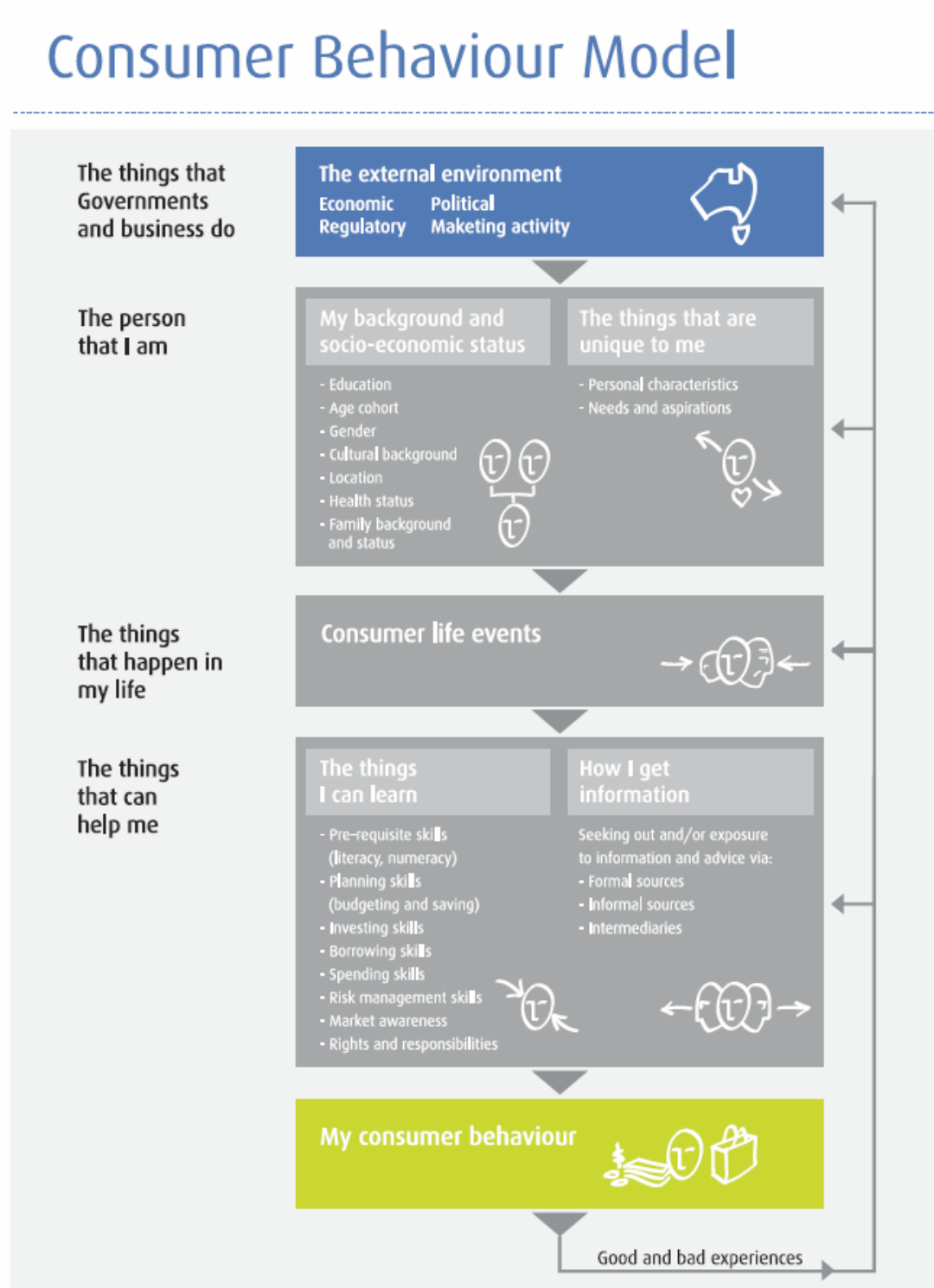
- The credit decision making model is not linear reflecting the different cross cutting factors that influence decision making.

<sup>4</sup> See Singh, Supriya, Myers, Paul, McKeown, Warren and Shelly, Marita (2005) Literature Review on Personal Credit and Debt: Families at Risk Deciding on Personal Debt. <http://mams.rmit.edu.au/2jcm510srqg7.pdf> accessed 9 September 05

- We have kept the factors that influence a consumer's life and approach, but added two boxes – one dealing with culture, money and family and the second dealing with priorities and support. We have also added welfare and tax reform in what government has to deliver.
- We have also added communication skills to the box on skills and strategies.

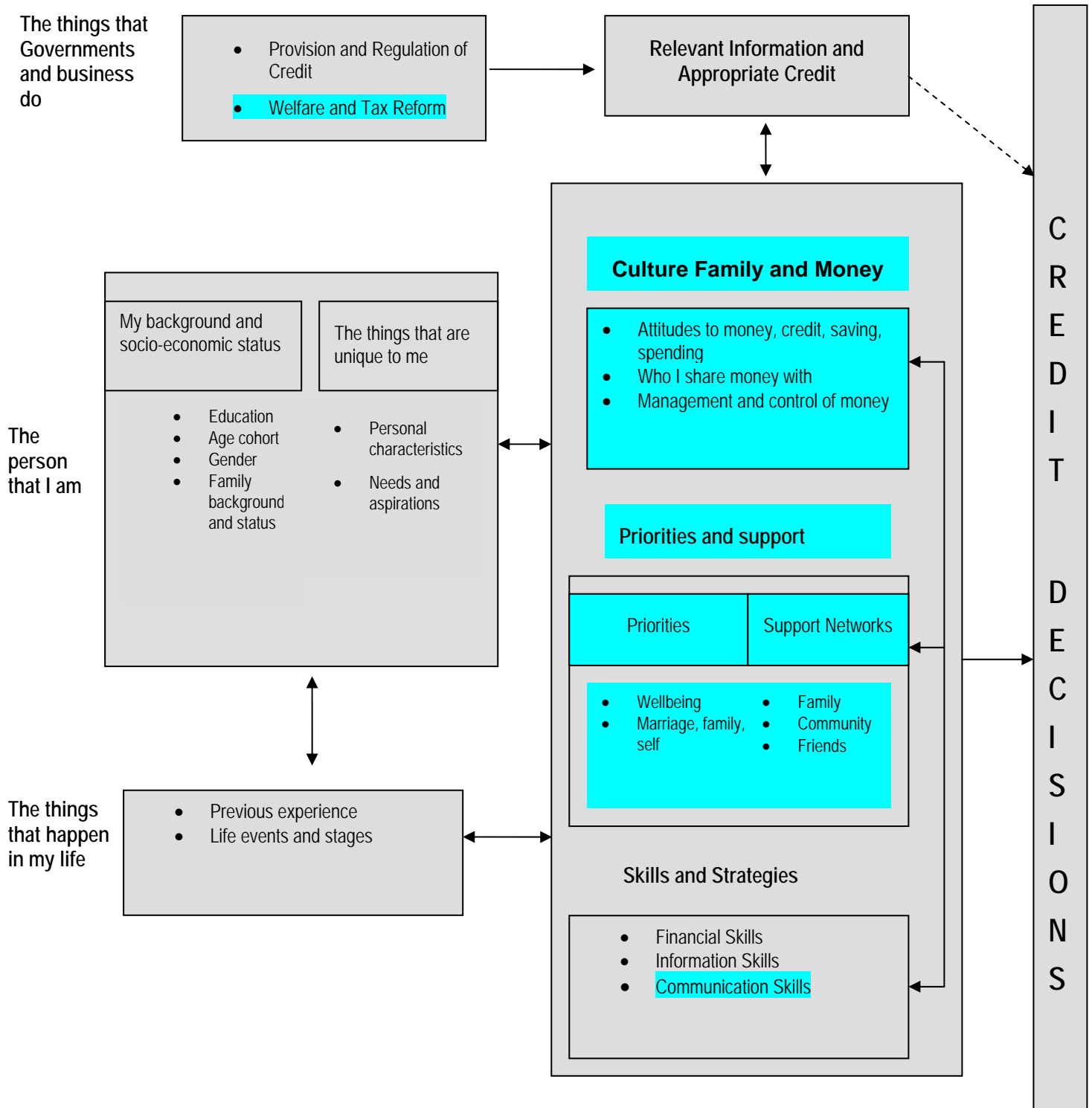
In the following section we draw on our qualitative study to show the central role of culture, family and money; priorities and support; and the acquiring of relevant skills.

Figure 1: The Consumer Behaviour Model



Source: (Commonwealth of Australia 2004)

Figure 2: Credit Decision Making Model



## 5 Culture, family and money

Money is a medium of relationships. Issues of power and communication within the family most often surface in money discussions. Money is also used to convey love, trust and kinship. However in most discussions of money as a market phenomenon, money is treated solely as a matter of finance<sup>5</sup>. In this section we make the following points:

- Money in Australian most often flows from parents to children, but seldom from children to parents. Money is seen as private and there are few detailed discussions of money outside the couple/family. In some cases there is little discussion even within the family or between the couple.
- One of the major influences on decision making is the way your family thinks and manages managed spending, savings and credit.
- In low income households in Australia, as with the United Kingdom, women manage the money. They pay the bills and worry whether the money will stretch.
- Debt is at times tied to dysfunctional relationships, often leading to over commitment as well as the breakdown of the relationship.

### 5.1 Intergenerational flow of money

In our predominantly Anglo Celtic Australian sample, we found that financial support – often loans or gifts of money or help in kind – was essential for low income families to survive financial crises. This flow of money from parents to children is more marked in low income families than in middle income families in Australia. It has more often been a taken for granted characteristic of families in Asia, Africa and some countries in Europe, such as Greece (Singh 1997). This flow of support is detailed in section 6.2

Low income families are like middle income Anglo Celtic families in that money seldom flows from children to parents. This was true also of the three Greek women in our sample. This is why Frank's case was so exceptional.

Frank, 78 is Australian born and Anglo-Celtic. He subscribed to the traditional values of the man as the breadwinner and the wife at home looking after the children. In his later years, they bought land to build a house for their retirement. At the same time he was helping his daughter and son-in-law with a unit they were building. The budget blew out and he financed it with multiple credit cards. It was only when his son asked Frank if he could do with some help, that it came out that Frank's debt was more like \$100,000 than \$10,000. His children came together to sort it out and negotiated the debt down to \$25,000. His children paid the \$25,000. Frank recognises that this was so unusual a situation that the children had to negotiate with their partners to contribute. He says "the partners were all involved also and they were quite sympathetic."

Frank pays each of his children \$500 a month out of his superannuation money. He hopes to be debt free by this Christmas.

### 5.2 Family influence on attitudes to debt

An important factor influencing the way a person decides on personal debt is the family's influence. Among our sample 11 of the 15 talk of their family's influence in the way they save, spend or borrow. This influence can be positive or negative. In our sample we have Annie, where three generations

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<sup>5</sup> For a more detailed discussion, see Singh, Supriya, Myers, Paul, McKeown, Warren and Shelly, Marita (2005) Literature Review on Personal Credit and Debt: Families at Risk Deciding on Personal Debt. <http://mams.rmit.edu.au/2jcm510srqg7.pdf> accessed 9 September 05

have saved to spend. Annie, 45-54, a nurse attributes her desire to save and then spend to her parents. She is seeing that these values have been transmitted to her children who also are careful with their money and do not borrow for consumables. Emily, 35-44, is part of a three generation pattern of over-commitment. She grew up helping to pay for a boat her parents bought on credit. She herself bought PCs for her children and new furniture on credit. And now her son has mobile phone debt.

Many of the others see parallels between the way they spend and their parent/s did. Kate, 25-34, now single and living in a shared house says, if her father has “got money he will spend it...I'm a bit like that, in the sense that if I go out for a day and I've got \$20 I'm probably likely to spend the \$20.” Gina and Geraldine both try and avoid debt and help their children, because this was the pattern their father had set and they had experienced. Betty is careful with her money, but tries not to talk about the cost of everything, for she does not want to be like her mother.

There are four cases which go against this trend of the importance of family values towards money. Frank, 78, says his parents used to do without during the depression. He also started his family in an environment of strict controls over the access to credit. And yet as credit card companies offered him more and more credit, he got seduced by it. Ivan too comes from a family where the mother spends in an easier fashion than Ivan's stepfather. The values he subscribes to are more likely to come from his peer group rather than his family. He sees money as something to be used, and if people are giving him credit, they have to bear the risk. For the other two, Barbara and Donna, personal experience of the misuse of money and credit, have been the reference points. Barbara got into trouble with credit card debt; while Donna went into an abusive relationship where her partner blew the money she had as well as put money on the credit card.

### **5.3 Women manage the money in low-income families**

In our sample there was only one male who managed the money in a heterosexual partnership. This was Frank, 65 plus who pointedly kept to the traditional model of the man as the breadwinner and the wife as the home maker. His wife was also content with that role. It has to be noted however that at the time they set up their household, it would have been more of a middle income household, reflecting his status as an academic. They have plunged in their level of household income because of the large consumer debt he accumulated.

In the three other couple families, except that of Ivan who was in a same sex relationship, women managed the money. We had one woman in a de facto relationship and separate money management; four women who were single parents with children; and five who were single.

In a low income household, money management is more often a chore rather than a symbol of power. As Cathy says she was the one who budgeted, she was the one who worried, and she was the one who was getting stressed and unable to sleep. She had been telling her husband to ask for a pay rise, but he was hesitant. Cathy says,

...it got to the stage, where I have hardly spoken to him for about three weeks. And he said to me last night, don't you like me anymore and I said 'no' because I am the one running to the bank, I am the one ringing the bank, I am the one ... trying to stretch it out and I can't do it anymore. I sort of had come to the end of my tether. That is why I came and saw the financial counsellor last week.

Cathy's case and that of Annie who also manages the household income is in tandem with findings in the United Kingdom. Drawing on an extensive qualitative and quantitative study of money and marriage in the United Kingdom, Pahl (1995) says, “female-managed systems were associated with lower income levels and with greater financial deprivation for wives” (Pahl 1995, p. 361).

### **5.4 Relationship debt**

Relationship debt affected three of four of the 15 people we interviewed. Another person in a de facto relationship has fallen into debt since she entered the relationship. Relationship debt is debt or costs incurred by a partner often without the knowledge of the other. In some cases it involves the indebted

partner in strenuous efforts to hide the debt. In all cases, it comes together with a lack of communication about money in the relationship.

Relationship debt is different from sexually transmitted debt. The latter involves one partner guaranteeing the debt of a partner or parents securing their children's loans with their houses. Both these kinds of debt have one thing in common – they lead to over-commitment and often the end of the relationship. Money becomes the silent medium through which relationship and communication problems are manifested.

In this section we give the stories of Geraldine and Donna. Geraldine, 45-54, a nurse who had saved before she spent, found that her husband had run up a debt of \$10,000 on two credit cards. She discovered the debt when finance companies began ringing up to see whether he wanted his credit limit increased. The statements had been coming to a post office box.

Geraldine paid the debt by using the money she was saving for the HECS debt for herself and her children. Then she found a Mercedes car parked in her garage. At first she thought it was a car he was test driving. But when the car remained in their garage, she learnt that her husband had a loan from a finance company to purchase it. She took it back and because it had not yet been transferred to his name, he lost three and a half to four thousand on it. Geraldine says,

I think the finances were probably the major problem in our relationship ... He spent the money but he left the responsibility of paying it back to me. And he never made any sacrifices. He made sure everyone else sacrificed or he wasn't even aware that we were sacrificing perhaps. He felt that he worked and he deserved all these things.

They are now divorced. Geraldine says if she ever went into a relationship, she would want financial equality and transparency. She "would want everything 50-50....I probably wouldn't share... (It would be) more like a business agreement." She would want a pre-nuptial agreement. She says, "I just think it would make for better relationships." Geraldine's daughter who is in a de facto relationship was also insistent on equality of financial contribution when she and her partner bought the house.

Donna was a youth worker earning \$45,000 a year. She had bought a house in the outer reaches of a city, and was ahead in her mortgage payments. She made the mistake of getting involved with one of her clients. She says she was "pretty much supporting" her boyfriend "because he was gambling all his money." Donna says,

It was a very destructive relationship... He was smoking a lot of dope and so some of my money was going towards that....I felt that if he wasn't having the dope then he would be having the alcohol and the alcohol was a lot worse ... because if he had the alcohol, he'd get very violent. ...A lot of the money went towards his gambling because he would just gamble all his cheque away and then I would have to support him. So the credit card, as you can imagine, just went like that, and my tax cheque went like that,

She ended the four month relationship with some difficulty minus savings and with a \$3,900 credit card debt. Now Donna is on unemployment welfare benefits and trying to get her life and health back together. She plans to move to another city and train for a different kind of job.

## 6 Priorities and support

In the stories we heard from families dealing with consumer debt, we were impressed by the importance of priorities, family and community support.

For families with a low income and little prospect of increasing the money coming into the household, having an articulated priority helps actively avoid or manage debt. Priorities related to family, marriage or the self need to come together with budgeting techniques and information and communication skills. It has to be recognised that priorities alone are not sufficient. But the worst scenario for decision making for personal debt is when all priorities and money management skills are missing.

The important role of priorities becomes clear when a person moves from being overcommitted to managing debt or the other way around. The change in priorities, often triggered by a change in relationships, and at times by a different pattern of spending and saving, has been an important factor.

### 6.1 Priorities

The importance of priorities was dramatically shown by the stories of Annie and Emily. Annie's priorities were clear. On a household income of less than \$50,000 she sent her eight children to Catholic schools so they could get an education with a focus on social justice. Emily appeared to have no aim in life related to herself or her children. She saw her life as a nightmare and was floundering in credit card debt, ill health, gambling and smoking.

Annie, 45-54, is married for the second time has eight children, with six still at home. She is a trained nurse, working part time. With a household income of less than \$50,000 she has sent all eight children to Catholic schools. She has no consumer debt despite her first husband not being good with money. She is still paying off some of the school fees in instalments when she fell behind when her first marriage ended.

She says she was able to do this because the main priority for her was that her children get a good education with a focus on social justice. That allowed her to say 'No' to much expenditure, while also not working full time so that she could spend time with the family. Also helping her achieve this debt free status was her inherited attitudes of saving to spend and avoiding debt. She had the ability to budget and the skills to negotiate with the school when she was falling behind. With this went a clear communication of money attitudes and priorities to her children.

Emily's story is the reverse of Annie's. Her parents had consumer debt, part of which was for a boat and which their children had to help pay off. Emily, 35-44 on a disability pension, has not completed Year 9. She drifted from one relationship to another leaving her with two children but no support from the father. Living with her parents, Emily bought PCs for her children on the credit card. When she moved out, she bought new furniture on the credit card. She is now ill, smokes and gambles, and is still in debt. She has sought help from financial counsellors and her credit card debt has now been reduced, but it will still take her years to pay it off. Her son now has mobile phone debt.

Again in a reverse image of Annie's life, Emily did not inherit sound financial management techniques. She did not talk to anyone about money till she got into deep trouble. She does not budget and sees her smoking as essential to her being able to get through the day. Gambling worsened her money problems. She is getting help from social workers. She says she would have liked to do some painting but is not able to put aside \$10 for the materials. She says her life is a "nightmare". She says "All my life I think I felt like I was just a bit of crap. "

Priorities without money management and communication skills are not sufficient. Frank's priorities were clear. His family was his priority, and his wife and he were agreed that the children's welfare was served by him being the breadwinner and with her being at home. Yet Frank, 78, found himself with a credit card debt of \$100,000.

For Kate, 25-34, a change in relationship status has been the catalyst for a change in her saving and spending habits. Since her marriage broke down at the start of the year she has started to save money. She writes a budget each month and works out how much money to put away for bills, including her credit card. She now pays for her groceries with cash rather than using the credit card. She thinks she is in a better financial position as she has more control over the money. She has also begun to think of the future. Having a house was always a priority for Kate but it wasn't really a priority for her husband, so it never became a reality. Although it seems so very far away at the moment, she can see herself purchasing a house or an investment property in the future. She also has plans for herself; to go back overseas to visit friends and to study again.

## 6.2 Support

Family, friends and community support help a family at risk deal with crises to avoid unaffordable debt or to ensure there is food on the table. In our sample, only three of the 15 did not have support from family, friends or community organisations. Eleven of the 15 were helped by family and one by a community organisation. For seven of the nine the help came from parents, for two from a sibling and for one from children. The role of organisations such as financial counsellors came to the fore with four when they found they were in crisis and unable to manage.

Barbara's story shows the crucial role of family and community when things seem to be going against you. Barbara, 35-44 is a single parent with a child. She works part time but her income remains under \$25,000. When she realised she would have to give birth to and raise her son alone, she tried to limit her expenditure. She moved from the city to the outer suburbs and budgeted to the "last five cents". Doing everything on her own took its toll and she was hospitalised for depression. And then the fridge broke down. The Church stepped in and gave her a fridge they had. Though it did not have a working freezer it saved Barbara from taking on debt she could not afford. She had been through credit card debt when she was younger working in the city and that was not an option for her.

Her hospitalisation also made her realise she was in a rut. She decided she was going to get a house for her son and get herself out of the rut. Her mother put her only asset, her home, as a guarantee and Barbara was able to get a run down house. The rise in property prices allowed her to trade the first house to one that was more manageable and release her mother's guarantee.

In our sample three of the 15 borrowed from friends. One woman in her 50s had borrowed from friends many years earlier. The other two were single, between 25-34 years of age, and living in shared accommodation. Betty, 25-34 is single, and unemployed. She has a BA and is doing voluntary work so hopes that her situation will improve. For the most part, Betty is able to manage on her welfare benefits. The small amount of savings she had from previous years has gone. She is loathed to borrow from friends because she fears the "psychic debt" more than the monetary debt. However she says with a laugh, sometimes when she is with a friend and they see a blouse that "she must have", the friend lends her the money. Or another will buy her dietary supplements.

Cathy, 45-54, married with five children – three children are still at home – is one of those who has had no family support in her battle with the budget. They have a household income of between \$25,000 and \$49,999 and have been struggling for as long as she remembers. When the situation became unbearable and was threatening her health and marriage, she sought help from the financial counsellors.

Her family is financially and socially unable to support. Her husband's family is well off but they choose not to hear or see that Cathy and her husband are in need. Cathy's eldest son and daughter – in-law have an income of about \$100,000 but Cathy does not ask them for help. Neither has it been offered. She has two children still at home – each of them has an income equivalent to the household income – but they still pay \$50 a week board. Cathy is trying to change this system of contribution so that they pay some utility bills instead.

Cathy is unusual in that she is in need and is not getting any family support from her natal family, her in-laws, or her working children. Two others – Annie and Bela – also have no family or community support. Annie is able to manage as we have seen. Bela, 35-44, a single parent with six children, a

household income between \$25,000 and \$49,999, migrated from Africa five years ago. In Africa she says family helping each other is the norm. Here in Australia, the family lived with her brother for three months when they came and that was very helpful. But everybody is struggling. Moreover she and her brother have obligations of sending money home to their mother. So here in Australia, one of the things she has to get used to is managing without constant family support.

## 7 Skills

There are three categories of skills that are important for making judicious decisions about consumer credit. These skills are:

- Financial skills; that include budgeting, spending and savings strategies.
- Information skills; about the availability of different kinds of credit; evaluating the cost of getting credit; and judging ability to repay.
- Communication skills; that is the ability to talk about money within the family taking into account the cultural background; sharing money strategies with friends.

These skills are influenced by education and family background, though as we have seen with Frank's story, a higher education does not necessarily result in better financial decisions. Neither does a lower level of education necessarily make for worse financial decisions. Of the four people in the sample with less than a Year 9 education, one was managing with the help of financial counsellors, two were in debt but could see their way out, and the fourth was Emily who was floundering in debt. As we have seen in section 5, family influence on management of money is the more crucial connection with the management or avoidance of credit.

### 7.1 Financial skills

Budgeting, saving before spending, restricting spending and/or increasing income – these are essential for the management of personal debt. Some part of these skills can be taught, but below the surface is the importance of learned attitudes about money from family and the culture around you.

Women in low income households spend a lot of time budgeting. When Barbara moved from a corporate job to a single parent pension, she says,

I guess I had to budget to the last cent, literally to the last cent, the last five cents. I had to know what was coming in, what all my future bills were. There was no such thing as an outing if it cost money.... I had to be the strictest budgeter. If someone asked me out for coffee, I could not go.

Cathy too spent worried times over the budget.

I sit down every week and I write my budget out....I have all the bills sorted out - what I have to pay every fortnight - and try and stretch it. Occasionally it mightn't work and I have got too many bills this week.. I think OK this week I pay my electricity and gas and phone ....I probably spend half a day sitting there looking at these figures and then I write myself a list and try and go and pay them before I do anything else.

Prioritising expenditure is part of the budgeting process. Taking money out in cash or having it directly debited for essential bills is a commonly used strategy. In low income households, these budgeting strategies fail when there is a crisis situation. As Barbara says, "The pension is fine until you reach a crisis situation... you pretty much have to pray for a miracle".

Not being able to say 'No' to spending and increased expenditure on entertainment while not being able to increase income sufficiently is what has gotten Gina into credit card debt. Gina, 45-54 on a disability pension and part time work, was managing well with family support even after her divorce. Now in a de facto relationship she has begun to spend more on clothes and outings. Giving a room out on rent, disconnecting the fixed phone, using a wood heater outside rather than the gas in the lounge – these actions have not been sufficient in plugging the gap. Ask about her partner's lack of

contribution to the running of the household, she says she is alright with that “because I go to his place as well and I don't pay anything.”

## 7.2 Information skills

This is the area that is most lacking among our participants. Even one of the most astute consumers, Annie used her credit card to buy a fridge. Gina thought you had to pay to use financial counsellors. Emily wondered why refugees and Aboriginal people in her neighbourhood were so much better informed and resented not being given the same information. Cathy only became aware of a better banking alternative through the financial counsellors. And Bela from Africa says many people in her community go mad because they accept all the credit that is offered without working out their ability to repay. People still have a residual trust that the bank will assess a customer's ability to repay.

In our sample one woman stood out in her ability to get and use information. Hanna, 55-64 with a household income of under \$25,000, is single and has succeeded in getting an undergraduate degree later in life. Her two children do not live with her. Remembering how difficult it was for her to pay off a credit union loan with a 17.5 percent interest rate, she has used the Centrelink Advance, and also has a community No Interest Loan of \$529 (including \$29 for delivery charges) with which she has bought a washing machine. She says, “I had a twin tub that leaked and you had to practically go and take it out into the back yard to empty it. I was desperate for a washing machine.”

## 7.3 Communication skills

Educational programs have most often focused on increasing financial and information skills. Communication skills have been ignored for the most part. Talking about money is difficult in a culture where money is private; where parents and grown up children do not talk money; and sometimes siblings talk money even less. This taboo most often relates to talking about the quantum of money. The privacy of money is however accompanied by the dominant influence of the money management patterns learned at home, as seen in section 5.2. At times the lack of communication about money hides deeper relationship problems as seen in the cases of relationship debt.

There are overwhelming costs of not sharing the general contours of what is happening with your money with close family and friends, especially if they are the ones who can help you. Frank did not even share the burden of spiralling credit card debt with his wife. It was only when his son suspected that there might be a problem, that it emerged the problem was worse than any of them had feared. Similarly Ivan who has gone bankrupt at 24 saw money as private, as did his mother. She did not query him even when he failed to pay the symbolic board. But when letters of demand and telephones began arriving at his mother's and stepfather's house, the story unravelled. By then he had a personal loan from a bank, a finance company loan and credit card debt that he could not ever repay on a weekly income of \$420.

## 8 Conclusion

Our study on financial decision making among families at risks shows that money is a matter of relationships and aspirations as well as a matter of money management and information skills. We have shown that in order to consider the factors that influence decision making about money, we have to consider the way culture and family influence our behaviour with money. We also have to recognise that low income families have important priorities that help them structure their money management. They also depend on their family and friends in times of crisis. Hence they have to learn to talk about money in an unthreatening way within this close circle. These communication skills will enable them to make better money decisions and place them within a relevant context.

The central issue of money management among families at risk is that the money only covers routine needs. There has to be a way of meeting the emergencies through credit that is not exploitative and increasing income in a legitimate way.

Our study points to three major recommendations relating to education, the provision of credit and the possibility of increasing income:

- Education relating to consumer credit and financial literacy should include training in setting positive priorities that can then shape saving, spending and credit. People should be encouraged to talk of money within their family and with friends so that there is a built-in check against over-commitment and its financial and social costs.
- There is the need to ensure that credit is offered on the basis of an ability to repay. Community based credit which is appropriate and sustainable should be encouraged.
- Time and again our participants argued for the need to be able to increase their income without drastically losing their welfare benefits. This would at the least mean that work for cash will become accountable and more transparent.

These educational, policy and welfare recommendations will be discussed in a forthcoming report.

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