

Financial Literacy— Yeah, Gimme Some of That

The mortgage crisis of 2007 seemed to come out of nowhere last summer. But should we really have been so surprised? We've been laying the groundwork for that consumer trap for generations, ever since we (as a society) decided that if we want something bad enough, money is no object. And neither is time—why wait?

The financial counselor's rule of thumb has long been that a consumer risks serious trouble when total housing expense reaches 30% of gross income. Yet today, more than one-third of U.S. homeowners spend that much or more on housing. Worse, one of seven homeowners spends 50% or more of pre-tax income on shelter. Both statistics have risen dramatically in recent years, leading to a record number of foreclosures.

How did those homeowners get in such "dire streets?" Nationally, lost income and illness are the top two reasons for foreclosures. But the third cause—excessive debt—seems to be the prime culprit in this latest calamity. For most of those who are losing their homes, the reality is that they



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simply wanted more house than they could afford, and subprime rates and adjustable mortgages allowed them to pretend otherwise.

We like to think that financial literacy is all about knowledge, skills, and reason. But focusing on the intellectual side of personal finance ignores the emotions of consumer spending. Who thinks of the "10 Smart House-Hunting Tips" when faced with the Jacuzzi, the wine cellar, and the in-ground pool on a two-acre suburban lot? After all, money is no object—why wait?

Of course, reckless consumer purchases aren't limited to houses. Consider that for more than 100 years, the American Dream has had wheels. Once upon a time, a Cadillac was the automotive symbol of success. Now it's something else. But despite the changing make and model of the American Dream Car, the real difference between the generations is in how they get the dream car keys.

A few decades ago, a young man (and it was mostly young men then) knew that if he scrimped and saved, he'd might own a Caddy by the time he was 50. Today, young men and women will take on any amount of debt—whatever the payments—to get the keys to that Porsche Boxter or Ford F-450 pickup *right now*. With that attitude, today's young consumers are almost guaranteed further financial crises down the road.

Traditionally we've taught that important buying decisions should be based on a realistic assessment of financial resources and obligations. But given a choice between sacrifice and indulgence, is it any wonder that consumers give in to the allure of a huge new house or fancy new car? To influence behavior, financial education must recognize that consumers make decisions *emotionally*.

That doesn't mean asking people to lower their expectations or give up their dreams. It means changing the way we talk about and teach the *rewards of financial literacy*, which are increased freedom and opportunity.

For children and teenagers, financial literacy means mastering the independence of adulthood.

For young adults, it means enjoying guilt-free leisure and satisfying careers.

For heads of household, it means securing peace of mind through preparation for the future.

Expressed in terms of improved independence, business and social relationships, and peace of mind, financial literacy becomes a mighty attractive alternative to the short-term gratification that leads to overspending, excessive debt, and the stress of uncertainty and deprivation.

Financial educators who don't communicate the emotional rewards of financial knowledge to youth are doomed to provide emergency financial counseling to them as adults. ■

2007 Desjardins Youth Financial Education Awards

The Desjardins Award recognizes the following credit union organizations as the best of the movement's efforts to improve youth financial literacy. Look for their entries on display at CUNA's 2008 Governmental Affairs Conference in Washington, D.C.

2007 Winners

Denver Community Credit Union (Colo.)
Education First Credit Union
(Southgate, Mich.)
Kansas State University Federal Credit Union (Manhattan, Kan.)
Langley Federal Credit Union, (Newport News, Va.)
Maine Credit Union League*
Virginia Beach Schools Federal Credit Union*
& Beach Municipal Federal Credit Union Partnership
(Virginia Beach, Va.)
Virginia Credit Union League*

2007 Honorable Mentions

A+ Federal Credit Union (Austin, Texas)
Cal Poly Federal Credit Union* (Pomona, Calif.)
LA DOTD Federal Credit Union (Denham Springs, La.)
Loudoun Credit Union (Leesburg, Va.)
Rogue Federal Credit Union (Medford, Ore.)
St. Vrain Valley Credit Union (Longmont, Colo.)

*Repeat award winners and/or honorable mentions.

