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LIVING WITH DEBT:
A Life Stage Analysis of Changing Attitudes and Behaviors

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EXECUTIVE SUMMARY

Study Background

LendingTree was launched in 1996 with a fundamental mission of empowering consumers to make informed financial choices. Since that time, the company has facilitated more than $109 billion in closed loan transactions through more than 16 million loan requests.

In recognition of changes to the lending and borrowing landscape, and as an extension of its ongoing commitment to consumer empowerment, LendingTree has launched a multi-year consumer advocacy program with the goal of educating and inspiring people to make smarter borrowing decisions. The hallmark of our efforts in 2005 is this report—LIVING WITH DEBT: A Life Stage Analysis of Changing Attitudes and Behaviors.

There have been countless stories in the national media about the trends of rising consumer debt levels, reduced savings rates, the possibility of a “housing bubble” and the rising popularity of new types of loan products. Economists and academics are involved in an important national debate, with conflicting views on the significance of these trends and their impact on consumers and the economy.

In commissioning this study, LendingTree sought to learn more about how consumers are living with and managing their debt; to explore American’s attitudes as well as their behaviors. In the end, the company hopes to contribute to the national dialogue about the state of debt in our lives, and, most importantly, to help consumers arm themselves with the financial literacy skills they need to make prudent borrowing decisions.

The author of the report is Robert D. Manning, PhD, economist and professor of finance at the Rochester Institute of Technology and the author of *Credit Card Nation.* Dr. Manning is a specialist in consumer finance, socioeconomic trends, and retail banking deregulation and has testified at U.S. Congressional hearings on the use of credit. He is involved in developing financial literacy programs for college students, community-based alternatives to high-cost rent-to-own stores, and an informal bankruptcy option for consumers who seek to retain their homes.

Study Focus and Methodology

The study specifies a life stage approach that examines six distinct age and family-structure groups based on the assumption that their experiences illuminate current and future trends related to consumption and saving/borrowing patterns:

- College Students (17-27 years old)
- Young Singles (under 35 years old)
- Young Families (under 35 years old)
- Mature Families (45-64 years old)
- Empty Nesters (45-64 years old)
- Seniors (65 years and older)

This approach helps to distinguish the unique influences of particular household dynamics, drawn from behaviors and experiences that vary across historical periods, or what is commonly referred to as "cohort effects."

The central research question is whether the six basic life stage groups have different attitudinal and behavioral responses toward the use of consumer credit and debt. The underlying assumption is that different generational, family structure, and work/career factors influence the views and use of consumer credit in American society. Therefore, each life stage group is specified as a methodologically and sociologically discrete category; two focus groups comprised of randomly-selected members of each of the six specified life stage groups were conducted on consecutive days in three distinctly different geographic regions.

More information about the study's methodology can be found at:

www.LendingTree.com/LivingWithDebt

Key Findings – Across All Life Stages

The following summarizes the key findings of this research project, including major trends that are consistent across multiple life stages and those that are unique to each life stage.

1. **Living with increasingly higher levels of debt has become an accepted and normal state of affairs – considered an inevitable and likely permanent feature of everyday life.**

    - Adherence to "traditional" attitudes toward the use of consumer credit and the accumulation of debt is declining, especially among younger life stage groups. The social stigma of high debt levels is largely gone.

- The traditional pattern of accumulating debt early in life, which is then reduced as incomes rise and after children leave the nest, is changing. Instead, the "rise and fall" pattern of debt is being replaced with the accumulation of higher levels of debt and extended financial contributions to children and grandchildren.

- Much of the traditional social and cultural views of good debt vs. bad debt have been influenced by mass marketing to Baby Boomers and their children and grandchildren, many of whom expect or feel pressured to pursue immediate gratification over traditional values like "saving for a rainy day."

- The exception are Seniors, whose personal or family experience with the scarcity of the Great Depression and World War II makes them most likely to maintain traditional notions of needs vs. wants or desires.

2. **Many people attribute their willingness to go into debt – or to take on additional levels of debt – directly to a dramatic increase in spending on children and grandchildren.**

   - All groups – including Seniors – reported using credit more freely when spending on lifestyle activities for their children and grandchildren. Even parents who limited spending strictly to needs for themselves were willing to consciously ignore their traditional spending values and make purchases for their children's wants and desires.

   - There is an acknowledged and high degree of pressure regarding "keeping up with the Joneses" when it comes to spending. Parents described spending on the lifestyle requirements of children as the key factor in peer-driven competitive consumption.

   - Ironically, increased spending on children during their earliest years is compromising parents' ability to save for the rising cost of their children's college educations in later years – and actually contributing to higher debt levels among their children as they begin adulthood.

3. **Attitudes toward homeownership have changed significantly, from simply providing necessary shelter to satisfying both a need and a tangible, secure (and near perfect) investment.**

   - Many respondents see the uncertainties of the stock markets, as well as the continued increases in home valuations, as reasons to buy a home as quickly as possible.

   - Home ownership has become a much more important piece of the overall financial equation; the real or expected appreciation in home equity is considered a financial stabilizer or "way out of trouble" for many participants.

4. **Despite expressed needs and desires for practical financial planning services, people feel ill-equipped to create and follow a basic financial plan, especially as they transition between different life stages.**

    - Parents and grandparents remain the largest influence in personal finance education, but younger groups in particular lament the lack of training in personal finance at the high school or college level.

    - Although financial planning information is widely available, both younger and more mature groups lack adequate skill sets for making basic cost-benefit financial decisions or estimating the true cost of major purchases bought with credit.

    - Few have developed, let alone adhere to, a personal budget, although older groups were more likely than younger groups to do so.

    - Long-term financial planning, with the exception of buying a house, is largely absent among Baby Boomers and their children, who acknowledge a fear that they are not accumulating sufficient resources for maintaining their lifestyles in retirement.

Key Findings – College Students

- The rising costs of higher education, coupled with decreases in many families' liquid savings, have led to increasing dependence on educational loans and other forms of borrowing. This contributes to a "cognitive disconnect" for students between the reality of their current incomes and what constitutes an affordable lifestyle.

- Students are not embracing the traditional or "old school" financial values of their parents and grandparents that place emphasis on saving, living on a budget, and self-denial. Instead, intense competitive consumption pressures on college campuses, which are exacerbated by increasingly easy access to consumer credit, has substantially increased the social acceptance of increasing levels of personal debt. Many students view use of consumer credit as a reward for their hard work at school.

- The lack of widespread or formal training/education about personal finance in high schools and colleges contributes to a sense of complacency among students, who are not aware of the long-term consequences of their reliance on credit, including its effect on their credit scores. Even so, their desire for more formal personal finance education is explicit, especially among those whose learning curve has matured.

Key Findings - Young Singles

- Young Singles find themselves entering the job market with increased levels of existing debt (both student loans and consumer credit) than previous generations. Their resistance to adhering to a budget based on current income contributes to the continued waning influence of traditional or "Puritan ethos" financial values.

- Relatively high starting and early-career salaries among young adults (who have not experienced major macro-economic fluctuations) have created a heightened sense of optimism about future earnings potential. However, this generational confidence can manifest in status anxiety as expressed through competitive consumption to demonstrate success.

- Soaring home prices have shifted Young Singles' focus from "saving for a rainy day" to the allocation of more of their income to the purchase of a home. Housing appreciation has created a perception of a financial "security blanket," and many participants confided they were less motivated to begin long-term financial planning due to the housing-driven wealth effect. A common expectation among this group is that they will cash in on their home equity for unforeseen financial demands such as job loss or medical expenses.

Key Findings - Young Families

- The Young Family life stage illustrates the ongoing generational shift in personal attitudes towards debt–from frugality and thrift to self indulgence and instant gratification. Use of consumer credit to fuel spending beyond a person's means to pay in cash is often justified as a well-earned "entitlement" for hard work and a stressful lifestyle.

- Much like Young Singles, Young Families also feel pressure to "keep up with the Joneses," particularly as it relates to the rising costs of raising children. The definition of needs vs. wants and desires is changing, and use of consumer credit, with its longer pay off cycles, helps Young Families to purchase product upgrades that satisfy wants and desires.

- While Young Families acknowledge the impact that a) planning/saving for emergencies and b) reducing debt loads will make to their long-term financial prosperity, they are failing to implement necessary budgeting and spending guidelines. This has contributed to greater dependence on consumer credit and debt rather than a rejection of competitive consumption pressures.

Key Findings - Mature Families

- While the parents in the Mature Family life stage apply traditional values of thrift and frugality in satisfying their own needs, they are willing to abandon these principles when it comes to providing their teenagers with what they consider a "socially-expected" level of material abundance. The pressure to satisfy the increasingly-costly wants and desires of their teenage children underscores a significant generational conflict and has contributed, along with other factors such as rising levels of home equity, to reduced household savings.

- The resistance to fiscal discipline as it relates to their children's consumption behavior illuminates how middle-income families are unwittingly fostering an inter-generational cycle of consumer debt dependence. It perpetuates a financial strain for parents into their retirement years, as well as unhealthy debt management practices and behaviors for the next generation, placing a financial burden on children who must now finance more of their own educations and incur larger amounts of debt during and after graduation.

- The competing realities of under-funded retirement programs and the increasing costs of college for their children are a source of tension for Mature Families. The resolution of these competing demands will profoundly influence the timing and quality of life in their future retirement.

Key Findings - Empty Nesters

- While the "Puritan ethos" reigns supreme among this group, it has been largely resisted by their children. This has long-term consequences for Empty Nesters, since they are in their final chapter of preparing for retirement, and yet many of their children are reluctant to terminate financially-dependent relationships.

- Empty Nesters are concerned about social pressures on their children to exceed the standard of living of past generations. These intensifying consumption pressures, together with the desire of Empty Nesters to provide their children with more material "wealth" than they themselves enjoyed as children, have led to the erosion of the very cultural values that they cherish and that have contributed to their current economic comfort.

- Empty Nesters candidly admit that they have not succeeded in their efforts to transmit their traditional values of thrift and self-discipline to their children and grandchildren. Unlike other cohorts, Empty Nesters are self-critical and assign blame to themselves as parents for their lack of fiscal "tough love."

Key Findings – Seniors

- The attitudes and behaviors of Seniors toward saving and consuming are profoundly shaped by their own personal experiences with economic scarcity and macro-economic fluctuations during the Great Depression and World War II. For Seniors, prudent use of credit is emblematic of an honorable personal character. Even though debt levels among Seniors have risen, this group makes a clear association between indebtedness and irresponsibility.

- Seniors remember the community banking environment of their younger years, which delegated considerable authority to community bankers in terms of deciding which applicants were worthy of a loan. Seniors are critical of the “democratization” of credit, which has made more credit more easily available to more people.

- This skepticism makes them distrustful of the modern financial services system, with ramifications that extend to other areas of financial planning. For example, despite amassing large amounts of home equity, seniors are reluctant to refinance their mortgages even if a lower interest rate could save them money.

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