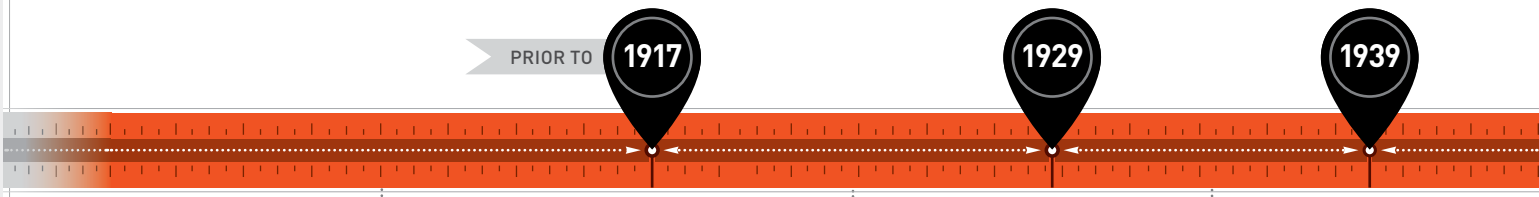
Section 2: Money, the American Way

VIDEO 2.1

A History of Credit and Consumerism

It is impossible to discuss the history of personal finance in America without highlighting the evolution of the credit industry. Think, for a moment, about the most recent commercial you've seen advertising a big ticket item like a new car or new furniture. Do those ads target people who have "budgeted,



1

Credit Prior to 1917

- Before 1917, buying things on credit was not common. Why? Because it had never been legal for lenders to charge interest rates high enough to turn a profit.
- Lending money to others was not a money-making business. Only wealthy people could get personal loans. Without the possibility of profit, lending money to the middle and lower class was not worth the risk.
- Small-time loan sharks (people who offered loans at extremely high interest rates, which was an illegal activity at the time) existed for people in desperate financial positions, but they were shady operations on the fringes of society.
- The highly evolved, highly accepted consumer credit as we know it today did not exist.

2

Credit Takes Root

- After 1920, consumer demand for big-ticket manufactured products was on the rise.
- Credit laws were relaxed in an attempt to create a mainstream, profitable alternative to loan sharks for the working class.
- Installment credit (type of credit that has a fixed number of payments, also known as revolving credit) and legalized personal loans became big business.
- This era made consumer credit legal and more socially accepted.

"In 1917, one popular historian described debt as 'semi-slavery'... (which) existed before the dawn of history, and it exists today."

Debtor Nation: The History of America in Red Ink

3

Leveraging Credit to Escape the Great Depression

- In an attempt to help Americans regain their financial footing, New Deal policymakers came up with mortgage (home loans) and consumer lending policies that convinced commercial banks that consumer credit could be profitable despite bankers' long-held reluctance to lend to the working class.

The New Deal was the legislative and administrative program of President F. D. Roosevelt designed to promote economic recovery and social reform during the 1930s.

Source: *Debtor Nation: The History of America in Red Ink*

saved, and are ready to go make that large purchase"? Or are they more likely to suggest that you "Buy NOW, pay LATER"? Which phrase is more familiar? Sadly, borrowing money is so ingrained in our culture that we can't imagine life without it. So how did we get here? Let's take a look.

1945

1970 TO THE PRESENT

4

WWII Fuels an Economic Recovery

» After the Great Depression, WWII proved to be the most important economic event of the 20th century. The war ended the Great Depression by reviving American industry through government spending and consumption. In short, the economy improved because the war created a ton of new jobs. These jobs provided considerable increase in personal income and led Americans to predict permanent improvements to their standard of living.

"Americans left government-mortgaged homes in installment-financed cars to shop on revolving credit at shopping centers."

Debtor Nation

5

Post World War II Consumerism

» Ah, the birth of the suburbs! The post-war middle class bought the American Dream with consumer credit. Americans "learned" to borrow in the midst of prosperity.

» They borrowed because they believed their incomes would continue to grow into the future . . . and they were right. Incomes rose steadily from 1945 to 1970.

» Financial institutions lent more money, and borrowers paid it back. Borrowing became a post-war normalcy.

"If you will happen to your money, then you will have some. If you just let all your money happen to you, you'll never win."

DAVE RAMSEY

6

The Decline Into Debt: 1970–Present

» After 1970, consumer debt skyrocketed not because people were borrowing more, but because they continued to borrow as their parents had done since WWII. The difference was they didn't have the postwar period's well-paying jobs.

» Banks were willing to lend even more because they were now making huge profits off consumer debt. The credit industry had become smarter than borrowers.

» As consumers borrowed to deal with unexpected job losses and medical expenses, as well as to live "the good life," banks were willing to continue lending.

» Due to the clever structuring of financial institutions, the credit world now resembles the pre-1920s loan sharks more than the 1950s banks.

» In short, an old credit system premised on rising wages and stable employment (low-risk borrower) was reformed to accommodate uncertain employment and income instability (high-risk borrower).

> *"When we participate in what the crowd identifies as normal, even if it is stupid, we gain acceptance into the club. Sometimes we don't even realize what we are doing is stupid because we have been taught that it's just 'the way you do it,' and so we never ask why."*
>
> DAVE RAMSEY

Today's American Reality

Unfortunately, many American families only have the appearance of being financially secure. If you drive through a middle-class neighborhood, you might look at the manicured lawns, nice houses and new vehicles in the driveways and think, *Wow, they're doing all right. I want to live like that when I'm an adult.*

The sad reality is that most of the people in those houses are struggling with debt in the form of mortgages, car loans, student loans and credit cards. Based on statistics, Americans are horrible at saving money and planning for retirement. They are so conditioned to think debt is normal, they can't envision paying cash for a car or even a dining room table! Americans often spend more money than they make. Most Americans don't have an emergency fund. Saving, budgeting, retirement planning and staying out of debt are all basic money principles, not complex economics.

So why aren't Americans better at managing money? They were never taught the right way. As you go through this course, we will focus on teaching you what to do with money and then show you how to do it. Money math is easy. It's controlling your money behavior that's the challenge. As you evaluate the "normal" American family, consider your own financial future.

The fact is, this doesn't have to be your future reality.

» You don't have to spend more _____[8] than you make just to look good in front of your friends. You can learn basic money principles and put them into practice.

» When you manage money well, you'll experience deeper _____[9].

» It's really simple! Personal finance is 80% _____[10] and 20% head knowledge.

» Money _____[11] is easy—it's controlling your behavior that's the real challenge.

» As you think about the "_____[12]" American family, remember that normal is broke. You don't have to be normal!

A Snapshot of the "Normal" American Family

Don't be fooled by outside images of new cars and expensive homes. Most Americans are struggling financially and drowning in debt.

DEBT PROFILE OF THE AVERAGE AMERICAN FAMILY*	
Average Credit Card Debt (of households with credit card debt)	**$15,799**
Average Mortgage Debt	**$149,667**
Average Student Loan Debt	**$32,559**
Average Car Loan Debt	**$13,125**

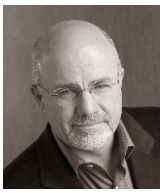
This does *not* have to be your future reality. If you manage money well from the start and make the decision not to use debt as a financial tool, you can avoid the stress of living paycheck to paycheck.

✱ **NOTE:** Average credit card debt of all American households is $7,000, source: Nerd Wallet

*Federal Reserve, U.S. Census Bureau, Internal Revenue Service, manilla.com

Dave's Story

With more than 20 years of experience counseling people on how to manage their money, Dave knows what it takes to get control of your cash.



More than 20 years ago, my wife, Sharon, and I went broke. We lost everything due to my stupidity in handling money, or not handling it, as the case may be. Hitting bottom and hitting it hard was the worst thing that ever happened to me and the best thing that ever happened to me.

We started with nothing, but by the time I was 26 years old, we held real estate worth more than $4 million. I was good at real estate, but I was better at borrowing money. Even though I had become a millionaire, I had built a house of cards. The short version of the story is that debt caused us, over the course of two and a half years of fighting it, to lose everything. We were sued, foreclosed on, and, finally, with a brand-new baby and a toddler, we were bankrupt. Scared doesn't begin to cover it. Crushed comes close, but we held on to each other and decided we needed a change.

Dave's Story *(Continued)*

After losing everything, I went on a quest to find out how money really works, how I could get control of it, and how I could have confidence in handling it. I read everything I could get my hands on. I interviewed older rich people, people who made money and kept it. That quest led me to a really, really uncomfortable place: my mirror. I came to realize that my money problems, worries and shortages largely began and ended with the person in my mirror. I also realized that if I could learn to manage the character I shaved with every morning, I would win with money.

The stuff we teach in this class represents everything I've learned about money since then, from savings and debt, to insurance and investing. And I'm excited that my daughter Rachel has joined me to get this information to you before you graduate high school. Trust me, knowing this stuff then would have saved me a whole lot of trouble!

> *"Today there are three kinds of people: the haves, the have-nots, and the have-not-paid-for-what-they-haves."*
>
> EARL WILSON
> American columnist

What's Your Money Personality?

StageofLife.com conducted a writing contest to evaluate students' attitudes toward money and the role of money in their lives. The following was the contest writing prompt:

> "What is your relationship with money? How do you spend (or save) and why?"

More than 3,335 students from all 50 U.S. states contributed a 500-word essay response. From the essay submissions, several themes emerged:

1. **FRUSTRATION:** Many teens expressed negative emotions about money: anger, frustration, stress, distrust and even hatred.
2. **ROLE MODELS:** Teens are watching how their parents treat money. In several of the essays, the teens made a point to criticize how their parents handle money and vowed not to "be like them."
3. **PRAGMATIC:** There was a minority voice that did approach the topic with a more pragmatic point of view and in some rarer cases, even positivity. Students shared their personal saving tips, budgeting experience and more.
4. **MONEY ISN'T EVERYTHING:** A good percentage of the essays address a more universal truth: that money isn't everything. Yes, it's needed to survive, but it's not a requirement in making people happy.

Americans Are Being Outsmarted

Ultimately, what made our current indebtedness possible was that it became profitable. Yes, a debt system that keeps Americans from achieving wealth and makes us "slaves" to the lender exists because it became a profitable industry. Today, with Americans charging more than a trillion dollars each year on their credit cards, one can understand why the credit card companies are so profitable. There is nothing wrong with a business turning a profit; what's wrong is that these companies are outsmarting Americans. That should bother you!

Why do we allow ourselves to be outsmarted when it comes to our own money?

» We like _____[13]—lots of stuff!

» We are told that debt is _____[14]. It has become acceptable in our culture to use credit to buy things.

» We are taught that we can _____ _____[15]. This is simply not true!

» Our debt system keeps us from building _____[16] because we are constantly giving our money away to pay for things we bought years ago.

» In America, we are bombarded with marketing ads that push us to buy things. "You can buy it today with no money down and no interest for 90 days!" Sound familiar?

» We want you to be _____[17] of the financial condition of our country—and we want you to _____[18] it!

We will talk more about consumerism and debt in later chapters. Right now, our focus is to be aware of the financial "condition" of America and begin to question it.

Teen money attitudes shifted with the recent recession.

- Nine in 10 teens say they were **affected by the recession**.
- Nearly two-thirds of teens (64%) are **more grateful** for what they have.
- The majority (58%) of teens say they are **less likely to ask for things** they want.
- The majority (56%) of teens have a greater appreciation for their **parents' hard work**.
- More than a third (39%) of teens **appreciate their families** more.
- Nearly three-quarters (73%) of teens say it is important to have an **emergency fund**.
- More than half (51%) of teens say it is important to **understand debt**.

CBS Money Watch