

Back to Basics, Continued —Financial Literacy

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This content was published prior to the combination of Dentons Sirote. Learn more about Dentons Sirote.

Society's general economic problems are not a subject for our review here. However, since consumer finance companies' successes are so closely linked to customers' financial wellbeing, it seems appropriate for us to consider the importance of financial literacy of our customers.

Sadly, less than half of the states in the USA require any kind of financial literacy curriculum in high school. This absence of instruction in the use of financial literacy tools certainly contributes to the epidemic of personal bankruptcies in our country. Many echo-boomers have grown up without any real concept of how to address debt.

Another contributor to financial illiteracy—that we can't do much about—includes the impact of medical debt.

But, isn't there a role for financial literacy? It seems to me that it would be good business for our consumers to know the fundamentals of financial literacy. And, a bit of self-promotion couldn't hurt either.

Here are the fundamentals that each consumer borrower may be advised to consider:

- **Budgeting.** Writing out a weekly or monthly budget that includes some margin for error is a key ingredient to being able to responsibly purchase, borrow, and repay.
- **Understanding the Loan Terms.** Every consumer obligation—purchase, lease, or loan—should include a detailed understanding of the repayment obligation. A thorough review of more than just the down payment and the monthly payment is key to understanding the impact of the to-be-created financial obligation on the existing budget.
- **Building Credit.** Consumers can be helped to understand how undertaking and timely repaying credit obligations helps build one's credit availability. This concept not only makes more credit available for more significant undertakings in the future but also makes that future credit less expensive.
- **Avoiding Debt Traps.** There are serious traps involved in borrowing money. Two such traps include (i) making only the minimum credit card repayments, and (ii) not or infrequently reducing the principal on borrowed money. Both are traps and should be avoided.
- **ID Theft and Safety.** Today, more than ever, failure to protect one's financial records can result in serious economic fall-out. Keeping passwords private and making a wise choice as to whom one allows to assist in making financial decisions are two fundamental tips.

There is a role to be played by consumer finance companies in advancing financial literacy. Of course, it is not our role or responsibility to give advice where none is requested, nor should we impose our value system on another. However, offering financial literacy tips from time to time is appropriate and can be meaningful.

Please note: This is the ninetieth blog in a series of *Back to Basics* blogs, in which relevant and resourceful

information can be easily accessed by clicking here.

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