The Effect of Bankruptcy Counseling and Education on Debtors' Financial Well-Being: Evidence from the Front Lines

May 2008

Dr. Angela C. Lyons
Associate Professor, Department of Agricultural and Consumer Economics
University of Illinois at Urbana-Champaign

Tommye White
Senior Director of Education Support Services
Money Management International

Shawn Howard
Lead Business Analyst
Money Management International

Acknowledgements

The authors graciously acknowledge assistance from Money Management International, Inc. (MMI). We were privileged to work with a truly dedicated group of individuals. Specifically, we thank Ivan Hand (President and CEO), Chuck Stanley (Senior Vice President of Client Education and Counseling), Jim Triggs (Vice President of Counseling Contact Centers), Don McGee (Vice President of Information Technology), Mary Jane Butler (Director of Education Program Development and Training), Rick Dobson (Vice President of Education New England Region), and Mel Stiller (Senior Vice President of Education, Development and Community Relations). Without their support this research would not have been possible. We also wish to thank the following individuals for valuable comments and consultation: E. Thomas Garman (Personal Finance Employee Education Foundation), Karen Gross (Southern Vermont College), Jeanne Hogarth (Board of Governors of the Federal Reserve System), Robert Hunt (Federal Reserve Bank of Philadelphia), Jean Lown (Utah State University), Sherrie Rhine (Office of the Comptroller of the Currency), Michael Staten (University of Arizona), and Jing Xiao (University of Rhode Island). Finally, we want to recognize the many counselors and educators at MMI who dedicated their time to make this project a success. These individuals are on "the front lines" every day helping debtors to overcome their financial challenges and make wiser, more knowledgeable financial decisions.

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Please direct all correspondence regarding this report to Dr. Angela Lyons (phone: 217-244-2612; email: anglyons@illinois.edu).

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Executive Summary

The Bankruptcy Abuse Prevention and Consumer Protection Act (BAPCPA) was passed by Congress in 2005. The legislation includes two educational provisions. First, debtors are now required to complete an approved credit counseling session prior to filing for bankruptcy. After filing for bankruptcy, they are then required to complete an approved financial education course before they are able to discharge their debts. These requirements were adopted to ensure that consumers were able to make an informed choice about bankruptcy, its alternatives, and consequences. They were also included to provide debtors with the financial skills necessary to better manage their money and avoid future financial problems.

In 2006, Money Management International, Inc. (MMI) launched a multi-phase research study to measure the educational value of its bankruptcy counseling and education services. The study was motivated by the following research questions:

- Does bankruptcy counseling and education increase debtors' level of financial knowledge?
- Does bankruptcy counseling and education assist debtors in improving their financial behaviors?
- Do debtors benefit from both the counseling and education requirements? Or, does one requirement appear to be more effective than the other?

To provide insight into these questions, MMI collected quantitative and qualitative data from clients who participated in its telephone bankruptcy counseling and education courses. Between July and December 2006, pre- and post-tests were administered to measure changes in clients' financial knowledge, current and intended behaviors, and overall satisfaction with the counseling and education. Clients were also asked about their current financial situation, the reasons for their financial problems, and the steps or actions they were planning to take to better manage and improve their finances. Overall, the findings show that debtors' financial knowledge and behavioral awareness and intentions improved as a result of both the counseling and education.

Specifically, debtors who participated in MMI's counseling session and education course experienced statistically significant gains in financial knowledge. On average, counseling participants scored 74.9% on the pre-test and 86.0% on the post-test for a net gain in knowledge of +11.1%. Education participants, on average, scored 80.3% on the pre-test and 85.5% on the post-test for a net gain in knowledge of +5.1%. The overall percentage increases in knowledge were 14.8% for counseling and 6.5% for education. Larger gains in knowledge for the education course were found for questions related to credit use and debt management, while smaller gains were found for questions related to more basic concepts such as financial goal setting and budgeting.

With regards to financial behavior, debtors were asked to report how often they engaged in a series of positive financial practices such as setting financial goals, saving money regularly, tracking income and expenses, paying bills on time, reviewing bills for accuracy, comparison shopping, organizing financial records, and establishing good credit. On average, there was little change in debtors' behavior pre- and post-counseling and pre- and post-education. This was not surprising since one would not have expected to see large and immediate changes in behavior following a 60- to 90-minute counseling session or a two-hour debtor education course. Debtors needed time to actually implement and change their behaviors. Some were also constrained by their financial situation and unable to implement behaviors because they had not yet discharged their debts and were still under court supervision.

With this said, debtors were found to be in the stages of *preparation* and *action* throughout the entire counseling and education process, which indicates that they were at a "teachable moment" where they were open to financial information and ready and willing to change their financial behaviors. In addition, debtors were closer to implementing financial behaviors that were not as dependent on their financial situation or the bankruptcy process.

Two additional findings emerged when changes in specific behaviors were examined, not at the sample means, but across individual stages of behavior. First, some debtors reported on the pre-test that they were “not planning to do” the financial behaviors. However, as a result of the counseling and education they became aware of their behaviors and realized they needed to change. On the post-test, these debtors reported that they were “planning to do” the behaviors. Other debtors indicated on the pre-test that they “had [already] been doing” the financial behaviors. However, on the post-test, they reported that they were now “planning to do” the behaviors. Supporting evidence revealed that some of these debtors were simply indicating their commitment to continuing their behaviors after the counseling and education. Other debtors thought they had been doing the behaviors beforehand, but realized by the end of the counseling and education that they actually had not been doing them.

Qualitative data further revealed that the counseling and education likely had a positive impact on debtors' knowledge and behavioral awareness and intentions. Debtors' responses to open-ended questions reflected the key financial concepts covered during the counseling and education. Also, debtors were very specific about the steps and actions they were planning to take to improve their financial situation, indicating their readiness and willingness to change their behaviors.

In the end, over 94.0% of debtors felt that their overall ability to manage their finances had improved as a result of the counseling. Over 98.0% of debtors felt that their overall ability to manage their finances had improved as a result of the education. The evidence suggests that debtors' financial literacy improved as a result of the counseling. Moreover, even after participating in the counseling, debtors' financial literacy continued to improve as a result of the education.

These findings have important legislative and educational implications. From a legislative perspective, the results provide insight into whether the counseling and education requirements are serving their intended purpose of helping debtors to make an informed choice about their bankruptcy options. From an educational perspective, the results shed light on whether these requirements are helping to improve debtors' overall financial literacy.

This study suggests that the current course requirements be revisited and that a more specialized and contextualized curriculum be considered for bankrupt families that helps them to better recover from bankruptcy and achieve long-term financial security. This could be a “fresh start” program that helps them better deal with their most immediate financial concerns such as rebuilding credit, checking and monitoring credit reports and credit scores, comparing credit offers, using credit more wisely, avoiding predatory lending practices, and being financially prepared for the unexpected. There could also be an opportunity to provide more tailored types of education to debtors based on their specific financial situation and their main reasons for filing for bankruptcy. Finally, opportunities may exist to follow-up with debtors after the bankruptcy process and provide them with additional financial counseling or “financial coaching.” Specifically, counselors and educators could assist debtors in actually changing their behaviors by helping them to set personalized financial goals and providing them regular motivation and stimuli for achieving those goals.

The Effect of Bankruptcy Counseling and Education on Debtors' Financial Well-Being: Evidence from the Front Lines

Introduction

In recent years, Americans have faced a number of financial challenges. In 2001, total consumer debt outstanding was $1.8 trillion. It rose to $2.5 trillion in 2007.[1] Revolving debt, which is largely comprised of credit card debt, went from $721 billion in 2001 to $941 billion in 2007. For the average household, the mean amount of credit card debt rose 16% between 2001 and 2004, while the mean amount of home-secured debt rose 27% (Bucks, Kennickell, & Moore, 2006). A consequence of rising debt burdens has been the recent mortgage crisis, which has resulted in rising delinquency and foreclosure rates. In fact, foreclosure proceedings were initiated on approximately 1.5 million homes in 2007, up 53% from 2006 (Bernanke, 2008).

Record levels of consumer debt coupled with rising delinquency and foreclosure rates in the mortgage markets are signs that a large number of U.S. households are severely overextended. Many families are not adequately prepared to deal with their financial problems. The result is that a large number of Americans have been unable to meet their debt obligations and have turned to bankruptcy as a last resort. In 2004, over 1.5 million Americans filed for bankruptcy. The number of personal bankruptcy filings exceeded 2 million in 2005.[2]

Credit counseling has long been considered the best alternative to filing for bankruptcy (Lown, 2005).[3] For over 50 years, consumer credit counseling service organizations have been assisting consumers in dealing with their financial problems.[4] These agencies offer credit counseling and general financial education services for free or at a nominal cost to debtors. They also offer debt management plans (DMPs), where the credit counseling agency negotiates a repayment plan with creditors on behalf of the consumer.[5]

The credit counseling industry has grown rapidly since the early 1990s. This should not be surprising given the economic climate of recent years and the increase in the use of credit cards and other types of unsecured credit. However, along with rapid growth, the industry has also experienced increased scrutiny from Congressional committees, federal agencies, state governments, and consumer advocacy groups. Critics have alleged that some credit counseling agencies are engaging in aggressive and abusive business practices, misusing their non-profit status and charging consumers excessive fees.[6] These allegations include steering consumers into debt management plans (DMPs) that benefit counseling agencies but not necessarily debtors.

Despite these recent criticisms, the Federal Trade Commission and others have noted "that many credit counseling agencies operate honestly and fairly and that these agencies are professional operations that provide valuable

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[1] The Federal Reserve Board, Statistics: Releases and Historical Data, G.19 Consumer Credit. Retrieved April 16, 2008, from http://www.federalreserve.gov/releases/g19/.
[2] Note that the large number of filings in 2005 was partially due to an increase in the number of debtors who wanted to file bankruptcy before the provisions of the Bankruptcy Abuse Prevention and Consumer Protection Act (BAPCPA) went into effect in October 2005 (Lown, 2008). The number of filings dropped off in 2006, but has since risen. For more information, see American Bankruptcy Institute, Bankruptcy Statistics, U.S. Bankruptcy Filings 1980-2007. Retrieved April 16, 2008, from http://www.abiworld.org/.
[3] Loonin and Plunkett (2003) estimated that about 9 million debtors sought out assistance from consumer credit counseling agencies in 2002.
[4] See Hunt (2005) for a general overview of the history of the consumer credit counseling industry.
[5] Under a DMP, the consumer pays off their unsecured debts by making a single, consolidated payment each month to the credit counseling agency. The agency, in turn, distributes the payment to the consumer's creditors. It typically takes a consumer three-to-five years to repay their debts under a DMP. The benefit of being on a DMP is that creditors often agree to lower a consumer's interest rates or waive certain fees as long as the consumer remains on the DMP. The cost of being on a DMP is that a small percentage of the consumer's monthly payment goes toward helping the agency cover its expenses. While a DMP is not appropriate for all debtors, it can provide a viable alternative to bankruptcy for those who can still afford to make payments.
[6] See Loonin and Plunkett (2003) for a discussion of some of the alleged practices within the industry.

services to financially distressed consumers" (U.S. Government Accountability Office, 2007, p. 8). Educators have also noted that credit counseling agencies provide a valuable educational service to debtors. These agencies help consumers analyze their financial situation and the factors that have led to their current financial problems. They also assist consumers in budget analysis and long-term financial planning, which help consumers reduce the risk of financial problems in the future.

In 2005, Congress passed the Bankruptcy Abuse Prevention and Consumer Protection Act (BAPCPA).[7] The law mandates two educational provisions. First, debtors are now required to complete a credit counseling session from an approved provider within 180 days prior to filing for bankruptcy. After filing for bankruptcy, they are then required to complete an approved financial education course before they are able to discharge their debts. According to the legislative history of the Act, these requirements were included to ensure that consumers were able to make an informed choice about bankruptcy, its alternatives, and consequences (U.S. Government Accountability Office, 2007). They were also included to provide debtors with the financial skills necessary to better manage their money and avoid future financial problems.

While the new legislation has its supporters, it also has its opponents. Critics of the legislation have been concerned that the counseling and education requirements could expose consumers to abusive practices by credit counseling agencies. The costs and availability of the services also could create barriers to filing for bankruptcy.[8] BAPCPA requires that counseling and education providers go through a formal approval process where they must meet certain minimum standards. The standards help to ensure that providers are adequately qualified and are not engaging in abusive practices. The Act also appoints the U.S. Department of Justice's Trustee Program as the government agency responsible for developing, implementing, and overseeing the standards and guidelines set for all providers.[9] In a recent report, the U.S. Government Accountability Office (2007) reviewed Trustee Program data and application case files. It also interviewed a wide range of individuals and groups involved in the bankruptcy process. It found that credit counseling and debtor education providers were competent and largely compliant with statutory and program requirements set forth by the U.S. Trustee Program.

The U.S. Government Accountability Office (2007) also found that those involved in the bankruptcy process generally believed that the education requirement was beneficial to debtors and was helping them to improve their financial literacy. Beliefs about the value of the counseling requirement were not as clearly defined. The purpose of the counseling was to help consumers make informed choices about bankruptcy and its alternatives. Interviews and anecdotal evidence suggest that most debtors who were participating in the counseling were already in serious financial trouble and the vast majority had little choice but to file for bankruptcy. However, it is important to acknowledge that these findings were primarily based on testimonies rather than empirical research. To date, little is still known about the effectiveness of the counseling and education requirements.

The Bankruptcy Act mandates that the U.S. Trustee Program test and evaluate the effectiveness of a pilot debtor education curriculum.[10] The legislation, however, does not require the Trustee Program to complete an assessment

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[7] For complete details on BAPCPA, see the Administrative Office of the United States Courts (2006), the United States Bankruptcy Code (2006), and the United States Trustee Program (2008a).

[8] A recent investigation by the U.S. Government Accountability Office (2007) found little evidence that credit counseling providers discouraged clients from filing for bankruptcy. Moreover, very few clients appeared to be entering into debt management plans (DMPs) administered by these agencies. The National Foundation for Credit Counseling (2006b) reported that fewer than 4.0% of debtors who turned to NFCC agencies for bankruptcy counseling opted to enroll in a DMP instead of filing for bankruptcy.

[9] The U.S. Trustee Program is responsible for overseeing and regulating bankruptcy counseling and education for all states in the U.S. except North Carolina and Alabama. These two states report to the Administrative Office of the United States Courts (AOUSC). For simplicity, we refer only to the U.S. Trustee Program as the agency responsible for the oversight and administration of the education requirements. Note that the U.S. Trustee Program asked the RAND Corporation for assistance in investigating how it should go about developing criteria for measuring the effectives of bankruptcy counseling services and determining which agencies to approve as counseling providers (Clancy & Carroll, 2007). The authors are unaware of any requests that may have been made to RAND, or another contractor, to conduct a similar investigation of bankruptcy education services.

[10] The Executive Office for U.S. Trustees (EOUST) is scheduled to release a report on the effectiveness of its debtor education curriculum this year.

of the credit counseling. A complete evaluation that documents the financial outcomes and educational value of both requirements is needed. Growing numbers of consumers continue to struggle financially and turn to bankruptcy, and there is a need to learn more about the effectiveness of these requirements and whether they are serving their intended purposes.

In October 2005, Money Management International, Inc. (MMI) was approved by the Executive Office for U.S. Trustees (EOUST) to provide both bankruptcy counseling and education.[11] MMI is currently the largest nonprofit, full-service credit counseling agency in the U.S. Since 1958, MMI has provided a wide range of services to consumers to assist them in finding the tools and solutions they need to better manage their finances and achieve long-term financial security. MMI's services include credit counseling, community-wide educational programs, debt management assistance, bankruptcy counseling and education, and housing counseling and education. These services are provided to consumers via telephone, Internet, and in person. It is estimated that in 2006 alone MMI provided bankruptcy counseling to approximately 158,000 debtors and bankruptcy education to over 47,000 debtors.

In 2006, MMI launched a multi-phase research study to evaluate the impact of its bankruptcy counseling and education services. The long-term goal of the project was to measure the *educational value* of MMI's bankruptcy courses by tracking debtors through both the counseling and education and then following up with them at a later date. Phase I of the project was to evaluate the educational impact of MMI's *telephone* courses. Note that in this initial phase MMI did not link debtors' counseling and education information. This linkage is currently being done in Phase II of the project which tracks debtors through MMI's *online* bankruptcy counseling and education and follows up with them in three to six months. This paper presents the results from Phase I only.

Phase II is still underway. The findings for Phase II will be presented in a future research paper.

The motivation for MMI's study began with the following research questions:

- Does bankruptcy counseling and education increase debtors' level of financial knowledge?
- Does bankruptcy counseling and education assist debtors' in improving their financial behaviors?
- Do debtors benefit from both the counseling and education requirements? Or, does one requirement appear to be more effective than the other?

To provide insight into these questions, MMI collected both quantitative and qualitative data from clients who participated in both its bankruptcy counseling and education. The findings from Phase I show that MMI's telephone courses are helping to improve debtors' financial outcomes and in turn their likelihood of long-term financial success. Specifically, the results show that debtors who participated in MMI's telephone counseling session experienced significant gains in financial knowledge. The debtors also showed improvement in their behavioral awareness and behavioral intentions. Significant knowledge gains and behavioral improvement were also found for those who participated in MMI's telephone education course. It would appear that debtors' financial literacy improved as a result of MMI's counseling session, and even after participating in the counseling, their financial literacy continued to improve in the education course.

These findings have important implications for researchers, policy makers, legal professionals, financial educators, and consumers. From a legislative perspective, the results provide insight into whether the counseling and education requirements are serving their intended purposes. From an educational perspective, they provide valuable insight into how these requirements are helping to improve debtors' overall financial literacy and thus overall financial security.

The remainder of this paper is organized as follows. The next section presents the literature review, followed by a description of the counseling and education, the data collection procedures, and the evaluation methods. The results for both the bankruptcy counseling and education are then presented. The final section summarizes the results, the lessons learned, and the implications for policy, education, and future research.

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[11] The mandatory bankruptcy counseling and education courses must be obtained from an approved provider by the U.S. Department of Justice's U.S. Trustee program (United States Trustee Program, 2008b). A list of approved providers can be accessed online at http://www.usdoj.gov/ust/eo/bapcpa/ccde/index.htm.

Literature Review

A substantial body of research has examined the impact that financial education has on consumers' financial knowledge, attitudes, and behaviors. For an overview of the general literature on the impact of financial education, see Lerman and Bell (2005), Braunstein and Welch (2002), Fox, Bartholomae, and Lee (2005), Hilgert, Hogarth, and Beverly (2003), Hilgert, Hogarth, and Beverly (2003), Hogarth, Beverly, and Hilgert (2003), Lyons (2005), Lyons and Neelakantan (2008), Lyons, Palmer, Jayaratne, and Scherpf (2006), National Endowment for Financial Education (2004, 2006), and U.S. Government Accountability Office (2004). While the results have been somewhat mixed, the research tends to show that financial education results in positive financial outcomes (Lyons & Neelakantan, 2008).

Since the late 1990s, there has been considerable discussion in the legal profession about whether bankruptcy reform legislation should include provisions that require debtors to complete some type of credit counseling and debtor education – in other words, some type of financial education (Dickerson, 1999; Gross, 2003; Hoffman, 1999; Stehl, 1999). Early discussions often advocated for the exclusion of these provisions due to what the legal profession perceived to be undue "administrative and financial hardship" on the debtors. As previously noted, there also were concerns about potential consumer abuses within the credit counseling industry (Dickerson, 1999; Hoffman, 1999; Stehl, 1999). Dickerson (1999, p. 947) stated the following:

> *What if, as many argue, debtors find themselves unable to pay their bills for reasons that have little to do with their knowledge, or lack thereof, of the true cost of credit? For example, what if most debtors who paid their bills understood how credit works and paid their debts on time until they lost their jobs, found that they could not collect court-ordered child support, or incurred unexpected, catastrophic, uninsured medical expenses? A generally responsible, but suddenly under- or unemployed debtor who files for bankruptcy to discharge credit card debts incurred to pay for expenses reasonably necessary to support a family does not need to be taught how to use credit responsibly. The debtor needs a new or better paying job. Likewise, a debtor who files for bankruptcy to discharge massive medical bills does not need to learn how to live within a budget. The debtor needs health insurance.*

Many of these types of arguments were made and most were speculative in nature. In fact, very few were based on hard empirical evidence. With this said, some of the speculation was well-founded since proposed bankruptcy legislation consistently left out important details as to how credit counseling and debtor education standards would be developed, implemented, and regulated. Also, it was not clear from the legislation what would be taught, who would teach it, how the programs would be administered, when they would be administered, and who would bear the costs (Gross, 2003).

In the aftermath of September 11th, 2001 discussions related to proposed bankruptcy reform legislation stalled. It was not until 2003 that bankruptcy legislation, which again called for mandatory counseling and education, was reintroduced (Braucher, 2003). At this point, published research on the impact of credit counseling and debtor education was still scarce. There was little empirical evidence to support one way or the other whether credit counseling and debtor education would be beneficial to bankruptcy filers. However, a few studies were beginning to emerge.

Impact of Credit Counseling

Within the consumer credit counseling industry, researchers were documenting the impact of credit counseling on debtors' overall financial well-being. Note that this research focused on debtors in general and not on bankruptcy filers. One line of research used data collected from a credit counseling agency to examine the factors associated with debtors' financial behaviors and the effects that those financial behaviors had on financial stress and satisfaction levels (e.g., Kim, Garman, & Sorhaindo, 2003; Xiao, Sorhaindo, & Garman, 2006; Xiao & Wu, 2006a). Xiao, Sorhaindo, & Garman (2006) found that positive financial behaviors tended to reduce financial stress and increase financial satisfaction for credit counseling clients. They further showed that debtors who used credit counseling services tended to be more concerned about behaviors that were related to debt management and budgeting while they were less concerned about behaviors related to savings, investments, and future consumption. This finding suggests that there may be a hierarchical nature to the behavioral needs of certain debtors (Bailey, Sorhaindo, & Garman, 2003; Xiao, Sorhaindo, & Garman, 2006). In a similar study, Kim, Garman, and Sorhaindo (2003) found that credit counseling and financial behaviors contributed to improvements in clients' health and overall well-being. They did not, however, find a strong link between credit counseling and changes in debtors' financial behaviors. Rather than state that credit counseling was ineffective, they argued that effective credit counseling and financial education programs needed to take place over time where there was repeated and regular contact with debtors. In a more recent study, Xiao and Wu (2006a) used data from a sample of credit counseling clients who were on debt management plans (DMPs). They found that debtors' intentions to stay on a DMP and reduce their debts were positively associated with their satisfaction with credit counseling services, their attitudes toward staying on the DMP, their perceptions of whether others approved or disapproved of them staying on the DMP, and their intentions and perceived ability to complete the DMP.

While these findings provide insight into the impact of credit counseling, they are based on cross-sectional data from credit counseling clients collected at a single point in time. Thus, the researchers are only able to show relationships and correlations between various factors. They are unable to directly test the causal link between credit counseling and improved financial behaviors. To date, only a couple of studies have been able to track debtors over time and see if credit counseling has helped them to improve their financial behaviors, and in particular, their credit management practices. Staten, Elliehausen, and Lundquist (2007) tracked credit counseling clients from agencies that were affiliated with the National Foundation for Credit Counseling (NFCC) and found that those who received counseling were able to reduce their debts, improve their credit card management, and lower their delinquency rates by more than those who did not receive counseling. Hartaska and Gonzalez-Vega (2005) used data collected from clients of a consumer credit counseling service (CCCS) in Ohio to explore the effect that credit counseling had on mortgage decisions, and in particular, prepayment and default.[12] The CCCS offered housing counseling to a sample of low-to-moderate income individuals who were identified by a major bank as qualifying for a special mortgage loan offer. They found that the default hazard was lower for those who completed the counseling than for those who did not complete the counseling. Moreover, counseled debtors exercised more optimally their default option, primarily because the value of their house was typically less than the value of their outstanding balance. Hartaska and Gonzalez-Vega (2005) also found that the prepayment hazard was higher for counseled debtors. However, in this case, the prepayment behavior was not more optimal. Overall, studies conducted by Staten, Elliehausen, and Lundquist (2007) and Hartaska and Gonzalez-Vega (2005) provide evidence that credit counseling is likely to have a positive impact on debtors' financial behaviors. However, neither of these studies specifically investigates the link between credit counseling and financial outcomes for bankruptcy filers.

Impact of Debtor Education

Historically, the legal profession has been more in favor of a debtor education requirement than a credit counseling requirement. In fact, it was anticipated early on that some form of debtor education would eventually be passed into legislation and required of all bankruptcy filers. For this reason, existing studies related to the impact of debtor education have been more focused on measuring the value of financial education for bankruptcy filers. Also, researchers have tended to use more formal program evaluation methods (i.e., pre- and post-tests) and more educationally-based outcome measures (i.e., knowledge, attitude, and behavior indicators).

In the late 1990s, the Coalition for Consumer Bankruptcy Debtor Education, a small non-profit organization in New York (now called the Coalition for Debtor Education), developed a debtor education curriculum and began training individuals to teach its program (Block-Lieb, Baron-Donovan, Gross, & Wiener, 2004; Baron-Donovan, Wiener, Gross, & Block-Lieb, 2005; Block-Lieb, Gross, & Wiener, 2002; Gross, 2003; Gross & Block-Lieb, 2005; Wiener, Baron-Donovan, Block-Lieb, & Gross, 2005). The Coalition launched a two-year pilot study which had two objectives. The first objective was to assess the benefits that debtors received from the program. The second objective was to evaluate the effectiveness of the training program and whether volunteers from a wide range of backgrounds could be effectively trained to teach debtor education.

The first part of the study used a quasi-experimental design consisting of one experimental group (debtors receiving education) and two comparison groups (non-debtors and debtors not receiving education). Pre- and post-tests were

[12] Other studies have found a link between housing counseling and lower delinquency and default rates (e.g., Delgadillo & Green Pimentel, 2007; Hirad & Zorn, 2001; Quercia & Wachter, 1996). However, these studies were not as directly linked to consumer credit counseling services as the study by Harkaska and Gonzalez-Vega (2005).

administered to the samples. There was about a three-month delay between the pre- and post-tests, because the researchers felt they would be able to better assess individuals' ability to retain, implement, and maintain changes in knowledge, attitudes, and behavior if they allowed some time to pass. The findings revealed that debtor education participants experienced positive gains in financial knowledge and positive improvements in financial attitudes and behaviors. However, this analysis was limited in that participation in the debtor education program was voluntary so that researchers were unable to randomly assign debtors to control and treatment groups. Also, the number of individuals who completed and returned both pre- and post-tests was small (i.e., 148 out of 417 trained debtors, 105 out of 146 non-debtors, and 170 out of 304 untrained debtors). Finally, the three-month delay between the pre- and post-tests made it difficult to conclude that changes in knowledge, attitudes, and behaviors were due to the completion of the program. It is possible that other external factors over this time period affected the results.

To assess the training program, three different evaluation methods were used. Researchers used focus groups and pre- and post-tests to measure changes in volunteers' financial knowledge and attitudes. They also observed trained instructors in action as they taught the program to the debtors. The goal was to determine whether the training program provided instructors with adequate financial knowledge and teaching methods to effectively assist debtors in understanding and implementing key personal finance concepts. The findings showed that the training had adequately prepared volunteers from a wide range of backgrounds to effectively teach debtor education. Note, however, that the focus of this part of the study was on improving "instructional quality" and not on measuring the actual "educational value" of the program itself.

Aside from the work of the Coalition, there have been only a few other studies that have measured the impact of debtor education programs. These studies have focused on programs that target debtors who have filed Chapter 13 bankruptcy and set up repayment plans (e.g., Braucher, 2001; Braucher, 2003; Gross, 2003; Loibl, Hira, & Rupured, 2005). The most well-known Chapter 13 debtor education program is perhaps that of the Trustee's Educational Network (TEN) (Braucher, 2001; Braucher, 2003; Gross, 2003). Braucher (2001) attempted to measure the impact of the TEN program on debtors' ability to complete their Chapter 13 repayment plans. Specifically, she collected information on the completion of repayment plans from debtors who filed bankruptcy in Chapter 13 trusteeships that provided a mandatory debtor education course. She then compared the completion rates to those who filed bankruptcy in Chapter 13 trusteeships that did not provide the education course. She found that debtors in trusteeships that provided education completed their plans at a higher rate than those in trusteeships that did not provide education – 41.9% compared to 29.6%. Unfortunately, she was unable to conclude with certainty that the debtor education contributed to plan completion. She noted that local practices and strategies likely had an impact on completion rates (e.g., wage garnishment, administrative fees, moratoriums, regional differences in debtors' characteristics and attitudes toward debt repayment and bankruptcy) (Braucher, 2001, 2003).

In a more recent study, Loibl, Hira, and Rupured (2005) used data collected from first-time and repeat bankruptcy filers who participated in a Chapter 13 debtor education program in Georgia. The objective was to examine the factors that affected debtors' likelihood of completing a Chapter 13 repayment plan and see if there were differences between first-time and repeat filers. They found that repeat filers were more likely to engage in positive financial management practices than first-time filers such as starting an emergency fund, reducing spending, and writing a spending plan. Also, eight financial knowledge questions were used to construct a financial knowledge score for each participant. Based on these scores, they found little evidence that an increase in financial knowledge affected the likelihood of completing a repayment plan. However, it was questionable whether some of the items on the financial knowledge test were really testing personal finance subject matter. Also, this study was limited in that participation in the program was voluntary and the analysis was conducted on very small and select sample sizes, indicating potential selection bias.

Current State of Evaluation

Overall, the general consensus from the literature is that counseling and education are likely to have an impact on the financial outcomes of debtors and bankruptcy filers. However, it is important to acknowledge that the findings are still far from conclusive. In 2005, legislation was finally enacted that mandated credit counseling and debtor education for all bankruptcy filers. It is now 2008 and little is still known about the actual impact of these programs (e.g., Clancy & Carroll, 2007; Lown, 2008). In fact, researchers, legal professionals, policy makers, and consumer advocacy groups continue to debate whether the counseling and education requirements are useful to potential bankruptcy filers. Given the previous history of the consumer credit counseling industry, there is still skepticism about whether the counseling services and educational programs being offered by these agencies can effectively benefit potential filers. The concerns are intensified by the fact that the majority of bankruptcy counseling and education services are currently being provided by the credit counseling industry.

A recent study by Thorne and Porter (2007) attempted to provide insight into the impact that the new counseling and education requirements may be having on the financial well-being of bankruptcy filers. Thorne and Porter used data collected from families that filed bankruptcy before the law required credit counseling and financial education to examine bankrupt families' attitudes toward, and need for, financial education. Specifically, they asked bankrupt families whether taking a money or debt management course would have helped them avoid bankruptcy. Over half of the respondents (54.5%) reported that a financial management course would have helped them avoid bankruptcy, suggesting that a large percentage of bankruptcy filers may be finding value in the new mandatory counseling and education requirements. However, even this study is speculative in nature.

In an attempt to quantify some of the impacts of the new law, the National Foundation for Credit Counseling (2006b) surveyed its member agencies that had been approved to provide bankruptcy counseling and education. The NFCC reported that some of its members had administered pre- and post-tests to debtors who participated in bankruptcy counseling and education sessions. These agencies reported that counseling clients had experienced positive gains in knowledge and improvements in satisfaction levels, attitudes, and behavioral intentions. Unfortunately, the report does not provide information on the number of agencies who administered the surveys, the evaluation methods used, the survey content, and whether the agencies used similar outcome measures to capture gains in knowledge, attitudes, and behaviors. Given this, it is not possible to assess the quality of the NFCC's reported findings. The NFCC called for more evaluative research that measures the educational value of the bankruptcy counseling and education.

To the best of our knowledge, we do not know of any studies that have attempted to formally evaluate the current educational impact of both the bankruptcy counseling and education requirements. This study addresses this critical gap in the literature and helps to lay a foundation for future research in this area.

MMI's Bankruptcy Counseling and Education

In late 2005, MMI began offering bankruptcy counseling and education using two different delivery methods – in-person and telephone, with its main delivery method being telephone. A research study was launched in early 2006 to evaluate the educational impact of its bankruptcy counseling and education courses. Initially, the long-term goal of the project was to track debtors through both the telephone counseling and education and then follow up with them in three to six months. However, in July 2006, MMI released online versions of its bankruptcy counseling and education courses. The result was that the Internet quickly replaced telephone as MMI's main form of delivery.

The unanticipated addition of the online courses resulted in this research study evolving into a multi-phase project. Phase I of the project evaluates the educational impact of MMI's telephone courses while Phase II evaluates the impact of its online courses. This paper presents the results from Phase I. Phase II is ongoing.

Description of Counseling and Education

To participate in a telephone bankruptcy counseling session, debtors dialed a designated toll-free number and spoke to an MMI representative. After gathering some basic contact information, the clients were then transferred to trained and certified credit counselors, or they were scheduled for an appointment at a later time.[13] Sessions typically lasted 60 to 90 minutes. During the calls, the trained counselors worked one-on-one with the debtors to help them conduct a detailed assessment of their personal financial situations. Specifically, the counselors worked with the clients to conduct a budget analysis of their income, expenses, assets, and liabilities. Several personal finance concepts were covered during a typical session including: (1) financial goal setting, (2) budgeting and tracking expenses, (3) gross versus net income, (4) fixed and variable expenses, (5) priority versus non-priority expenses, (6)

[13] The fee for the pre-filing bankruptcy counseling session was $50.00. The $50.00 fee was for either a single filer or joint filers if both attended the session at the same time. MMI waived the fee for debtors whose household income was equal to or less than 150% of the estimated poverty threshold for their applicable family size as published in the current Federal Poverty Levels Guidelines.

assets and liabilities, (7) net worth and savings, (8) secured versus unsecured loans, (9) keeping adequate financial records, and (10) debt management strategies. Upon completion of the bankruptcy counseling, the clients were issued certificates of participation. These certificates allowed them to proceed with the bankruptcy process, if elected, which meant they could file for bankruptcy.

After filing for bankruptcy, the debtors were then required to participate in a mandatory bankruptcy education course. According to the guidelines set by the U.S. Trustee Program, an approved bankruptcy education course is required to last a minimum of two hours in length and has to cover the following general topics: (1) budget development, (2) money management, (3) wise use of credit, and (4) consumer information.[14] To ensure compliance, MMI designed a two-hour comprehensive course that included all of the personal finance topics required by the U.S. Trustee Program. The topics covered during a typical bankruptcy education course included, but were not limited to, the following: (1) financial goal setting, (2) budgeting and tracking expenses, (3) gross versus net income, (4) fixed, variable, and periodic expenses, (5) keeping adequate financial records, (6) comparison shopping, (7) insurance, (8) savings plans and emergency funds (9) types of credit and costs of credit, (10) wise use of credit, (11) credit reports and credit scores, (12) establishing or re-establishing credit, and (13) consumer rights and protection as related to credit records, identity theft, and other consumer fraud issues.

The bankruptcy education course was set up in a conference call format, where debtors would register for the course on a particular day and time and then would call in using a toll-free number.[15] The number of participants on a call typically ranged from 20 to 50, and never exceeded 60. Courses were offered at various times and on various days throughout the week, including evenings and weekends, to provide easy access to all debtors. Prior to the call, participants were mailed a set of instructional materials that included two financial education workbooks titled *Understanding Money and Credit* and *Your Credit Report*. The workbooks were designed for use during the conference call and afterwards for continued self-study.

On the day of the course, participants called in and were greeted by at least one trained instructor, who was responsible for delivering the program and facilitating the conference call. At the beginning of each call, the instructor would take attendance. Participants who were more than ten minutes late were informed by the instructor that they would have to leave the call and re-register for the course. This ensured that all participants met the two-hour requirement set by the U.S. Trustee Program. During the call, participants were asked to listen in and follow along with their workbooks as the instructor covered all of the required financial topics. For smaller classes, participants were allowed to ask questions throughout the course. For larger classes, participants were permitted to ask questions at designated times. Participants were given the instructor's contact information at the end of the call, in case they had questions later on about the course content. After completing the course, debtors were issued a certificate of participation for the education, which allowed them to proceed with the bankruptcy discharge.

Data Collection

Both quantitative and qualitative data were collected from debtors who participated in MMI's bankruptcy counseling and education courses. Between July and September 2006, pre- and post-test surveys were administered to a random sample of MMI's bankruptcy counseling clients.[16] The pre-test was administered at the beginning of the call and the post-test at the end of the call. The surveys were administered by the counselor, who read the questions over the telephone and recorded clients' responses into a database.[17] Information was collected on clients' level of financial knowledge before and after the counseling session, their intentions to change their financial behaviors, reasons for their current financial situation, and prior credit counseling experiences. Detailed information was also

[14] For a complete description of the U.S. Trustee Program's requirements for approved bankruptcy education providers, see http://www.usdoj.gov/ust/eo/bapcpa/ccde/docs/DE_Application_Instructions.pdf.
[15] The fee for participating in a pre-discharge bankruptcy education course was $50.00. For joint filers attending the same session the cost was $75.00. As with counseling, MMI waived the education fee for debtors whose household income was equal to or less than 150% of the estimated poverty threshold for their applicable family size as published in the current Federal Poverty Levels Guidelines.
[16] In spring 2006, a series of pilots were conducted to test both the counseling and education surveys.
[17] Note that the pre- and post-tests were built in as part of the actual counseling process to assess clients' overall progress throughout the course of the session. For this reason, it was rare for clients to decline participation. It was more common for clients to choose not to answer a specific question or set of questions.

collected on clients' overall financial situation including income, expenses, assets, and liabilities. In addition, demographic information was collected on age, gender, education, marital status, race/ethnicity, employment status, and annual household income. Counselors also asked clients two open-ended questions:

(1) Before you decided to file for bankruptcy, what other options did you consider for dealing with your financial situation?
(2) Now that you have completed the [bankruptcy] counseling session, what steps or actions will you take to improve your financial situation?

The former question was asked during the pre-test and the latter question was asked during the post-test. Overall, data were collected from approximately 5,578 bankruptcy counseling clients. However, 1,268 surveys were dropped due to missing or incomplete information.[18] The final sample included 4,310 bankruptcy counseling participants (77% of the original sample).

Pre- and post-tests were also administered to debtors who went through MMI's telephone bankruptcy education course. Paper surveys were mailed to participants prior to the course, and participants were asked to complete the pre-test before the call and the post-test at the end of the call.[19] Upon completion of the course, participants were instructed to mail or fax the pre- and post-tests back to MMI. The participants were then issued a certificate of participation for the bankruptcy discharge.

The bankruptcy education surveys collected information on participants' financial knowledge and behaviors. General information was also collected on participants' overall satisfaction with both the counseling and education. Specifically, debtors were asked how much they agreed that their "overall ability to manage [their] finances [had] improved" as a result of participating in the bankruptcy counseling and education courses. They were also asked to rate the bankruptcy education course overall, including the instructors and program materials and whether they would recommend the course to others. Additional information was obtained from participants on their bankruptcy filing status such as when and where they filed, the chapter they filed, whether they filed a single or joint petition, and their reasons for filing. Like the counseling surveys, demographic information was collected on age, gender, education, marital status, race/ethnicity, employment status, and annual household income. To gather additional information on the impact of the bankruptcy education course, participants were asked three open-ended questions on the post-test:

(1) What did you like the most about this [bankruptcy education] program?
(2) How could this [bankruptcy education] program be improved?
(3) As a result of participating in this [bankruptcy education] program, what steps or actions will you take to improve your financial situation?

Note that debtors had the option of completing both their bankruptcy counseling and education requirements with MMI, and the vast majority did so (90%). However, some completed only their bankruptcy education requirement with MMI (10%). For the purposes of this study, the sample of bankruptcy education participants was restricted to include debtors who completed both their counseling and education with MMI. This resulted in MMI being able to isolate the impact of its bankruptcy education course without having to control for differences across counseling providers.

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[18] Of the 1,268 observations that were dropped, 70% of the observations were removed because key demographic information was missing. The remaining 30% of the observations were removed because clients chose not to respond to one or more of the knowledge or behavior questions on the pre- or post-test.

[19] Because participants had the pre- and post-tests for the bankruptcy education course in advance, some researchers may be concerned that participants could have looked up the answers to the knowledge-based questions prior to the call or filled out the surveys during the call as the material was being covered. If that was the case, then there should have been significant differences in responses between participants who had the surveys in advance and those who did not. As a test, responses from the telephone sample were compared to those gathered from an in-person sample that did not have the surveys in advance. There were no significant differences in the results between the two samples, suggesting that the potential for selection bias was likely to be negligible.

Also note that MMI began collecting data from education participants in January 2006. However, this study focuses on data that were collected from a sample of education participants beginning in June 2006.[20] This timeframe coincided with when MMI began collecting data from the counseling participants. Furthermore, it created an opportunity for MMI to track debtors through both its counseling and education courses. MMI records indicate that the average time it took for clients to complete both MMI's bankruptcy counseling and education requirements was 2.6 months. At the time this study was launched it was not clear what the lag time would be, so MMI continued to collect data from bankruptcy education participants until December 2006.[21]

In the end, the raw education sample consisted of approximately 3,589 debtors who completed MMI's telephone bankruptcy education course between June and December 2006. From here, 410 observations were dropped so as to restrict the sample to include only those who had completed both MMI's telephone counseling and education. An additional 466 observations were dropped due to missing or incomplete information.[22] The final sample consisted of 2,713 bankruptcy education participants (76% of the original sample).

Note that some of the counseling observations could have been included in the education sample since all of the education participants also completed MMI's counseling. However, for the vast majority of observations, there was not a one-to-one match. Thus, the findings are presented for two separate samples - the counseling sample and the education sample. Phase II will present the findings for a matched sample of counseling and education participants.

Evaluation Methodology

Testing for Knowledge Gain

Both the counseling and education surveys included a set of knowledge-based questions. (See Appendix A1 for a list of the specific questions.) Evaluation experts typically recommend using 10 to 25 knowledge questions to establish a reliable baseline level of knowledge for an individual (Jayaratne, Lyons, & Palmer, 2007). However, for short educational programs lasting two hours or less it is sufficient to use five to ten knowledge questions. Following these guidelines, the counseling pre- and post-tests included five knowledge-based questions, because the typical counseling session lasted only 60 to 90 minutes. The questions focused on testing key personal finance concepts covered during the counseling session such as whether debtors knew the difference between: (1) short and long-term financial goals, (2) fixed and variable expenses, (3) gross and net income, (4) secured and unsecured loans, and (5) priority and non-priority expenses. All of the items were formatted as true/false questions.[23] Note that the same set of knowledge questions was included on both the pre- and post-tests. To minimize the potential of a learning bias, the questions were randomly re-ordered on the post-test.

Since the bankruptcy education course lasted two hours, the education pre- and post-tests included ten knowledge-based questions that were again in true/false format. The questions were also randomly re-ordered on the post-test to minimize the potential of a learning bias. The questions tested key concepts that were emphasized during the bankruptcy education course. Those concepts included: (1) short and long-term financial goals, (2) needs versus wants, (3) fixed and variable expenses, (4) insurance premiums and deductibles, (5) gross and net income, (6) savings and emergency funds, (7) credit scores and the importance of paying bills on time, (8) debt-to-income ratios

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[20] A small percentage of the sample (2.1%) was collected prior to June 2006. The inclusion of these observations did not significantly affect the results so they were not deleted from the sample.
[21] The unanticipated addition of MMI's online programs resulted in logistical constraints which made it difficult for MMI to track participants through both its telephone counseling and education courses so MMI made the decision to track its online participants instead. This is Phase II of the project.
[22] Of the 466 observations that were dropped, 39% of the observations were removed because key demographic information was missing. The remaining 61% of the observations were removed because clients chose not to respond to one or more of the knowledge or behavior questions on the pre- or post-test.
[23] To capture changes in knowledge, researchers may use multiple choice or true/false questions. Both provide reliable measures of knowledge acquisition. True/false questions are particularly suitable for low literacy and younger audiences. Also, the true/false format can help to keep the evaluation tool brief and save on time needed to administer the survey since participants can respond to true/false questions faster than multiple choice (Jayaratne, Lyons, & Palmer, 2007).

and using credit wisely, (9) credit reports and their content, and (10) the impact of credit use on overall financial well-being.

Testing for Behavior Change

The counseling and education surveys also asked participants about their current and anticipated financial behaviors. Documenting participants' actual behavior change is possible, but only if the educational program is set up so that the counselor/instructor is able to meet with the same group of participants more than once in a series of sessions or in a follow-up session. In this type of educational environment, the counselor/instructor has the opportunity to assess individuals' financial progress throughout the course of the program.

Recall that the long-term goal of this project was to track debtors through both the counseling and education courses and then conduct a follow-up session to see if they were able to retain, implement, and maintain financial knowledge and behaviors. For this reason, the surveys were designed to record changes in participants' financial behaviors over time using the Transtheoretical Model of Behavior Change (TTM).

TTM is based on the work of Prochaska (1979) and Prochaska and DiClemente (1983), which integrates major psychological theories into a theory of behavior change. The model was initially used to help individuals successfully engage in healthy behaviors such as smoking cessation and exercise. According to TTM, behavior change involves progressing through a series of five stages (precontemplation, contemplation, preparation, action, and maintenance). During this process, individuals commonly relapse before successfully eliminating negative behaviors or implementing positive behaviors. Researchers and practitioners use the theory to identify the stage at which individuals are ready and able to change their behaviors. They then apply appropriate educational interventions that are tailored to meet individuals' specific needs at that particular stage. Below is a summary of the five stages of change.[24]

- *Precontemplation*—Individuals are not ready to take action and change behavior, primarily because they are not aware of the need for change or they do not have any desire to change. Individuals in this stage will rarely seek help or use information. When asked about whether they engage in particular behaviors, they commonly respond, "I don't plan to do this" or "I'm not considering this."
- *Contemplation*—In this stage, individuals are aware of their behavior and are ready to consider taking action to change their behavior. They are open to educational processes and respond well to activities that help them weigh the benefits associated with change to the costs associated with maintaining current behavior. Individuals in this stage typically indicate that they plan to change their behavior sometime in the next six months.
- *Preparation*—Individuals in this stage are convinced that they need to change and are willing to seek information and support to help them fix their problems. They are ready to take action and intend to change behavior in the next 30 days. Yet, they have concerns that the process of changing may be difficult and they may not succeed. These individuals are at a "teachable moment" where information and education can help facilitate the change. Also, helping them to start taking small steps towards the goal can help them to overcome their doubts about being able to sustain the change.
- *Action*—Individuals in this stage are in the process of actually changing their behavior, but have been doing the behavior for only a short-time period (typically six months or less). To sustain the behavior change, individuals need to believe they can change, be able to control the stimuli that could cause them to relapse into old behaviors, and create a support system to get them through the challenging times.
- *Maintenance*—In this stage, individuals have fully integrated the behavior into their everyday life and have been able to sustain the behavior for six months or more. They may still relapse into old behaviors but are committed to overcoming temptations so that the new behavior change is permanent. Individuals in this stage need to be able to assess the conditions under which relapse might occur and they need help establishing successful coping strategies.

A growing body of research has applied the TTM framework to explain how financial education can lead to changes in financial behavior (e.g., Kerkmann, 1998; Lown, 2007; Shockey & Seiling, 2004; Xiao et al., 2004; Xiao & Wu,

[24] For additional information on each stage, see Jayaratne, Lyons, and Palmer (2007).

2006b). This study builds upon the existing research and applies the TTM framework to identify the stages which debtors are throughout the bankruptcy process.[25] This information is used to assess whether appropriate educational interventions are being used to meet individuals' specific financial needs given the particular stage they are at in the change process.

The pre- and post-tests for the bankruptcy counseling session asked debtors about their current and future intentions to engage in eight financial practices which were emphasized during the counseling session.[26] (See Appendix A2 for a list of the specific financial practices.) For each financial practice, participants were given five responses to choose from: (1) do not plan to do the financial practice, (2) plan to do the financial practice in the next 2-6 months, (3) plan to do the financial practice in the next month, (4) have been doing the financial practice for 1-6 months, and (5) have been doing the financial practice for more than 6 months. The five responses correspond to the five stages of behavior change described above. Note that the five stages of change, which are reflected in the above five categorical choices, should not be interpreted as a five-point ordinal scale. In other words, higher values, and thus higher stages, do not necessary imply more "positive" financial behavior. The five stages are simply being used to look at individual changes in behavior along a continuum. Movements along this continuum reflect where debtors are at in the change process, why they are there, and what interventions may help them to move to the next stage. This point will become clearer in the following sections as the behavior results are presented and interpreted.

The pre- and post-tests for the bankruptcy education course were set up in the same manner as those for the bankruptcy counseling session. Debtors were again asked about their current and future plans to engage in specific financial behaviors. However, for the education course, debtors were given a list of ten financial practices instead of eight. These ten behaviors reflect those that were primarily emphasized during the education course. (See again Appendix A2.)

Sample Description

Table 1 presents the descriptive statistics for the sample of bankruptcy counseling and education participants.[27] With respect to the counseling sample, the majority of debtors (53.5%) were between the ages of 36 and 55, and a slightly larger percentage was female (54.8%) than male (45.2%). Most debtors had at least a high school education (92%), with 54.5% reporting that they had some type of college education. The majority of the sample reported that they were married (39.7%), while 27.9% reported that they were divorced or separated, 27.5% reported that they were single or never married, and 4.9% reported that they were widowed. The majority of counseling participants also

[25] Note that TTM is just one of an emerging number of frameworks being used to explain how individuals translate financial education into positive behavior change (e.g., the logic model, results-based accountability [RBA], theory of change [TOC], theory of planned behavior). This paper focuses on TTM, because it is one of the more popular models currently being used by researchers to measure the impact of financial education. However, it is not without its limitations (Lyons & Neelakantan, 2008). For example, the model may not adequately take into consideration personal and environment factors (e.g., exogenous financial shocks, limited access to financial services, and changes in life circumstances) that may prevent individuals from being able to change particular financial behaviors. Also, TTM was developed after years of studying individuals' health behaviors. This research was used to establish key benchmarks (i.e., 30 days or 6 months) to identify when individuals were at certain stages of the behavior change process. However, it is not yet clear whether these benchmarks are appropriate for financial behaviors. More research is needed to track consumers' financial behaviors long enough to see when behavior actually changes, why it changes, and what the role of financial education is in motivating the change. With this said, every theory has its limitations and the benefits of using TTM should not be overlooked. TTM is a well-established model that provides researchers and financial professionals with a more rigorous, theory-based approach to evaluating financial education programs.

[26] Note that an effort was made to reduce the tendency for some debtors to report that they were engaging in the "right" or "socially acceptable" types of behaviors rather than to report their actual behaviors and intentions. Specifically, debtors were informed that there was no "right" or "wrong" response to the behavior questions and that the information was being used to help the counselor better assess the clients' overall progress and to help MMI improve its counseling services and educational programs.

[27] Note that Table 1 presents the descriptive statistics for the sample of participants who completed MMI's telephone counseling and education. The demographic profile of the participants may change for other delivery modes such as in person or online.

were white (64.1%), and 21.3% were African-American, 9.4% were Hispanic/Latino, 2.3% were Asian or Pacific Islander, and 2.9% were another race/ethnicity.[28] With regards to employment and income, 63.9% reported that they were working full-time, 8.4% were working part-time, and 27.8% were not currently employed. The majority (72.0%) reported that their annual household income was $40,000 or less, with 40.0% reporting that their income was between $20,001 and $40,000 and 32% reporting that their income was $20,000 or less.

In general, the sample of education participants was similar to the sample of counseling participants with a few notable differences. The education participants were slightly older and less educated. They were also more likely to be female, married, and white. They were less likely to be working and more likely to report lower incomes. Some of these differences (e.g., less education, not working, and lower incomes) should not be surprising since those who chose to complete the bankruptcy education requirement also chose to file for bankruptcy after the counseling session, and thus may have been in a worse financial situation.

The following sections present the impact results for the bankruptcy counseling and education participants. Each section begins by providing a financial profile of the participants. The knowledge and behavior results follow.

Bankruptcy Counseling Results

Profile of Debtors

Prior to filing for bankruptcy and completing the counseling session, participants were asked about their financial situation, including the factors that led to their financial problems and their willingness to improve their current situation. Table 2 provides a financial profile of the bankruptcy counseling participants. Debtors identified a number of factors as contributing to their financial problems. The most frequently cited factors were loss of employment (53.5%), health problems and medical bills (50.7%), and excessive use of credit and unnecessary spending (39.1%). Other factors included divorce or separation (16.8%), business loss or excessive business expenses (14.3%), death of a spouse or other loved one (12.9%), and addiction (5.0%). Debtors were also asked whether certain events had occurred in the last 12 months to put them in a precarious financial situation. 56.0% of debtors reported that they had needed emergency repairs (for car, home, etc.) and 40.7% reported that they had missed work and been short on income. A large percentage of debtors also had mismanaged their credit and engaged in risky credit behaviors. Specifically, 26.4% reported that they had used a high interest rate loan (e.g., payday loan, rent-to-own, or title loan). In addition, 23.0% reported that they had used one credit card to pay off another and 17.5% had delayed housing/auto payments to make credit card payments.

After taking stock of the reasons for their financial troubles, debtors were then asked about their willingness to change their current financial situation. Over 95.4% indicated that they would be willing to reduce expenses (e.g., stop eating out, eliminate vacations), 76.9% would be willing to increase income (e.g., get a second job, work more hours), and 63.8% would be willing to make lifestyle adjustments (e.g., downsize to a smaller home, move in with family/friends). These findings provide an initial indication that, prior to the counseling session, most debtors were aware of their behaviors and were open to taking action to fix their financial problems.

Debtors were also asked about their credit counseling experiences. Prior to the bankruptcy counseling session, 19.0% of debtors reported that they had used credit counseling in the past. By the end of the session, 98.6% indicated that they would be willing to seek credit counseling if they had financial problems in the future. This finding suggests that debtors found value in participating in the counseling session. The next step is to determine whether the counseling affected their financial knowledge and behavioral awareness and intentions.

[28] The majority of debtors responded to all of the demographic questions. However, a noticeably larger percentage of debtors who completed the bankruptcy education course chose not to provide information on race/ethnicity. For the education sample, observations with missing information for race/ethnicity were not deleted. Thus, the number of observations for this particular survey question (n=2,549) was less than that for the other survey questions (n=2,713).

Knowledge Gain

Table 3 presents debtors' responses to the five knowledge questions for the bankruptcy counseling session. The first column represents the percentage of debtors who answered each question correctly on the pre-test. The second column represents the percentage of debtors who answered the same set of questions correctly on the post-test. The final column reports the difference between the pre- and post-test scores for each question (i.e., net gain in knowledge) and whether each difference was statistically significant. In general, the findings show that debtors' financial knowledge improved as a result of the bankruptcy counseling.

Table 3 shows that for all five questions debtors' financial knowledge significantly increased. The greatest gains in knowledge occurred for questions related to financial goals (+15.5%), fixed and variable expenses (+25.7%), and unsecured versus secured loans (+9.0%). The smallest gains were found for questions related to gross versus net income (+4.0%) and priority versus non-priority expenses (+1.4%).

- Prior to the counseling, only 62.9% understood the concept of financial goals; after the counseling, the percentage increased to 78.5%.
- Prior to the counseling, only 46.7% understood the difference between fixed and variable expenses; after the counseling, the percentage increased to 72.4%.
- Almost 94.0% already understood the difference between gross and net income before the counseling. Yet, there was still a significant gain in knowledge by the end of the session (93.5% to 97.6%).
- Prior to the counseling, 75.0% understood secured and unsecured loans; after the counseling, the percentage increased to 84.0%.
- While over 96% already understood priority and non-priority expenses, there was still a small percentage gain after the counseling. This gain was also statistically significant (96.2% to 97.6%).

The average percent correct for both the pre- and post-tests also were calculated and are presented in Table 3. On average, debtors' scored 74.9% on the pre-test and 86.0% on the post-test, for an overall net gain in knowledge of +11.1%. The overall percentage increase in knowledge was 14.8%

To see if there were demographic differences by knowledge gain, debtors who experienced a gain in knowledge (43.8%) were compared to debtors who did not experience a gain in knowledge (56.2%).[29] The goal was to determine if certain individuals were more likely than others to benefit from the counseling session. Appendix A3 summarizes the profile of bankruptcy counseling participants according to knowledge gain. In general, debtors who experienced an increase in knowledge were more likely to be over age 55, less educated, widowed, and to have lower incomes than those who experienced no increase in knowledge. African-Americans and Hispanics/Latinos were also more likely to experience a gain in knowledge while Asians and Pacific Islanders were less likely. Note that those who reported that their financial problems were due to the death of a spouse or other loved one or an addiction were more likely to have experienced an increase in knowledge. Those who reported that their problems were due to a business loss were less likely to have experienced an increase in knowledge. Furthermore, those who said they were willing to reduce expenses to improve their financial situation or seek credit counseling in the future if they had financial problems were also more likely to have had a gain in knowledge, but only slightly.

Behavior Change

Tables 4 and 5 present information on debtors' financial behaviors prior to and following the bankruptcy counseling session. Table 4 presents participants' average stage of behavior change for the eight financial practices. The first column represents the average stage at which debtors were prior to the counseling and the second column represents the average stage after the counseling. The final column reports the net change in movement between pre- and post-counseling and whether the movement was statistically significant.

[29] Of those who did not experience a gain in knowledge, 48.0% had no change in knowledge and 8.2% had a decrease in knowledge.

In general, Table 4 shows that on average the bankruptcy counseling session resulted in statistically significant changes in debtors' financial behaviors. However, the magnitudes of the changes were often negligible. This result is not particularly surprising since one would not expect to see large and immediate changes in participants' behavior after a 60- to 90-minute bankruptcy counseling session. Some time needs to pass before change can actually occur. Also, debtors who were planning to file for bankruptcy may not have been able to change their financial behaviors because they had not yet filed for bankruptcy and discharged their debts.

With this said, the overall average stage of behavior change both pre- and post-counseling was 3.69, which indicates that debtors were in between the stages of *preparation* and *action*. Recall that individuals in the *preparation* and *action* stages are ready and willing to seek information and begin changing their behaviors. Thus, these debtors were at "a teachable moment" where they were open to the counseling session and willing to apply what they had learned afterwards.

Table 4 shows that there was also some variation in the stage at which debtors were across individual financial practices. On the one hand, debtors were more likely to be closer to the *action* stage for financial practices that were less tied to their financial portfolio and that could more easily be implemented right away. The mean stage of change post-counseling was 3.72 for "tracking income and expenses," 3.86 for "reducing impulse spending and cutting unnecessary expenses," 3.95 for "reviewing income and expenses before making large purchases," 3.89 for "organizing and maintaining a filing system," and 4.15 for "comparing prices before making purchases." On the other hand, debtors were more likely to be closer to the *preparation* stage for financial practices that were more closely linked to their financial portfolio and the bankruptcy discharge. The mean stage of change post-counseling was 3.41 for "setting financial goals," 3.00 for "saving regularly for unplanned expenses," and 3.52 for "paying bills on time."

The last column of Table 4, which presents the average net change in movement between stages, can be somewhat misleading, especially since higher scores (and thus higher stages) do not necessarily imply more "positive" financial behaviors. Mean values only show where individuals are, on average, in the behavior change process. They do not show specific movements across the individual stages of change.

Table 5 reports the percentage of debtors in each of the five stages and shows how these percentages changed pre- and post-counseling. Two patterns are particularly noteworthy. First, for all of the financial practices, there was an increase in the percentage of debtors who went from "don't plan to do" or "plan to do in the next 2-6 months" to "plan to do in the next month." Thus, there was movement from the *precontemplation* and *contemplation* stages to the *action* stage, suggesting that by the end of the counseling session debtors had become aware of their financial behaviors and had recognized the need to change these behaviors. It also suggests that some debtors had developed more of a sense of urgency about improving their financial behaviors, especially those who went from "plan to do in the next 2-6 months" to "plan to do in the next month."

Second, for all of the financial practices, there was also an increase in the percentage of debtors who went from "have been doing" to "plan to do." Interestingly, a higher percentage of debtors indicated on the pre-test than on the post-test that they were already "doing" the behaviors. However, after the counseling session, a higher percentage reported on the post-test than on the pre-test that they were "planning" to do the behaviors – and they were planning to do the behaviors in the next month. Take for example the financial practice "track income and expenses." Table 5 shows that on the pre-test 19.4% of debtors reported that they "had been doing [the financial practice] for 1-6 months" and 38.0% reported that they "had been doing [the financial practice] for more than 6 months" compared to 14.3% and 35.9%, respectively, on the post-test. At the same time, 23.3% reported on the pre-test that they "planned to do [the financial practice] in the next month." This percentage increased to 36.9% on the post-test.

There are plausible explanations for why some individuals reported "doing" a particular behavior on the pre-test and then reported "planning to do" the behavior on the post-test. First, some debtors who were actually doing the behaviors beforehand were motivated by the counseling session to renew their commitment to continuing these behaviors after the session. Thus, these debtors responded that they were still planning to do the behaviors after the counseling. Second, it was clear in listening to several counseling sessions that a considerable number of debtors thought they had been doing the behaviors beforehand. However, by the end of the counseling, they realized that they had not been doing the behaviors. It was not uncommon for debtors to have an "Ah-Ha" moment where they realized that they were not actually doing what they thought they were doing. In fact, there were several instances where husbands and wives, who participated in the counseling session together, had difficulty assessing whether they "had been doing" certain financial practices.[30]

In summary, there were two countervailing movements for each financial behavior. Some debtors moved from "don't plan to do" to "plan to do" and some moved from "have been doing" to "plan to do." The primary direction for each behavior is reflected in the last column of Table 4, which shows the mean change in movement across the five stages.

Qualitative Findings

Qualitative responses to the open-ended questions on the counseling surveys provide more insight into the specific movements in behavior and why they may have occurred.[31] Recall that prior to the counseling session, debtors' were asked, "Before you decided to file for bankruptcy, what other options did you consider for dealing with your financial situation?" Following the counseling session, they were asked, "Now that you have completed the [bankruptcy] counseling session, what steps or actions will you take to improve your financial situation?" Table 6 summarizes the responses.[32]

With respect to the first question, debtors identified a number of options that they had considered for dealing with their financial problems. Debtors frequently responded that they had tried to borrow money from family and friends as well as other creditors, including payday lenders and title loan companies.

> *"I tried working with [my mortgage lender], but I got two months behind and they wanted more than I could pay to catch up. I'm letting them have the house back. I've moved in with friends. I tried using payday loans to catch up, but that just hurt me worse."*

> *"I tried everything to be honest with you….first of all I remortgaged the house years ago....then I sold my house but I didn't realize that I had lost my equity in the house….so I only had $1000 which had to be the down payment on an apartment and ever since then I have been going down the tubes....I did ask my daughter one time for help but she wasn't very willing to help me."*

> *"I went to the bank and tried to get a loan but they didn't want to do it because I had the time off of work (disability) so then I started getting in touch with attorneys -- I didn't know what else to do. I did go to my sister, but she is not in a position to help me. So it's just me and my kids. I did swallow my pride and applied for every government program I could think of, including food stamps...but I didn't qualify...so I was very, very upset during that time but now I'm back to work and it's going to be okay now."*

Several debtors also indicated that they had tried to work with creditors to renegotiate loans or consolidate their debts. One debtor commented:

> *"We were working with [name of financial institution], out of North Carolina, to work out a payment to increase [our] mortgage in order to catch up. They pretty much abandoned us, wouldn't return calls and we paid them money and they walked away from us."*

Several others reported that they had tried to seek help from financial professionals such as credit counseling agencies or community groups.

> *"Well the 401k loan was part of that...refinancing the house was an option...we wouldn't qualify though due to our credit because of our situation...the type of financing on our house would incur*

[30] There is a growing body of demographic research which shows that husbands and wives often disagree about whether the household is engaging in certain financial management practices (e.g., Lyons, Neelakantan, & Scherpf, 2008).
[31] Note that none of the debtors' statements regarding creditors or other third parties were substantiated.
[32] Approximately 93.3% of the counseling sample responded to the first question and 95.0% responded to the second question.

penalties too...so it would eat up equity and end up being more, not less. We have sold personal items via yard sales and gotten rid of a lot of extra stuff. We asked for help from our local charities and local church. Also, we went through the local community team to help review our budget...but it's not credit counseling...it's a community action team that came over."

"Tried credit counseling, but lost job and could not continue making payments. Tried working with the creditors directly. Could not afford their minimum payment amount."

Others indicated that they had tried to handle the situation on their own by finding ways to increase income, decrease expenses, and make other lifestyle adjustments. One debtor stated:

"I borrowed from my 401k loan which kept us going for a while. We moved significantly further out than we should have, to pay less for our house and obtain what we needed. We thought about selling one of the cars but being 45 minutes away from home, it wouldn't have worked...we kept it, we felt, out of necessity. We cut back on TV service and got rid of our home phone. I sold my sports memorabilia collection. We stopped eating out and don't take vacations. If we buy nice things for our kids, we buy things at yard sales. I alternate vehicles to save on gas (one less fill up per week at gas tank). We cut up the credit cards. I think that's about it, offhand. I changed the way I eat too and try to buy the more nutritional food to cut out unnecessary things."

Finally, a large number of debtors responded that they had not considered other options and some felt that they had no other options. Typical responses included:

"I had thought about refinancing my house, but being unemployed, it wouldn't be beneficial to do...also my mortgage payment is going up to $1700 next month. I should have just sold my house because now I don't know what I'm gonna do. I hadn't really considered anything else."

"Well, I tried working out payment plans but it didn't work. The car dealership I was working with made arrangements with me but then the arrangements made weren't honored. They repossessed my car. There were no other options."

"Nothing. We're just at a standstill where we owe so much money that there's no way to come up with it...I mean, we don't have it...so therefore, it's either file bankruptcy or lose our home, lose our vehicle."

"I pretty much was just trying to pay it all off...I had gotten on a forbearance plan to catch up, but it was really too high...I thought about selling the house...I really was more or less wanting to sell it or lease it, but it takes time to do those things...I really didn't have anywhere else to go from there."

The responses to the second open-ended question reveal which steps and actions debtors were planning to take after the counseling session to improve their financial situation. Since the bankruptcy counseling session was designed to help debtors take stock of their financial situation and evaluate their options, it should not be surprising that the most common responses were related to budgeting. This included creating and following a budget, tracking income and expenses, cutting out unnecessary expenses, and avoiding impulse spending. The following were typical responses:

"We will budget our money, as far as, no credit cards - try to save at least 10% but hopefully 20%. We'll have a bi-weekly allowance and when that's gone - no more. When we go grocery shopping, we'll get everything we believe we need for two weeks. As far as the short term, we'll buy nothing but what we need. We were just talking about this last night too – we'll also cut back on unnecessary trips and for vacations or home improvements or whatever – we'll budget for that – no impulse buying. I guess that's about it."

"I am going to take a hard look at all of our income and how much we spend, and come up with a better plan of how much money we really spend every month. I am going to find a way to save money and better ways of saving it."

"[I] will use better judgment before spending my money, and compare prices, and start saving money and make cut backs on things like cable and going out on dinner. And I will sit down and talk with my husband on what we should pay and what we want to pay. I will have a budget to have money left over, and cut back on getting my hair fixed."

Additional comments were related to organizing bills, keeping better financial records, comparing prices, and weighing purchase decisions. Debtors frequently indicated that they planned to:

"Keep close eye on budget. Control expenses. Keep better filing system for bills. Try to limit non-essential expenses. Take job closer to home to reduce transportation and medical expenses."

"Look over the budget. Keep filing system current. Try to keep budget under control and limit credit cards."

"Avoid credit cards, budget, save for the future and save for [my] son. Seriously discuss purchases [with spouse] and make a decision between the two of [us]."

Also, many debtors indicated that they planned to make lifestyle adjustments, such as reduce expenses and increase income. Debtors commonly stated that they planned to:

"Cut down expenses, change certain aspects of daily life, be more aware of expenditures, balance checkbook, put money into savings on a regular basis."

"Improve budget, get health insurance to cut back on medical expenses, cut back on expenses."

Other steps and actions debtors anticipated taking were related to setting financial goals and saving more money. These debtors frequently commented:

"The biggest thing is that I am going to make sure my wife and I sit down and plan things more...plan to budget between the CD and checking account, talk about things before we make purchases and try to reduce any frivolous expenses that might be going on and plan for emergency expenses by developing an emergency fund."

"Budget money more wisely. Not spend as much. Set aside money in a savings account."

"Set a budget and stick to it, avoid credit card debt, save money for unexpected expenses."

Finally, many debtors planned to use credit more wisely and improve their debt management skills. This included paying bills on time, avoiding credit usage, paying with cash, and repaying debts.

"I'm going to do everything I can to stay away from credit cards...everything that looks exciting...stay away from everything....do my best to work on my bills and pay them ahead of time...and no more credit...save some money in case I need it....and watch my ID for sure."

"Start paying bills on time, no payday loans or credit cards, set some goals and achieve them."

Overall, the above responses reflect the key financial concepts covered during the bankruptcy counseling session. Of note is that very few debtors planned to take no action. In fact, almost all of the responses reflect debtors' readiness to take action and change their financial behaviors. These qualitative comments provide additional evidence that the bankruptcy counseling affected debtors' financial awareness and intended behaviors.

Bankruptcy Education Results

Profile of Bankruptcy Filers

After filing for bankruptcy, but prior to completing the education course, information was collected on participants' bankruptcy filing status such as when and where they filed, the chapter they filed, whether they filed a single or joint petition, and their reasons for filing. Table 7 summarizes the findings. Bankruptcy education participants identified a number of reasons for why they filed for bankruptcy. Loss of employment (54.3%), health problems and medical bills (42.9%), and excessive use of credit and unnecessary spending (40.3%) were the most frequently cited reasons.[33] Others reasons were related to financial mismanagement such has repossession of property (32.6%), late on mortgage payments or home foreclosure (17.2%), use of high interest rate loans (e.g., payday loan, rent-to-own, or title loan) (13.7%), and business loss or excessive business expenses (10.2%). Personal reasons were also cited, including divorce or separation (23.2%), death of a spouse or other loved one (12.2%), and addiction (6.3%). Almost 10.0% reported large unexpected expenses as their reason for filing. In addition, 19.1% of debtors cited "other" reasons. These "other" reasons were related to the following: unexpected auto expenses and home repairs, unexpected child care expenses (e.g., new born, child moves back home, grandparents taking care of grandchildren), reductions in income from reduced work hours or garnishment of wages, and legal fees.

With respect to the chapter and type of petition filed, the majority of debtors reported that they filed under Chapter 7 (91.2%), with 8.8% of debtors filing under Chapter 13. Of those who filed, 62.1% filed a single petition while 37.9% filed a joint petition. Information was also collected on where debtors lived and filed for bankruptcy. In general, 35.1% of the bankruptcy education participants reported living in the Midwest, 25.1% in the South, 23.5% in the West, and 16.5% in the Northeast.[34]

Knowledge Gain

Table 8 presents debtors' responses to the ten knowledge questions for the bankruptcy education course. The results show that for nine of the ten questions debtors' financial knowledge significantly increased. The greatest net gains in knowledge were found for those questions related to credit use and debt management such as credit scores and bill payments (+13.2%), debt-to-income ratios (+8.7%), content of credit reports (+6.0%), and the impact of credit reports on everyday life (+8.4%). Smaller gains were found for those questions related to more basic personal finance concepts such as financial goals (+2.4%), fixed and variable expenses (+2.2%), insurance premiums and deductibles (+3.0%), gross versus net income (+5.5%), and savings and emergency funds (+3.6%).[35] Note that several of the questions that covered more basic concepts had been previously covered during the bankruptcy counseling session.

Consider now how participants scored overall. On average, debtors scored 80.3% on the pre-test and 85.5% on the post-test for a net gain in knowledge of +5.1%. The overall percentage increase in knowledge was 6.5%. This percentage increase was smaller than that found for the bankruptcy counseling session (14.8%), but recall that several financial concepts covered in the counseling were repeated in the education.

Those who participated in the education course and experienced a gain in knowledge (44.3%) were compared to those who did not experience a gain in knowledge (55.7%).[36] Appendix A4 summarizes the findings according to knowledge gain for the sample of bankruptcy education participants. In general, those who experienced an increase in knowledge were more likely to be under age 65 and more educated. They were less likely to be widowed and to be Asian or Pacific Islander. In addition, they were less likely to be working part-time, but more likely to be working

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[33] These were the same factors that counseling participants had identified as initially contributing to their financial problems.

[34] The regional location of the sample was largely representative of the regional location of MMI's larger population of bankruptcy education clients in 2006.

[35] A negative net gain in knowledge was found for the question related to needs versus wants (–1.5%). However, this was a very basic personal finance concept that 92.0% of participants already knew prior to the education course, and there was not a lot of room for participants to show improvement.

[36] Of those who did not experience a gain in knowledge, 37.3% had no change in knowledge and 18.4% had a decrease in knowledge.

full-time with higher incomes. Recall that those who tended to benefit more from the counseling session were over age 65, less educated, widowed, and to have lower incomes. Thus, these results seem to suggest that debtors who may not have benefited as much from the counseling may have still benefited from the entire process when they took the education course.[37]

Also note that those who filed for bankruptcy because of late mortgage payments or home foreclosures were more likely to have experienced a gain in knowledge. Those who filed because they had used high interest rate loans (e.g., payday loans, rent-to-own, or title loans) were less likely to have experienced an increase in knowledge. Those who filed due to the death of a spouse or other loved one were also less likely.

Behavior Change

Tables 9 and 10 present information on debtors' financial behaviors prior to and following the bankruptcy education course. Table 9 presents participants' average stage of behavior change for the ten financial practices emphasized during the education course. According to Table 9, the average stage of behavior both pre- and post-education was 3.40. Thus, even after completing both the counseling and education, debtors were still in between the stages of *preparation* and *action*, which is perhaps not surprising since they were still unable to discharge their debts. Thus, their financial portfolios had not significantly changed between the counseling and education. The fact that there was no significant change in average behavior pre- and post-education was also not surprising because the education course only lasted two hours. Debtors needed time to prepare for and actually implement the behavior changes.

Table 9 shows that there were some differences across individual financial practices. Similar to the counseling results, debtors were more likely to be in the *action* stage when the financial practices were not as dependent on their current financial position. The mean stage of change post-counseling was 3.66 for "reducing impulse spending and cutting unnecessary expenses," 3.75 for "reviewing income and expenses before making large purchases," 3.74 for "paying bills on time each month," 3.83 for "reviewing bills each month for accuracy," and 3.81 for "comparing prices before making purchases." Debtors were more likely to be in the *preparation* stage for financial practices that were more dependent on their financial position. The mean stage of change post-counseling was 3.11 for "setting short and long-term financial goals," 2.97 for "saving money regularly," 3.23 for "using a spending plan to track income and expenses," 3.06 for "learning how to re-establish credit," and 2.88 for "searching for more favorable credit terms as credit standing improves."

Note that debtors' ability to engage in most of these behaviors was likely related to the bankruptcy discharge. It was difficult for debtors to set financial goals and save money when they were still dealing with unmanageable debt burdens. Also, it was difficult for them to re-establish their credit and search for favorable credit terms when they had just filed for bankruptcy and were in the process of discharging their debts. It takes time for debtors to rebuild their credit and gain access to future credit after a bankruptcy filing.

Also note that seven of the ten financial practices coincided with financial practices that were emphasized during the counseling session. Given this, it is interesting that debtors who participated in the education course reported stages of change that were lower on average than those reported by debtors who completed the counseling session. However, remember that the education participants made the decision to file for bankruptcy and thus may have been in a worse financial position on average than the counseling participants.

Table 10 reports the percentage of debtors in each of the five stages and shows how these percentages changed prior to and following the education course. In general, the same two shifts in movement were found for the counseling participants. For all of the financial practices, there was an increase in the percentage of debtors who went from

[37] While this finding seems to suggest some complementarities between the counseling and education treatments, it is possible that the findings may also be due to sample selection. For example, the counseling sample includes debtors who ended up filing for bankruptcy and completing the education course. However, it also includes debtors who chose not to file for bankruptcy and therefore ended up not completing the education course. In this phase of the project, it was not possible to separate out and compare the demographic profile of these two types of counseling participants. If it had been possible to restrict the counseling sample to include only those who filed for bankruptcy, the result may have been that those who experienced gains in knowledge were demographically similar to those who experienced gains in knowledge for the education sample.

"don't plan to do" or "plan to do in the next 2-6 months" to "plan to do in the next month." There also was an increase, for all but the last financial practice, in the percentage of debtors who went from "have been doing" to "plan to do" – and specifically, "plan to do in the next month." The last column of Table 9 reports the average change in movement across the five stages, and thus the primary direction of movement for each behavior.

Qualitative Findings

Recall that after completing the education course, debtors' were asked three open-ended questions. Common responses to each question were grouped together and are summarized in Table 11.[38] First, debtors were asked, "What did you like the most about this [bankruptcy education] program?" The most common responses were related to the quality of the information presented during the course and the supplemental materials. Specifically, participants indicated that the information presented during the course was easy to follow and understand. They also felt the course was thorough in the topics that had been covered. Several topics were identified as being particularly useful. These included credit reports and credit scores, rebuilding credit, and staying debt free. Other topics were related to budgeting, comparison shopping, saving money, and consumer fraud. They also found the two workbooks to be especially helpful. In addition to the quality of the course materials, many debtors commented on the "convenience" of the course, especially the convenience of being able to call in and participate from home. Participants further commented on the availability of the course, noting that they had a number of options for when they wanted to participate which allowed for greater flexibility.

Many participants also commented on the quality of the instructors. They reported that the instructors were very knowledgeable about the subject material. Concepts were "easy to understand" and presented in a simple manner with "clear explanations." Instructors were also able to establish a "comfortable" and "motivational" atmosphere on the call. According to several participants, instructors were "energetic," "compassionate and patient," and "polite and pleasant." It was also noted that instructors took the time to listen to them and answer their questions. Several debtors also indicated that the course helped them to realize that "they were not alone" and that others around the country were "going through the same thing." They reported that they found value in listening to others who were facing the same financial challenges. Overall, debtors felt comfortable participating in the program, and this was largely due to the quality and personal attributes of the instructors.

With regards to the second question, participants were asked, "How could this [bankruptcy education] program be improved?" The vast majority of debtors reported that the program did not need to be improved. Typical responses included: *"Needs no improvement," "Everything was great," "Was very good as is," "Great the way it is," "I think it is perfect, leave it as it is," "Don't think it can be improved,"* and *"This program is excellent, it does not need improvement."* Others cited specific actions that could be taken to improve the program. Most were related to ways to increase the availability and flexibility of the course. Common recommendations were to develop an online course and offer the existing telephone courses more often. Other participants indicated that they would have liked to have had more time to go over the course materials (especially the workbooks) and do the activities. Only a small percentage commented that they thought the course needed to be shortened.

Some wanted more personal, one-on-one attention from the instructors. Their responses were frequently related to having fewer individuals on the call and more time to ask questions. They also wanted more individualized financial advice and some wanted to talk to the instructors in a private session. A small number reported that they would have preferred an in-person course.

Finally, some reported technical difficulties on the call that needed to be improved. These were related to calling procedures and background noise. Specifically, debtors reported that some callers did not mute their telephones which resulted in some of the calls being "loud" or "noisy." Some also felt that the check-in procedures at the beginning of the calls took too much time. On some calls, participants called in late which resulted in interruptions as the class was going on. Most of these issues, however, were resolved the more the course was offered and thus were reported less frequently on later surveys.

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[38] Approximately 76.6% of the education sample responded to the first question, 50.5% responded to the second question, and 75.6% responded to the third question.

The last question participants were asked was the following: "As a result of participating in this [bankruptcy education] program, what steps or actions will you take to improve your financial situation?" Many of the steps and actions reported by bankruptcy education participants were similar to those reported at the end of the counseling session. However, an interesting difference was that the education responses were more action-oriented such that debtors were very specific about what they were planning to do. For example, debtors frequently reported that they planned to create and follow a budget and track income and expenses. They also planned to pay more attention to their spending habits by prioritizing expenses, cutting out unnecessary expenses, reducing impulse spending, and finding ways to increase income. However, they did not just make general statements about budgeting. They stated specifically the actions they were planning to take such as:

> "*Keep a daily record of expenses.*"
>
> "*Write down expenses and cut out what I don't need.*"
>
> "*Organize a chart where I can see how to use my money wisely.*"
>
> "*Swear off Starbucks and reduce eating out at restaurants.*"
>
> "*….write down every day what I spend and review it and pay my bills on time every month.*"

Additional responses were related to setting financial goals, opening a savings account, and saving more money, especially for emergencies. Specific actions debtors planned to take were as follows:

> "*Set goals and follow through.*"
>
> "*Start a savings account, don't buy on credit, [and] create and stick to budget plan.*"
>
> "*I will learn to set short and long term goals and use the tracking sheets.*"
>
> "*Begin tracking expenses to help identify where money can be saved. Start saving 10% of each pay check.*"
>
> "*I will set goals for myself and achieve them. I will balance my checkbook each month.*"
>
> "*I believe that within the next 2-6 month that I will be able to start a saving program.*"

Other debtors reported that they planned to improve their financial situation by using credit more wisely. In particular, they planned to repair and rebuild their credit and check their credit report regularly. They also planned to pay their bills on time, avoid credit cards, pay with cash, and repay their debts. Typical responses included:

> "*I will check my reports regularly to make sure they are correct and track assets and liabilities.*"
>
> "*Fix my credit report and try to improve my credit score.*"
>
> "*Use only one credit card and pay it off within 30 days.*"
>
> "*Have a budget, have a savings account, and stay away from credit cards with high interest.*"

Some debtors also responded that they planned to be more financially responsible. They reported that they were going to take control of their finances and make better financial decisions. Specifically, they planned to engage in more comparison shopping such as comparing prices, interest rates, and credit offers. They also planned to keep better financial records.

Finally, participants reported that they planned to use information from the course to improve their financial situation. In particular, they planned to use the workbooks. Common responses were:

"[I will] use what I learned from the program."

"I will read over materials and apply the information before applying for more credit."

"I plan on studying all the materials sent and using the worksheets."

"…I have the booklets to go back and check to make sure I'm doing things right."
"[I will] utilize all the info in the books."

"I will follow the instructions that I have learned from this program."

Overall, these qualitative responses help to tell the story of the impact that the bankruptcy education course likely had on debtors' financial behaviors. At this stage, debtors were getting ready to discharge their debts. Because their financial situation was about to change and they would be getting a "fresh start," it appears that they may have been better able to identify the specific steps and actions they needed to take to get back on track financially. The real question was whether these individuals actually implemented the behaviors following the education course. Unfortunately, for this initial phase follow-up data are unavailable. However, information was collected on debtors' overall satisfaction with the program, which may serve as an indirect indication of their motivation and likelihood to actually change their financial behaviors. Previous studies have found that positive financial behaviors are associated with financial satisfaction (e.g., Xiao, Sorhaindo, & Garman, 2006). Also, research in the general education literature has shown that planned financial behavior is likely to be a good predictor of actual behavior (e.g., Muske & Winter 2004).

Overall Impact

At the end of the bankruptcy education course, debtors were asked about their overall satisfaction with both the bankruptcy counseling and education. Table 12 summarizes participants' responses. Over 94.0% of debtors "agreed" or "strongly agreed" that their overall ability to manage their finances had improved as a result of participating in the bankruptcy counseling session, and 98.3% felt that their overall ability to manage their finances had improved as a result of the education course. Debtors were also asked to rate the bankruptcy education course, including the instructors and program materials. Almost 96.0% of debtors found the overall course to be "somewhat helpful," "helpful," or "very helpful," with 59.4% reporting that the course was "very helpful." Similarly, 96.5% and 96.3% found the instructors and program materials, respectively, to be at least "somewhat helpful." In addition, 93.0% indicated that they would recommend the bankruptcy education course to others.

Discussion and Conclusions

What Lessons Can Be Learned?

This study was motivated by the following research questions: (1) Does bankruptcy counseling and education increase debtors' level of financial knowledge? (2) Does bankruptcy counseling and education assist debtors' in improving their financial behaviors? (3) And, do debtors benefit from both the counseling and education requirements? Or, does one requirement appear to be more effective than the other? To provide initial insight into these questions, MMI measured the educational value of its telephone bankruptcy counseling and education using knowledge and behavior-based outcome measures. Overall, the findings showed that financial knowledge and behavioral awareness and intentions improved as a result of both the counseling and education.

Specifically, debtors who participated in MMI's counseling and education experienced significant gains in financial knowledge. On average, counseling participants scored 74.9% on the pre-test and 86.0% on the post-test for a net gain in knowledge of +11.1%. Education participants, on average, scored 80.3% on the pre-test and 85.5% on the post-test for a net gain in knowledge of +5.1%. The overall percentage increases in knowledge were 14.8% for counseling and 6.5% for education. Larger gains in knowledge for the education course were found for questions related to credit use and debt management, while smaller gains were found for questions related to more basic concepts such as financial goal setting and budgeting.

The knowledge findings are interesting for several reasons. First, information presented during the counseling and education was similar such that debtors were exposed to several financial concepts twice – once in the counseling session and once during the education course. Given this, it is not surprising that the percentage increase in knowledge from counseling (14.8%) was larger than the percentage increase in knowledge from education (6.5%). Also, both gains in knowledge were significant, suggesting that there was value in having the debtors participate in both counseling and education. In other words, repetition and reinforcement of financial concepts may be of benefit to some debtors. It must be acknowledged, though, that differences in financial content at the time of the study prevented MMI from asking the same set of knowledge questions for both courses.

Another key finding was that almost 75.0% of counseling participants and over 80.0% of education participants knew most of the knowledge questions prior to taking the courses. This result suggests that debtors likely knew most of the information beforehand and may not have been able to show much improvement after taking the counseling and education. This finding is also not surprising. Remember that the courses were designed to cover very basic personal finance concepts that, for the most part, were pre-determined by the U.S. Trustee Program. Thus, MMI's pre- and post-tests were designed to reflect the required content and to test very basic concepts that many debtors may have already known. The questionnaires could not test more advanced knowledge when advanced content was not included in the curricula. Given this, one would expect debtors to show little improvement between the pre- and post-tests. Yet, there were still significant increases in knowledge for each question, except for the one question related to "needs versus wants" on the education pre- and post-tests.

Consider now the behavioral results. Initial results showed that the mean stage of behavior did not change pre- and post-counseling nor did the mean stage of behavior change pre- and post-education. For the most part, debtors remained, on average, in between the stages of *preparation* and *action* throughout the entire counseling and education process. According to the Transtheoretical Model of Behavior Change (TTM), this is exactly where a counselor or educator would want the debtors to be, since it is relatively easy to facilitate desired changes when debtors are in the middle or latter stages (Jayaratne, Lyons, & Palmer, 2007). It is more difficult to facilitate change when they are in the early stages of *precontemplation* and *contemplation.* Debtors who are in the *preparation* and *action* stages are at "a teachable moment" where they are ready and willing to seek education and begin changing their behaviors. In this particular case, the debtors were open to information presented during the counseling and education courses and willing to apply this information to improve their finances. For some, this may have been because they felt that they had no other choice and were in serious enough financial trouble that they needed to change their behaviors.

The fact that there was, on average, little movement between the different stages during the counseling and education process was expected. One would not expect to see large and immediate changes in participants' behaviors after a 60- to 90-minute counseling session or a two-hour education course. It is difficult to change individuals' behavior using a short educational program. Most one or two-hour programs focus on raising individuals' awareness about the reality of their financial situation and boosting individuals' motivation and confidence levels so they can move towards changing their behaviors in the future (Jayaratne, Lyons, & Palmer, 2007). For actual behavior change to occur, some time needs to pass and/or counselors and educators need to have more contact hours with the participants.

In addition, individuals' financial situations may need to improve before change can occur – in this case, debtors may first need to file for bankruptcy and discharge their debts. Until that time, debtors' actions may be constrained not only by their financial situation but also by the courts that are supervising them. Thus, it is unlikely to find significant changes in behavior between the counseling session and education course, which according to MMI data is 2.6 months on average. Follow-up data are needed to determine whether debtors actually put into practice their intended behaviors after the discharge.[39]

With this said, the results from this study showed that debtors were closer to taking action when the financial behaviors were not as dependent on their current financial position or the bankruptcy discharge. This finding suggests that there may be a hierarchy of change related to debtors' financial behaviors. In other words, debtors may first try to change those behaviors that are easiest to implement such as budgeting, comparison shopping, and

[39] Research suggests, however, that many bankrupt families remain plagued by financial problems even after filing and discharging their debts (Porter & Thorne, 2006).

organizing financial records. They may then focus on implementing behaviors that are more difficult to change such as saving more money and paying bills. Recall that Xiao, Sorhaindo, and Garman (2006) also found evidence that the financial behaviors of debtors may be hierarchical in nature.

Movements in financial behavior were also examined, not only at the sample means, but across the individual stages of behavior change. Specifically, this study looked at how the percentage of debtors in each stage changed before and after the counseling and education. Two directions of movement were found in the data. Some debtors went from “do not plan to do” to “plan to do” (i.e., *precontemplation* and *contemplation* stages to the *preparation* stage). These debtors likely became aware of their financial behaviors and recognized the need to change these behaviors during the counseling and education. Other debtors moved from “have been doing” to “plan to do” (i.e., *action* and *maintenance* stages to the *preparation* stage). This movement likely occurred for a couple of reasons. Some of these debtors were simply indicating their commitment to continuing their behaviors after the counseling and education. However, others went from “doing” to “planning to do,” because they thought they have been doing the behaviors beforehand, but realized by the end of the counseling and education that they had not been doing the behaviors. In these instances, participants' motivation and frame of reference changed during the courses, resulting in a "response-shift effect," where participants became more aware of their own behaviors and practices after acquiring new knowledge (e.g., Lamb, 2005; Lamb & Tschillard, 2005). Thus, debtors who had financial problems may have “known” the basic financial concepts and they may have thought they were doing them until they had to actually think about them and take stock of their situation.

While it was not the focus of this study, it is important to acknowledge that psychological factors also may have affected debtors’ motivations, attitudes, and perceived abilities, which in turn, may have influenced their responses to the behavior questions. For instance, if debtors felt discouraged by their current financial situation or that their financial situation was out of their control, they may have been more likely to respond that they were not yet able to change their behaviors, regardless of the counseling or education. At the same time, they may have believed that they would soon be getting a “fresh start,” which resulted in their being more likely to respond that they were planning to change their behaviors in the near future. Thus, some of the changes in behavioral awareness and intentions may not have had anything to do with the counseling or education.

Yet, the qualitative responses provide evidence that the counseling and education likely had a positive impact on debtors’ behavioral awareness and intentions. Specifically, debtors’ responses reflected the key financial concepts covered during the counseling and education, and the responses tended to be action-oriented. Debtors were very specific about the steps and actions they were planning to take to improve their financial situation, indicating their readiness and willingness to change their behaviors.

In the end, over 94.0% of debtors felt that their overall ability to manage their finances had improved as a result of the counseling. Over 98.0% felt that their overall ability had improved as a result of the education. All in all, debtors’ financial literacy likely improved as a result of MMI's counseling. Moreover, even after participating in the counseling, debtors’ financial literacy likely continued to improve as a result of the education.

Implications for Legislation and Education

Overall, the findings from this study have important legislative and educational implications. From a legislative perspective, the results provide valuable insight into whether the counseling and education requirements are serving their intended purposes. Recall that these requirements were included to help debtors make an informed choice about bankruptcy and to help them better manage their money and avoid future financial problems. There has been an ongoing debate about whether the current bankruptcy legislation should continue to require debtors to complete both the counseling and education. Discussions have tended to favor keeping the education requirement and repealing the counseling requirement (e.g., Gross and Block-Lieb, 2005). Most of these discussions come back to three key arguments that were made prior to the passing of the legislation (e.g., Braucher, 2001; Dickerson, 1999; Hoffman, 1999; Stehl, 1999).

The first argument is that the counseling requirement may not be serving its intended purpose of helping debtors make an informed choice about whether to file bankruptcy. Instead, it may be serving as an administrative obstacle to those who are overwhelmed financially and have no other option but to file for bankruptcy. The legal profession has argued that the vast majority of debtors are already in dire financial trouble by the time they get to the counseling such that debtors have few viable alternatives to bankruptcy. Also, while some debtors report that their financial problems are due to poor financial management, most report that their problems are the result of unexpected life events that put them in a precarious financial position that has little to do with their financial management skills (e.g., Block-Lieb, Gross, & Wiener, 2002; Sullivan, Warren, & Westbrook, 2000). Empirical evidence from this study confirms that a large percentage of debtors' financial problems were due to unexpected events such as unemployment, health problems and medical bills, and divorce or separation (see again Tables 2 and 7). However, a substantially large percentage reported that their financial problems were also due to poor credit management practices such as excessive use of credit, unnecessary spending, delinquent housing payments, and high interest rate loans.[40] Thus, there may be value in having debtors complete the counseling and education requirements, especially since both appear to be having an impact.

A second claim is related to the previous argument that debtors' financial problems are largely due to events that are out of their control rather than financial mismanagement. The argument is that these debtors may be highly knowledgeable about their finances. So why should they have to complete the counseling and education requirements? In instances where the debtors already know financially what they need to do, the requirements may not be serving their intended purpose of helping debtors to better manage their money and avoid future financial problems (e.g., Dickerson, 1999). These debtors may be less likely to benefit from the requirements than debtors with financial problems that primarily resulted from financial mismanagement. Since this study found that debtors already knew much of the course content beforehand, this argument may be somewhat valid. Unexpected shocks though can still lead individuals to make bad, or even desperate, financial decisions that may only make a bad situation worse. Similarly, bad decisions can be made worse with unexpected, additional financial shocks. Thus, even in cases where individuals experience large shocks over which they have little control, there may still be a role for counseling and education. In this study, significant gains in knowledge were found overall, suggesting that debtors had something to learn from the counseling and education, regardless of the reasons for their financial problems or bankruptcy filing. Moreover, the greatest gains in knowledge for the education course were for questions related to credit use and debt management.

The final argument is related to the timing of the counseling and education requirements. The general claim has been that the counseling and education requirements are unlikely to solve the U.S. debt crisis and bankruptcy problem, because what debtors really need is *not* education on how to avoid financial problems *after* the fact (e.g., Dickerson, 1999). They need this information and education *before* their financial problems occur. Financial counselors and educators face a difficult challenge. Ideally, they would like to prevent individuals from getting into financial trouble in the first place, by providing them with the skills necessary to better manage their finances and build a secure financial future *before* potential problems occur. To date, there are thousands of financial education programs and counseling services available to U.S. consumers (e.g., Lyons, 2005; Lyons et al., 2006). Many of these programs and services are offered for free or at a nominal cost to individuals who voluntarily choose to participate in them. However, many providers are struggling with how to attract and encourage participation. Even when financial incentives are offered, participation rates are not where many providers would like them to be.

Under BAPCPA, all debtors are required to complete a credit counseling session prior to filing for bankruptcy and a financial education course prior to the discharge. Some have argued that this is not the ideal time to put in place educational mandates when debtors are in serious financial trouble and have no other option but to file bankruptcy. However, it is the only mechanism currently available at the national level which helps to ensure that financially overwhelmed debtors receive some type of financial education. Moreover, it is not clear if there is a better timing for bankruptcy filers. Some have argued that the financial education should be postponed until after debtors have completed the entire bankruptcy process. However, when someone is diagnosed with a serious illness, medical professionals do not postpone treatment, rather treatment begins immediately. Similarly, when someone is in financial crisis, it may be better to make the education available as soon as possible. Even if debtors are unable to implement changes during the bankruptcy process, the goal of the education can still be to provide them with the skills necessary to make the appropriate financial changes when the timing is right for them given their particular financial situation.

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[40] The National Foundation for Credit Counseling (2006a) reported that "most consumers cited poor money management as their primary reason for requiring bankruptcy counseling followed by loss of income and medical expenses." In 2007, it also reported that "poor money management/excessive spending" was the number one reason consumers planned to file for bankruptcy (2006b).

Overall, the findings from this study suggest that participating in the counseling and education under the existing timeline is a beneficial exercise for debtors. However, since debtors may be unable to make significant changes during the bankruptcy process, there may be an opportunity to provide some form of additional counseling and/or education *after* the bankruptcy process, perhaps two or three months later. With this said, it is possible that debtors could gain more from the counseling and education under a different timeline. However, there is currently little empirical evidence to suggest this might be the case. Future research is needed to determine what happens to debtors after they have completed the bankruptcy process. These issues are being explored in Phase II of this project.

With regards to the format and delivery of the counseling and education, researchers have argued that debtors in serious financial trouble who need to file for bankruptcy have different financial needs than those of the general consumer population (e.g., Block-Lieb, Gross, & Wiener, 2002; Thorne & Porter, 2007). According to Thorne and Porter (2007), "Curricula for bankrupt families will be most relevant and helpful if they are carefully tailored to the particular needs of this group; the content of the education must respond to the realities of families' lives after they file bankruptcy." This study also found differences in knowledge gains for certain demographic groups as well as differences in financial circumstances and reasons for filing, suggesting that the financial needs among bankruptcy filers may also vary. Thus, a "one-size-fits-all" bankruptcy education program may not be ideal for all debtors and bankruptcy filers. Yet, Block-Lieb, Gross, and Wiener (2002, p. 508) point out that: "Even if the reasons for debtors' filings are vastly different from the other and involve a complex intersection of endogenous and exogenous factors, debtors can all benefit from information on how to get back on the road to, or maintain and nurture, financial solvency." The following are some specific educational lessons that can be gained from this MMI bankruptcy study.

From an educational perspective, the findings from this study shed light on how the current format and criteria for bankruptcy counseling and education might be improved. Consider first the content of the courses themselves. While the results from this study showed that debtors' knowledge of basic financial concepts likely improved as a result of the counseling and education, they also showed that a large proportion of debtors already knew many of the basic concepts beforehand. This does not mean to suggest that the content of the courses was ineffective in reaching debtors – it just means that the topics covered may not have been the best at meeting their financial needs.

Qualitative findings further revealed that debtors had preferences for certain financial topics including credit reports and credit scores, rebuilding credit, and staying debt free. Topics related to budgeting, comparison shopping, saving money, and consumer fraud were also identified as being useful. Given this, the U.S. Trustee Program may want to reconsider the list of financial topics it requires all approved providers to cover. Specifically, it may want to revise its requirements to encompass a more specialized and contextualized curriculum for bankrupt families that helps them to better recover from bankruptcy and achieve long-term financial security. The result might be a "fresh start" program that helps them better deal with their most immediate financial concerns such as rebuilding credit, checking and monitoring credit reports and credit scores, comparing credit offers, using credit more wisely, avoiding predatory lending practices, and being financially prepared for the unexpected.

Recall that the qualitative findings from the education course also revealed that some debtors had a preference for more individualized, one-on-one education. Thus, there could be an opportunity to provide more tailored types of education to debtors based on their specific financial situation and their main reasons for filing for bankruptcy. As previously mentioned, there could also be an opportunity to supplement the education with additional financial counseling or "financial coaching" that helps debtors set personalized financial goals and provides regular motivation and stimuli for achieving those goals.

Along with course content, there has been considerable debate over delivery methods. When the legislation was being written, it was envisioned that the primary form of delivery for the courses would be in-person. However, almost immediately after the legislation was passed, consumer demand and issues related to program costs and efficiency quickly resulted in the development of telephone courses, followed by Internet-based courses. To date, telephone and Internet-based courses are the predominant choice of delivery (National Foundation for Credit Counseling, 2006a, 200b).[41]

[41] According to the National Foundation for Credit Counseling (2006b), in-person courses accounted for only 15.0% of the counseling and slightly more than 38.0% of the education in the first year of the new bankruptcy law.

When MMI and other approved providers began offering bankruptcy counseling and education via telephone and the Internet, there was question as to whether these methods of delivery would be as effective as in-person methods. While this initial study does not compare delivery methods, it does provide evidence that the telephone courses likely had a positive impact on the financial knowledge and behavioral intentions of debtors. Also, the qualitative information suggests that debtors found the telephone courses to be useful and of quality. The results from Phase II will examine the effectiveness of online counseling and education.

Challenges and Limitations

Evaluating the educational impact of the bankruptcy counseling and education is not an easy or simple task. There were a number of challenges in carrying out this particular evaluation study. For this reason, readers need to be somewhat cautious when interpreting the findings. The following are a few of the challenges and how they may have limited the analysis. Identifying and addressing these issues helps to better inform others who are looking to evaluate similar programs.

Consider first the dynamics that were going on in 2005 and 2006 when MMI was designing its study and collecting impact data. This was the first year the legislation went into effect, and the U.S. Trustee Program was still developing its approval and oversight procedures. Also, consumers were confused about the new bankruptcy process, especially the timeline for when they needed to complete the credit counseling, file for bankruptcy, complete the education course, and discharge their debts. Some of this confusion was due to miscommunication between consumers and attorneys, who were also confused about the process and shared inaccurate information with their clients.

Several unexpected changes in consumer demand and preferences for in-person, telephone, and Internet-based delivery also occurred during this time. These factors resulted in MMI having to quickly adjust its services as events unfolded. Rapid changes in MMI's programming, delivery, and staffing affected its ability to carry out the initial study design. The goal had been to link counseling and education information for clients who had completed both MMI's counseling and education and then follow up with them. Administrative and logistical constraints prevented MMI from effectively following through with this in the end. Currently, these constraints have been resolved. In Phase II of the study, participants are being tracked and a follow-up is being conducted.

However, because Phase I did not include a follow-up, inferences can only be made in this study about debtors' ability to retain, implement, and maintain changes over time in financial knowledge, attitudes, and behavior. Did debtors actually use the information they learned? Did they put into practice their intended behaviors? This is what everyone wants to know, but it is very difficult to document these types of impact even with follow-ups and control groups (Lyons & Neelakantan, 2008).

Throughout this study, the following questions were asked: What are we trying to measure? How do we know if the courses are successful? What financial indicators and outcome measures should we be using? These questions have been raised repeatedly in the financial education literature with little consensus (e.g., Clancy & Carroll, 2007; Lyons, 2005; Lyons & Neelakantan, 2008; Lyons, Palmer, Jayaratne, & Scherpf, 2006). Also, the evaluation methods and measures used in previous research vary widely across programs and academic disciplines, making it difficult to design a single effective approach.

The indicators and outcomes for this study were selected based on course content, the bankruptcy process, debtors' personal attributes, and administrative constraints. In other words, the challenge was to design a set of concise evaluation tools that could be administered to a very heterogeneous population in a short amount of time. For this reason, it is possible debtors may have learned information and skills that were not captured by the pre- and post-tests. In addition, the qualitative information suggests that debtors may have found the courses beneficial in ways that the surveys were unable to quantitatively measure. Since the bankruptcy process often spanned several months, it is possible that other external factors also may have affected debtors' financial knowledge and abilities during this time. The follow-up for Phase II has been designed to take these factors into consideration.

Finally, it is important to acknowledge that the findings from this study are based on data collected from a single credit counseling agency. For this reason, the findings cannot be generalized to the population of approved bankruptcy counseling and education providers or to the population of U.S. debtors and bankruptcy filers. With this said, MMI is the largest nonprofit credit counseling agency in the country and offers bankruptcy counseling and education in all 50 states. Thus, the results may be fairly representative, especially since many of the findings appear to be consistent with previous research.

Future Directions

It has been three years since the new bankruptcy law was passed. The U.S. is currently in an economic downturn, the housing market is in crisis, and bankruptcies are again on the rise. Yet, there continues to be debate about whether debtors should be required to complete both the credit counseling and debtor education requirements. Given the current economic climate, it is becoming more difficult to argue against a financial literacy requirement. Yet, very little is still known about the actual costs and benefits of providing bankruptcy counseling and education to debtors as the benefits may not be truly realized until decades from now.

This study is among the first to formally evaluate the educational impact of *both* the bankruptcy counseling and education requirements. In this sense, it provides a starting place for future research and discussions on how to effectively measure and implement bankruptcy counseling and education. However, more empirical research measuring the effectiveness of the requirements is needed.

Currently, MMI is taking what has been learned from the initial analysis and is entering into Phase II of the project. Phase II tracks a sample of debtors through MMI's *online* bankruptcy counseling and education and follows up with them in three to six months. Survey instruments have been revised to collect more detailed financial and educational information. Since debtors appear to be having difficulty changing their financial behaviors prior to the bankruptcy discharge, the evaluation methods also have been revised to move away from using the TTM framework. It is anticipated that the results from Phase II will provide valuable insight into whether Internet-based courses are an effective means of delivery. To date, there is little, if any, empirical research that measures the effectiveness of online bankruptcy counseling and education.

APPENDIX A1
Knowledge Questions for Bankruptcy Counseling and Education Surveys

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<u>Bankruptcy Counseling (5 knowledge questions)</u>

1. Goals should only be made for long-term plans such as homeownership, college tuition, or retirement. True False
2. Fixed expenses are expenses that typically change from month to month such as food, clothing, and utilities. True False
3. Net income is defined as the income you take home from your paycheck. True False
4. Unsecured loans are loans that are tied to property or collateral. True False
5. An example of a priority expense is a mortgage payment, because if the payment is late the homeowner runs the risk of foreclosure. True False

<u>Bankruptcy Education (10 knowledge questions)</u>

1. Goals should only be made for long-term plans such as homeownership, college tuition, or retirement. True False
2. A need is something that is unnecessary but desired, and a want is something that is a necessity. True False
3. Fixed expenses are expenses that typically change from month to month such as food, clothing, and utilities. True False
4. Higher deductibles on insurance will lower your premiums but increase your risk of out-of-pocket expenses. True False
5. Gross income is defined as income after taxes and other withholdings have been subtracted from net income. True False
6. Financial experts recommend having an emergency fund that is equal to 3-6 months worth of living expenses. True False
7. Approximately 10% of an individual's credit score is determined by their payment history. True False
8. A debt-to-income ratio of more than 20% may indicate that a person has borrowed too much relative to their income. True False
9. Credit reports contain information on past employers, race, and medical history. True False
10. Credit reports can affect an individual's ability to get a job, purchase a home, and obtain home and auto insurance. True False

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APPENDIX A2

Financial Practices for Bankruptcy Counseling and Education Surveys

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Bankruptcy Counseling (8 financial practices)

1. Set financial goals.
2. Save money regularly for unplanned expenses.
3. Track income and expenses.
4. Reduce impulse spending and cut unnecessary expenses.
5. Review income and expenses before making large purchases.
6. Organize and maintain a filing system for bills and financial records.
7. Pay bills on time each month.
8. Compare prices before making purchases.

Bankruptcy Education (10 financial practices)

1. Set short and long-term financial goals.
2. Save money regularly.
3. Use a spending plan to track income and expenses.
4. Reduce impulse spending and cut unnecessary expenses.
5. Review income and expenses before making large purchases.
6. Pay bills on time each month.
7. Review bills each month for accuracy.
8. Compare prices before making purchases.
9. Learn how to re-establish credit.
10. Search for more favorable credit terms as credit standing improves.

APPENDIX A3

Profile of Bankruptcy Counseling Participants According to Knowledge Gain (N=4,310)

Mean Percentages	All Counseling Participants (N=4,310)	Increase in Knowledge (n=1,888)	No Increase in Knowledge[a] (n=2,422)
Age			
Under 26	5.3	5.6	5.2
26-35	21.9	22.2	21.6
36-45	29.6	28.7	30.3
46-55	23.9	23.3	24.4
56-65	12.9	13.6	12.3 *
Over 65	6.4	6.6	6.3
Gender			
Female	54.8	54.9	54.8
Male	45.2	45.1	45.2
Education Level			
Less than high school	8.0	10.3	6.2 ***
High school (or GED)	37.4	40.3	35.2
Some college	37.1	36.0	38.0
College or graduate degree	17.4	13.4	20.6 ***
Marital Status			
Married	39.7	37.8	41.2
Divorced/Separated	27.9	27.9	28.0
Single/Never married	27.5	28.9	26.4
Widowed	4.9	5.4	4.5 ***
Race/Ethnicity			
Caucasian/White	64.1	61.7	65.9
African-American/Black	21.3	23.8	19.3 ***
Hispanic/Latino	9.4	9.9	9.0 *
Asian/Pacific Islander	2.3	1.9	2.6 ***
Other	2.9	2.7	3.1 ***
Employment Status			
Working full-time	63.9	63.3	64.3
Working part-time	8.4	8.3	8.4
Not currently working	27.8	28.3	27.3
Household income (before taxes)			
$0 (Not working)	6.2	5.8	6.6 **
$1-$20,000	25.8	27.4	24.5 *
$20,001-$40,000	40.0	41.5	38.8
$40,001-$60,000	17.9	17.1	18.6
$60,001-$80,000	6.9	5.9	7.6 ***
Over $80,000	3.2	2.2	3.9 ***

Note: Percentages may not sum to exactly 100% due to rounding. * $p<0.10$; ** $p<0.05$; *** $p<0.01$ (Chi-squared tests were used to test whether there was a significant difference in means across the knowledge categories.)

[a] The category of debtors who experienced "No Increase in Knowledge" includes those who experienced no change (50.1%) or a decrease in knowledge (8.5%).

APPENDIX A3 (conti.)

Profile of Bankruptcy Counseling Participants According to Knowledge Gain (N=4,310)

Mean Percentages	All Counseling Participants (N=4,310)	Increase in Knowledge (n=1,888)	No Increase in Knowledge (n=2,422)
Factors contributing to financial problems			
Loss of employment	53.5	51.6	55.0
Health problems / medical bills	50.7	49.7	51.4
Excessive use of credit	39.1	40.5	38.1
Divorce or separation	16.8	16.6	16.9
Business loss	14.3	13.1	15.2 ***
Death of a spouse or other loved one	12.9	14.0	12.1 ***
Addiction	5.0	5.3	4.8 **
Reported the following in last 12 months			
Needed emergency repairs	56.0	54.8	57.0
Missed work / short on income	40.7	41.6	40.0
Used a payday loan, etc.	26.4	28.0	25.2
Used one credit card to pay off another	23.0	22.9	23.1
Delayed loan payments to pay credit cards	17.5	18.4	16.8
Willingness to improve financial situation			
Reduce expenses	95.4	95.7	95.2 **
Increase income	76.9	76.3	77.3
Make lifestyle adjustments	63.8	64.7	63.2
Used credit counseling in the past			
Yes	19.0	18.1	19.8
No	81.0	81.9	80.2
Will consider seeking credit counseling in future			
Yes	98.6	98.8	98.5 ***
No	1.4	1.2	1.5

APPENDIX A4

Profile of Bankruptcy Education Participants According to Knowledge Gain (N=2,713)[a]

Mean Percentages	All Education Participants (N=2,713)	Increase in Knowledge (n=1,201)	No Increase in Knowledge[b] (n=1,512)
Age			
Under 26	5.2	6.2	4.4 ***
26-35	19.9	20.4	19.5
36-45	22.9	23.9	22.2
46-55	24.5	24.3	24.7
56-65	14.9	14.1	15.5
Over 65	12.6	11.2	13.8***
Gender			
Female	60.0	58.5	61.2
Male	40.0	41.5	38.8
Education Level			
Less than high school	11.2	10.7	11.6
High school (or GED)	42.9	41.5	44.0
Some college	32.8	34.0	31.9
College or graduate degree	13.0	13.9	12.4 *
Marital Status			
Married	44.7	47.0	42.9
Divorced/Separated	29.4	27.3	31.1
Single/Never married	19.2	20.0	18.5
Widowed	6.7	5.7	7.5 ***
Race/Ethnicity[c]			
Caucasian/White	70.5	70.9	70.1
African-American/Black	14.1	14.8	13.6
Hispanic/Latino	9.8	9.6	10.0
Asian/Pacific Islander	3.1	2.6	3.6 ***
Other	2.7	2.4	3.0 ***
Employment Status			
Working full-time	51.3	52.9	50.0
Working part-time	12.6	11.8	13.2 *
Not currently working	36.2	35.3	36.8
Household income (before taxes)			
$0 (Not working)	10.9	10.9	10.9
$1-$20,000	30.4	28.4	32.1
$20,001-$40,000	38.3	37.6	38.8
$40,001-$60,000	15.1	17.5	13.3 ***
$60,001-$80,000	4.2	4.9	3.6 ***
Over $80,000	1.1	0.7	1.3 ***

Note: Percentages may not sum to exactly 100% due to rounding. Also, for some questions, participants were given several options and asked to check all that applied. In these instances, percentages may sum to more than 100%.
* p<0.10; ** p<0.05; *** p<0.01 (Chi-squared tests were used to test whether there was a significant difference in means across the knowledge categories.)
[a] All bankruptcy education participants completed both their bankruptcy counseling and education with MMI.
[b] The category of debtors who experienced "No Increase in Knowledge" includes those who experienced no change (37.3%) or a decrease in knowledge (18.4%).
[c] Some bankruptcy education participants chose not to respond to the survey question related to race/ethnicity (n=164). Observations with missing information for race/ethnicity were not deleted. For this reason, the number of observations for this particular survey question (n=2,549) is less than that for the other survey questions (N=2,713).

APPENDIX A4 (conti.)

Profile of Bankruptcy Education Participants According to Knowledge Gain (N=2,713)

Mean Percentages	All Education Participants (N=2,713)	Increase in Knowledge (n=1,201)	No Increase in Knowledge (n=1,512)
Reasons why debtors filed for bankruptcy:			
Loss of employment	54.3	57.9	51.4
Health problems / injury / costly medical bills	42.9	41.6	44.0
Excessive use of credit / unnecessary spending	40.3	39.8	40.7
Car or other property was being repossessed	32.6	34.8	30.9
Divorce or other family problems	23.2	24.7	22.0
Late on mortgage payments / foreclosure on house	17.2	20.5	14.6 ***
Use of payday loan, rent-to-own, title loan, etc.	13.7	12.7	14.6 **
Death of a spouse or other loved one	12.2	13.5	11.2 ***
Business loss / excessive business expenses	10.2	9.7	10.5
Addiction (such as gambling, drug use, etc.)	6.3	6.5	6.2
A large unexpected expense	9.6	9.8	9.5
Other	19.1	19.1	19.1
Chapter debtors filed under:			
Chapter 7	91.2	91.2	91.3
Chapter 13	8.8	8.8	8.7
Type of petition filed:			
Single petition	62.1	59.9	63.8
Joint petition	37.9	40.1	36.2
Region of the country where debtors reside:			
Northeast: New England Division	5.0	4.7	5.2 **
Northeast: Middle Atlantic Division	11.5	11.7	11.3
South: South Atlantic Division	8.8	8.3	9.1
South: East South Central Division	6.6	7.6	5.8 ***
South: West South Central Division	9.7	9.3	9.9
Midwest: East North Central Division	29.0	28.6	29.3
Midwest: West North Central Division	6.1	6.3	6.0
West: Mountain Division	9.9	10.8	9.1 ***
West: Pacific Division	13.6	12.7	14.3

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TABLE 1

Demographic Profile of Bankruptcy Counseling and Debtor Education Participants

Mean Percentages	Counseling Participants (N=4,310)	Education Participants[a] (N=2,713)
Age		
Under 26	5.3%	5.2%
26-35	21.9%	19.9%
36-45	29.6%	22.9%
46-55	23.9%	24.5%
56-65	12.9%	14.9%
Over 65	6.4%	12.6%
Gender		
Female	54.8%	60.0%
Male	45.2%	40.0%
Education Level		
Less than high school	8.0%	11.2%
High school (or GED)	37.4%	42.9%
Some college	37.1%	32.8%
College or graduate degree	17.4%	13.0%
Marital Status		
Married	39.7%	44.7%
Divorced/Separated	27.9%	29.4%
Single/Never married	27.5%	19.2%
Widowed	4.9%	6.7%
Race/Ethnicity[b]		
Caucasian/White	64.1%	70.5%
African-American/Black	21.3%	14.1%
Hispanic/Latino	9.4%	9.8%
Asian/Pacific Islander	2.3%	3.1%
Other	2.9%	2.7%
Employment Status		
Working full-time	63.9%	51.3%
Working part-time	8.4%	12.6%
Not currently working	27.8%	36.2%
Household income (before taxes)		
$0 (Not working)	6.2%	10.9%
$1-$20,000	25.8%	30.4%
$20,001-$40,000	40.0%	38.3%
$40,001-$60,000	17.9%	15.1%
$60,001-$80,000	6.9%	4.2%
Over $80,000	3.2%	1.1%

Note: Percentages may not sum to exactly 100% due to rounding.

[a] All debtor education participants completed both their bankruptcy counseling and debtor education with MMI.

[b] A noticeable number of bankruptcy education participants chose not to respond to the survey question related to race/ethnicity (n=164). Observations with missing information for race/ethnicity were not deleted. For this reason, the number of observations for this particular survey question (n=2,549) is less than that for the other survey questions (N=2,713).

TABLE 2
Financial Circumstances of Bankruptcy Counseling Participants (N=4,310)

Clients who reported the following as contributing to their financial problems:	
Loss of employment (unemployed, employer reduced hours, or spouse out of a job)	53.5%
Health problems / injury / costly medical bills	50.7%
Excessive use of credit / unnecessary spending	39.1%
Divorce or separation	16.8%
Business loss / excessive business expenses	14.3%
Death of a spouse or other loved one	12.9%
Addiction (such as gambling, drug use, etc.)	5.0%
Clients who reported the following in the last 12 months:	
Needed emergency repairs (for car, home, etc.)	56.0%
Missed work and had been short on income	40.7%
Used a payday loan, rent-to-own, title loan, or other high interest rate loan	26.4%
Used one credit card to pay off another	23.0%
Delayed housing/auto payments to make credit card payment	17.5%
Clients who were willing to do the following to improve their financial situation:	
Reduce expenses (stop eating out, eliminate vacations)	95.4%
Increase income (get a second job, work more hours)	76.9%
Make lifestyle adjustments (downsize to a smaller home, move in with family/friends)	63.8%
Clients who reported using credit counseling in the past:	
Yes	19.0%
No	81.0%
Clients who reported after the session they would consider seeking credit counseling if they have financial problems in the future:	
Yes	98.6%
No	1.4%

Note: For some questions, participants were given several options and asked to check all that applied. In these instances, percentages may sum to more than 100%.

TABLE 3

Changes in Financial Knowledge for Bankruptcy Counseling Participants (N=4,310)

Knowledge Statement	% Correct Pre-Counseling	% Correct Post-Counseling	Net Change in Knowledge[a]
1. Goals should only be made for long-term plans such as homeownership, college tuition, or retirement.	62.9%	78.5%	+ 15.5% ***
2. Fixed expenses are expenses that typically change from month to month such as food, clothing, and utilities.	46.7%	72.4%	+ 25.7% ***
3. Net income is defined as the income you take home from your paycheck.	93.5%	97.6%	+ 4.0% ***
4. Unsecured loans are loans that are tied to property or collateral.	75.0%	84.0%	+ 9.0% ***
5. An example of a priority expense is a mortgage payment, because if the payment is late the homeowner runs the risk of foreclosure.	96.2%	97.6%	+ 1.4% ***
Average Knowledge Score[b]	**74.9%**	**86.0%**	**+ 11.1%*** **

[a] Net change in knowledge is defined as the difference between the pre- and post-test scores.
[b] Average knowledge score = (Total correct/Number of knowledge statements)
* p<0.10; ** p<0.05; *** p<0.01 (The significance level, *p*, indicates whether differences in pre- and post-test values were statistically significant based on a two-tailed t-test.)

TABLE 4

Changes in Financial Practices for Bankruptcy Counseling Participants (N=4,310)

Financial Practice	Mean Stage of Change Pre-Counseling[a]	Mean Stage of Change Post-Counseling[a]	Net Change in Movement[b]
1. Set financial goals.	3.38	3.41	0.03 **
2. Save regularly for unplanned expenses.	2.82	3.00	0.18 ***
3. Track income and expenses.	3.76	3.72	- 0.04 **
4. Reduce impulse spending and cut unnecessary expenses.	3.93	3.86	- 0.07 ***
5. Review income and expenses before making large purchases.	3.92	3.95	0.03 *
6. Organize and maintain a filing system for bills and financial records.	3.92	3.89	- 0.03 **
7. Pay bills on time each month.	3.52	3.52	0.00
8. Compare prices before making purchases.	4.28	4.15	- 0.13 ***
Average Behavior Score[c]	**3.69**	**3.69**	**0.00**

[a] Mean scores are based on the 5 stages of change, where 1=Do not plan to do; 2= Plan to do in the next 2-6 months; 3= Plan to do in the next month; 4=Have been doing for 1-6 months; 5=Have been doing for more than 6 months.

[b] "Net change in movement" indicates whether a participant's behavior changed between the pre- and post-counseling. This measure is not ordinal in nature, and so a positive change in movement does not necessarily imply a positive change in behavior. Similarly, a negative change in movement does not necessarily imply a negative change in behavior. The measure simply reflects movements along a continuum of behavior change.

[c] Average behavior score = (Total score/number of financial practices)

* $p<0.10$; ** $p<0.05$; *** $p<0.01$ (The significance level, *p*, indicates whether differences in pre- and post-test values were statistically significant based on a two-tailed t-test.)

TABLE 5

Financial Practices for Bankruptcy Counseling Participants According to Five Stages of Change (N=4,310)

Financial Practice[a]	Do not plan to do	Plan to do in the next 2-6 months	Plan to do in the next month	Have been doing for 1-6 months	Have been doing for more than 6 months
1. Set financial goals.					
Pre-test	4.2%	19.5%	34.9%	16.5%	24.8%
Post-test	1.3%	18.4%	42.6%	13.2%	24.5%
2. Save regularly for unplanned expenses.					
Pre-test	8.7%	32.9%	38.0%	8.5%	12.0%
Post-test	2.3%	28.8%	48.1%	7.6%	13.1%
3. Track income and expenses.					
Pre-test	3.5%	12.3%	26.9%	19.4%	38.0%
Post-test	0.9%	12.0%	36.9%	14.3%	35.9%
4. Reduce impulse spending and cut unnecessary expenses.					
Pre-test	2.8%	8.2%	23.3%	24.5%	41.2%
Post-test	1.3%	8.4%	32.9%	18.2%	39.2%
5. Review income and expenses before making large purchases.					
Pre-test	4.9%	9.0%	21.9%	17.3%	46.9%
Post-test	2.0%	8.6%	28.5%	14.2%	46.6%
6. Organize and maintain a filing system for bills and financial records.					
Pre-test	3.1%	9.6%	25.0%	16.7%	45.6%
Post-test	1.0%	9.7%	32.1%	13.6%	43.7%
7. Pay bills on time each month.					
Pre-test	2.3%	17.1%	36.8%	13.7%	30.0%
Post-test	0.7%	15.9%	42.7%	11.7%	28.9%
8. Compare prices before making purchases.					
Pre-test	2.2%	5.5%	15.5%	15.5%	61.3%
Post-test	0.9%	6.2%	24.6%	13.6%	54.7%

[a] For each financial practice, the percentage of participants in the five categories is reported. Percentages may not sum to exactly 100% due to rounding.

TABLE 6

Summary of Qualitative Findings Collected from Bankruptcy Counseling Participants

Prior to completing the counseling session, what options did debtors consider for dealing with their financial situation?

- Tried to borrow money from family or friends
- Tried to borrow from creditors / tried to get a personal loan / tried to refinance home
- Tried to work with creditors to renegotiate loans
- Debt consolidation
- Credit counseling / debt management plan
- Tried to handle on own
- Increased income (Worked more hours / took a second job)
- Decreased expenses (budgeting, cutting back)
- Made other lifestyle adjustments (i.e., sold home, assets, or other possessions)
- Did not consider any other options / felt they had no other options

After completing the counseling session, what steps or actions were debtors planning to take to improve their financial situation?

- Create and follow a budget
- Track income and expenses
- Cut out unnecessary expenses
- Avoid impulse shopping
- Organize bills and keep better financial records
- Comparison shop and evaluate purchase decisions
- Make lifestyle adjustments (e.g., reduce expenses, increase income)
- Set financial goals
- Start saving
- Save for emergencies and unplanned expenses
- Pay bills on time
- Avoid using credit cards and pay with cash
- Repay debts

Note: These were all open-ended questions. Common responses were grouped together and are summarized above.

TABLE 7

Profile of Bankruptcy Education Participants who Filed for Bankruptcy (N=2,713)[a]

Reasons why debtors filed for bankruptcy:	
Loss of employment (unemployed, employer reduced hours, or spouse out of a job)	54.3%
Health problems / injury / costly medical bills	42.9%
Excessive use of credit / unnecessary spending	40.3%
Car or other property was being repossessed	32.6%
Divorce or other family problems	23.2%
Late on mortgage payments / foreclosure on house	17.2%
Use of payday loan, rent-to-own, title loan, or other high interest rate loan	13.7%
Death of a spouse or other loved one	12.2%
Business loss / excessive business expenses	10.2%
Addiction (such as gambling, drug use, etc.)	6.3%
A large unexpected expense	9.6%
Other	19.1%
Chapter debtors filed under:	
Chapter 7	91.2%
Chapter 13	8.8%
Type of petition filed:	
Single petition	62.1%
Joint petition	37.9%
Region of the country where debtors reside:	
Northeast: New England Division (CT, ME, MA, NH, RI, VT)	5.0%
Northeast: Middle Atlantic Division (NY, NJ, PA)	11.5%
South: South Atlantic Division (DE, DC, FL, GA, MD, NC, SC, VA, WV)	8.8%
South: East South Central Division (AL, KY, MS, TN)	6.6%
South: West South Central Division (AR, LA, OK, TX)	9.7%
Midwest: East North Central Division (IL, IN, MI, OH, WI)	29.0%
Midwest: West North Central Division (IA, KS, MN, MO, NE, ND, SD)	6.1%
West: Mountain Division (AZ, CO, ID, MT, NV, UT, WY, NM)	9.9%
West: Pacific Division (AK, CA, HI, OR, WA)	13.6%

Note: Some percentages may not sum to exactly 100% due to rounding. Also, for some questions, participants were given several options and asked to check all that applied. In these instances, percentages may sum to more than 100%.

[a] All bankruptcy education participants completed both their bankruptcy counseling and education with MMI.

TABLE 8

Changes in Financial Knowledge for Bankruptcy Education Participants (N=2,713)[a]

Knowledge Statement	% Correct Pre-Education	% Correct Post- Education	Net Change in Knowledge[b]
1. Goals should only be made for long-term plans such as homeownership, college tuition, or retirement.	76.3%	78.7%	+ 2.4% ***
2. A need is something that is unnecessary but desired, and a want is something that is a necessity.	92.0%	90.5%	- 1.5% **
3. Fixed expenses are expenses that typically change from month to month such as food, clothing, and utilities.	78.9%	81.1%	+ 2.2% ***
4. Higher deductibles on insurance will lower your premiums but increase your risk of out-of-pocket expenses.	82.7%	85.7%	+ 3.0% ***
5. Gross income is defined as income after taxes and other withholdings have been subtracted from net income.	80.3%	85.8%	+ 5.5% ***
6. Financial experts recommend having an emergency fund that is equal to 3-6 months worth of living expenses.	88.5%	92.1%	+ 3.6% ***
7. Approximately 10% of an individual's credit score is determined by their payment history.	60.7%	73.9%	+ 13.2% ***
8. A debt-to-income ratio of more than 20% may indicate that a person has borrowed too much relative to their income.	78.3%	87.0%	+ 8.7% ***
9. Credit reports contain information on past employers, race, and medical history.	83.9%	89.8%	+ 6.0% ***
10. Credit reports can affect an individual's ability to get a job, purchase a home, and obtain home and auto insurance.	81.9%	90.3%	+ 8.4% ***
Average Knowledge Score[c]	**80.3%**	**85.5%**	**+ 5.1% *** **

[a] All bankruptcy education participants completed both their bankruptcy counseling and education with MMI.
[b] Net change in knowledge is defined as the difference between the pre- and post-test scores.
[c] Average knowledge score = (Total correct/Number of knowledge statements)
* $p<0.10$; ** $p<0.05$; *** $p<0.01$ (The significance level, *p*, indicates whether differences in pre- and post-test values were statistically significant based on a two-tailed t-test.)

TABLE 9

Changes in Financial Practices for Bankruptcy Education Participants (N=2,713)[a]

Financial Practice	Mean Stage of Change Pre-Education[b]	Mean Stage of Change Post-Education[b]	Net Change in Movement[c]
1. Set short and long-term financial goals.	3.16	3.11	- 0.05 **
2. Save money regularly.	2.87	2.97	0.10 ***
3. Use a spending plan to track income and expenses.	3.23	3.23	0.00
4. Reduce impulse spending and cut unnecessary expenses.	3.72	3.66	- 0.07 ***
5. Review income and expenses before making large purchases.	3.79	3.75	- 0.04 **
6. Pay bills on time each month.	3.74	3.74	- 0.00
7. Review bills each month for accuracy.	3.87	3.83	- 0.04 **
8. Compare prices before making purchases.	3.87	3.81	- 0.06 ***
9. Learn how to re-establish credit.	3.00	3.06	0.05 ***
10. Search for more favorable credit terms as credit standing improves.	2.73	2.88	0.15 ***
Average Behavior Score[d]	**3.40**	**3.40**	**0.00**

[a] All bankruptcy education participants completed both their bankruptcy counseling and education with MMI.
[b] Mean scores are based on the 5 stages to change, where 1=Do not plan to do; 2= Plan to do in the next 2-6 months; 3= Plan to do in the next month; 4=Have been doing for 1-6 months; 5=Have been doing for more than 6 months.
[c] "Net change in movement" indicates whether a participant's behavior changed between the pre- and post-education. This measure is not ordinal in nature, and so a positive change in movement does not necessarily imply a positive change in behavior. Similarly, a negative change in movement does not necessarily imply a negative change in behavior. The measure simply reflects movements along a continuum of behavior change.
[d] Average behavior score = (Total score/number of financial practices)
* $p<0.10$; ** $p<0.05$; *** $p<0.01$ (The significance level, *p*, indicates whether differences in pre- and post-test values were statistically significant based on a two-tailed t-test.)

TABLE 10

Financial Practices for Bankruptcy Education Participants According to Five Stages of Change (N=2,713)[a]

Financial Practice[b]	Do not plan to do	Plan to do in the next 2-6 months	Plan to do in the next month	Have been doing for 1-6 months	Have been doing for more than 6 months
1. Set short and long-term financial goals.					
Pre-test	4.4%	23.3%	37.2%	22.4%	12.7%
Post-test	4.7%	16.4%	51.6%	17.9%	9.4%
2. Save money regularly.					
Pre-test	5.5%	31.7%	40.7%	14.0%	8.0%
Post-test	2.9%	24.1%	52.9%	12.9%	7.2%
3. Use a spending plan to track income and expenses.					
Pre-test	6.4%	16.1%	41.2%	20.5%	15.8%
Post-test	3.0%	13.2%	54.5%	16.2%	13.1%
4. Reduce impulse spending and cut unnecessary expenses.					
Pre-test	3.0%	6.4%	32.9%	30.8%	26.9%
Post-test	1.7%	5.1%	43.0%	26.5%	23.8%
5. Review income and expenses before making large purchases.					
Pre-test	3.3%	7.5%	29.6%	25.9%	33.7%
Post-test	1.7%	5.9%	37.6%	25.0%	29.8%
6. Pay bills on time each month.					
Pre-test	2.3%	8.6%	33.7%	23.7%	31.7%
Post-test	1.5%	4.7%	41.7%	22.9%	29.2%
7. Review bills each month for accuracy.					
Pre-test	3.1%	5.4%	30.7%	22.9%	38.0%
Post-test	1.5%	3.9%	39.4%	20.5%	34.7%
8. Compare prices before making purchases.					
Pre-test	3.2%	7.4%	28.7%	20.5%	40.2%
Post-test	2.2%	6.1%	36.3%	19.5%	35.9%
9. Learn how to re-establish credit.					
Pre-test	7.5%	24.4%	40.6%	14.7%	12.8%
Post-test	5.6%	19.5%	49.3%	14.3%	11.4%
10. Search for more favorable credit terms as credit standing improves.					
Pre-test	13.1%	31.6%	35.1%	9.5%	10.7%
Post-test	7.9%	27.1%	44.2%	10.8%	10.0%

[a] All bankruptcy education participants completed both their bankruptcy counseling and education with MMI.

[b] For each financial practice, the percentage of participants in the five categories is reported. Percentages may not sum to 100% due to rounding.

TABLE 11

Summary of Qualitative Findings Collected from Bankruptcy Education Participants (N=2,713)[a]

What did debtors like most about the [bankruptcy] education program?

- Information presented was easy to follow and understand
- Course was thorough
- Information on credit reports, credit scores, rebuilding credit, and staying debt free
- Workbooks that came along with the course
- Convenience of course (availability, flexibility, and delivery options)
- Quality and personal attributes of instructors
- Atmosphere fostered during the course
- Realization debtors were not alone
- Opportunities to hear from others who were facing similar financial challenges

How could the [bankruptcy] education program be improved?

- Nothing / no improvement needed
- Offer the course online
- More days and times when courses are being offered
- More time needed to go over course materials and activities
- More personal, one-on-one attention
- Fewer individuals on the call
- More time needed to ask questions
- Provide individualized financial advice
- Resolve technical issues (calling procedures, background noise, etc.)

How will debtors manage their money differently in the future as a result of participating in the [bankruptcy education] program?

- Start a spending plan
- Make a budget and stick to it
- Track income and expenses
- Pay more attention to spending habits
- Prioritize expenses
- Cut expenses, especially unnecessary expenses and impulse spending
- Increase income (e.g., get a second job)
- Set financial goals
- Open a savings account
- Save money
- Start an emergency fund
- Repair and rebuild credit
- Check credit report
- Pay bills on time
- Avoid using credit cards
- Pay with cash
- Repay debt
- Learn to be more financially responsible
- Take better control of finances
- Make better financial decisions
- Comparison shop (e.g., compare prices, interest rates, and credit offers)
- Keep better financial records
- Will use information from course to improve financial situation
- Will use information from workbooks

Note: These were all open-ended questions. Common responses were grouped together and are summarized above.

[a] All bankruptcy education participants completed both their bankruptcy counseling and education with MMI.

TABLE 12
Debtors' Overall Satisfaction with Bankruptcy Counseling and Education (N=2,713)[a]

Mean Percentages	Strongly Disagree	Disagree	Agree	Strongly Agree
As a result of the bankruptcy counseling session:				
I feel my overall ability to manage my finances has improved.	1.0%	4.9%	63.9%	30.2%
As a result of the bankruptcy education course:				
I feel my overall ability to manage my finances has improved.	0.4%	1.3%	53.2%	45.1%
	Not Helpful	**Somewhat Helpful**	**Helpful**	**Very Helpful**
Overall satisfaction with bankruptcy education course:				
Instructor	3.5%	5.0%	30.5%	60.9%
Program materials	3.7%	5.7%	33.8%	56.9%
Overall Program	3.7%	5.2%	31.7%	59.4%
Would you recommend this bankruptcy education course to others?				
Yes	93.0%			
No	7.0%			

Note: Percentages may not sum to 100% due to rounding.
[a] All bankruptcy education participants completed both their bankruptcy counseling and education with MMI.