Guest Editor's Introduction to the Thematic Issue on Family Finance

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Three papers in this volume were selected after rigorous peer reviews from papers presented at research forums sponsored by the Center for Financial Security at the University of Wisconsin-Madison. They each reflect the important themes of the Center's research. The Center is an interdisciplinary research center that does applied research on issues of importance to the financial security of individuals and families. These papers, completed during the period that the Center was one of three national centers comprising the Social Security Administration's Financial Literacy Research Consortium, represent key issues on which the Center focuses its work: vulnerable populations, measurement of financial literacy, and the relationship between financial literacy and financial behavior.

Financial literacy implies the understanding of financial concepts relevant to one's financial circumstances and whose application in decision making would improve financial decisions to the betterment of current and/or future financial well-being. This implies that financial education is not a "one size fits all," but must be shaped to the context within which families and individuals make financial decisions, both to the current context of their lives and to their likely or preferred financial life trajectories. Improving financial literacy through education implies an understanding of what should be taught, to whom, and when. These papers highlight the complexity of financial literacy education which must take account of individual's family circumstances and initial financial beliefs and behaviors. This introduction ties these papers together by

highlighting their connection to the Center's major research themes.

The three papers all deal with different but very much related aspects of financial debt. Financing current consumption through debt can be either a boon or threat to financial security. Mortgages enable the consumption of housing services in the short run and the accumulation of an asset as the mortgage is paid off. Unsecured consumer debt allows for current consumption, which may include capital building purchases (e.g., education of self or children) but its accumulation and payments are not directly tied to the growth in family assets. Both types of debt may lead to improved family financial security or lead to financial distress. Dew's paper argues that debt matters not just for financial well-being but to family stability. Financial literacy education may be good family policy. Even if it is widely recognized that family finances matter a lot to marital satisfaction, it remains unclear what particular components of family finances matter—what types of assets and debt threaten family stability and how the acquisition process and whose decisions increase that threat. His paper shows that debt matters differently to husbands' and wives' marital satisfaction implying that education must go beyond the simple lessons of "thrift" and "savings" but must be aware of how couples make and manage financial decisions.

The paper by Levinger, Benton and Meier hypothesizes that the knowledge of one's creditworthiness matters to the wise acquisition of debt. It is far too simple to caution families against the accumulation of debt since debt can adjust for the disparity between income and consumption needs at any point in time, raising families' economic well-being over time. But debt must be timed appropriately and have interest-term conditions that are best suited to the families' financial circumstances. Families are better off if

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they can acquire debt that is financially most appropriate to their circumstances. That is what a credit score is expected to reflect—the families' ability to obtain debt of the type and on the terms most suited to their circumstances. If credit worthiness is unknown or misestimated, families may pass up or even not be aware of more favorable debt options. Whether one's creditworthiness is known and how its misinterpretation affects debt acquisition is the issue explored by these authors. Their findings also imply challenges for financial literacy education. One cannot teach simple lessons about appropriate debt behaviors, but must illuminate the complex relationship that determines what behavioral options are perceived as most favorable by consumers. Without full information about credit options families will not be able to make optimal choices even when they try to do so.

Finally, Collins' paper deals with the inefficiencies in mortgage acquisition behavior that may be due to low levels of financial literacy. Akin to Levinger et al., this paper asserts that individuals' ability to acquire and manage debt requires understanding of the process. Indeed, Collins argues that certain behaviors observed during that process indicates lack of full financial knowledge. While there are many reasons why mortgage applications may be denied or withdrawn in the process of acquiring a mortgage, the observed percentages implies that applicants may not have full information on the process (due perhaps to misinformation on their own credit worthiness) and thus engage in inefficient mortgage application behaviors. Personal and social resources are spent needlessly as applications are denied or withdrawn, and applicants may be foregoing other options that better meet their debt

acquisition goals. Collins' research shows when and for whom this seems to matter most. The results suggest the need for financial education to reflect the variation in financial literacy across demographic and economic circumstances.

Together these articles show that financial educators must appreciate that financial literacy affects all aspects of family life. It has consequences for family emotional as well as financial well-being. It is not just about dollars and cents. Debt may lead to family strife when acquired and held, but also potentially through the process itself. Family stress would surely be compounded by the discovery that better terms could have been achieved had there been full knowledge of debt options. The issue facing policy makers and financial educators is how to develop policies that respond to the wide variation in acquired financial knowledge, how to increase the knowledge available to consumers in a way that is accessible and, most important, enables the use of that knowledge in behavior. These papers are a model of research that asks how financial behaviors among the diverse U.S. population are shaped by variations in knowledge, addresses the challenges that diversity presents for financial literacy education, and describes how financial literacy education may be good family policy.

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