

Lessons On The Value Of Thrift

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Lessons on the Value Of Thrift

- The Debt Trap
- The Role of Credit Unions
- How Credit Unions Can Assist
- Building Financial Independence Through Thrift
- The Australian Experience

The Debt Trap

How did we get into this Mess?

- Ignoring Risk
- Promoting Indulgence
- Profiting from Naivety
- Greed Driving Irresponsibility

Debt Trap

- Gold Rush
 - Buy a house and get rich
 - Buy shares and get rich
- Gearing, ok in Bull markets, fatal in Bear markets
- Living beyond ones means

The Debt Trap

- US Experience littered with examples of people profiting by encouraging those with modest means to take on large levels of debts
- Margin lending, 120% loans, Low Doc Loans
- Received upfront fees with no accountability
- Where were governments ?

Paradox of Thrift

- Household savings fell from 10% of disposable income in 1980 to close to 0% in 2007
- Household debt went from 67% of disposable income to 132%
- \$US13 trillion destruction of consumer wealth
- Global crisis has led to a shift to thrift which has led to a recession
- Americans now save 5% of their after tax income

The Role of Credit Unions

- Looking After the Best Interests of Members/Customers
- Favouring a Risk Adverse culture
- Encouraging and promoting thrift in spite of short term commercial impacts

How Credit Unions can Assist

- Educating members through financial literacy initiatives
- Supporting those who fall on hard times
- Promote benefits of savings to membership base
- Develop initiatives that encourage and reward savings

How Credit Unions Can Assist

- Maintain responsible lending practices and incorporate savings plans as condition of approval
- Educate younger generation on the benefits of thrift
- Sponsor micro financing initiatives in conjunction with savings plans

Building Financial Independence through Thrift

- Building savings leads to lessening dependence on others "Banks, Governments"
- Independence allows members to better care for the interests of their families
- Thrift provides ability to deal with unforeseen events

Building Financial Independence through Thrift

- Enhancing financial wellbeing by earning interest rather than paying interest
- Able to invest in oneself to generate future income
- Demonstrate a savings culture for future generations

Australian Experience

- The introduction of Payroll Deductions
- Separate accounts to encourage responsible budgeting
- Maintain savings record before credit considered
- Require regular savings as part of loan approval

