The Debt Disparity

What Drives Credit Card Debt In America

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W hat differentiates households that accumulate and carry balances on their credit cards from those that don't have debt? Building on a national survey of 1,997 households, this study examines two groups of working age low- and middle-income households that are statistically indistinguishable in terms of income, racial and ethnic background, age, marital status and rate of homeownership—yet one group carries credit card debt, while the other has credit cards but no debt.

Contrary to popular belief, we find little evidence that households with credit card debt are less responsible in their spending habits than households that do not have accumulated debt. Instead, we see that, among similarly situated low- and middle-income households of working age, factors like education, value of assets to fall back on, insurance coverage and whether a household member has lost a job are among the foremost predictors of whether a household will accumulate credit card debt.

Among working-age low- and middle-income households, key indicators of credit card debt include:

EDUCATION: Respondents with a college degree are 22 percent less likely to be carrying credit card debt than high school graduates.

LACK OF INSURANCE COVERAGE: Households in which a member has gone without health insurance at some point in the last three years are 20 percent more likely to be carrying credit card debt than households in which no one has been uninsured.

CHILDREN: Households that include children under 18 years of age are 15 percent more likely to be carrying credit card debt than childless households.

UNEMPLOYMENT: Households where someone has been unemployed for at least two months in the last three years are 14 percent more likely to be carrying credit card debt than households that were not hit by joblessness.

SAVINGS AND HOME VALUE: The average household without credit card debt reports an amount of savings nearly three times times greater than the average household with credit card debt; meanwhile homeowners that have negative equity in their homes are 24 percent more likely to be carrying credit card debt.

INTRODUCTION

Credit cards play a major role in Americans' financial lives: they are a convenient method of payment as well as a source of credit to finance purchases, large and small. Yet for many low- and middle-income families, credit cards are also a personal safety net: Demos' earlier research finds that among households carrying credit card debt for more than three months, 40 percent have turned to their credit cards to pay for basic living expenses such as rent, groceries, or utilities in the past year because they did not have enough money in their checking and savings accounts.

In this study, we examine two groups of similarly situated low- and middle-income households to better understand what differentiates households that accumulate and carry balances on their credit cards from those that pay off their cards quickly. The two groups of households are statistically indistinguishable in terms of income, racial and ethnic background, age, marital status and rate of homeownership, yet one group carries credit card debt, while the other has credit cards but no debt.

Looking closely at the households in our survey reveals that factors such as unemployment and lack of health coverage differentiate households that carry credit card debt from those that do not, and that households without accumulated credit card debt have more savings and other assets to fall back on. Among homeowners, households that are carrying credit card debt for several months are significantly more likely to also be "underwater" on their home loans—owing more on their mortgages than their homes are currently worth. Among our other findings, we learn that more educated households are less likely to carry credit card debt.

These findings suggest that an individual's level of credit card debt is more than a question of reckless spending versus personal responsibility: broad economic trends and specific policy choices created the larger economic crisis gripping American households, leaving families susceptible to high levels of credit card debt. The crisis left 12.2 million Americans unemployed,[1] 48 million without health insurance,[2] and nearly a third of homeowners owing more on their mortgages than their homes were worth[3] during the year of our survey. Stagnant wages are another

major culprit—not only since the Great Recession, but over the long term. In the years from 1979 to 2012, wages for the median worker grew just 5 percent in real dollars even as the costs of critical services like health care and education skyrocketed.[4] Safety net policies like unemployment insurance, Medicaid, and Social Security offered some support to help struggling families. But significant gaps and cutbacks in these programs left many households to cope with crises like job loss, medical emergencies or smaller misfortunes like a leaky roof, largely on their own, fueling the growth of credit card debt.

In 2008, the financial crisis changed the way that households relate to credit. During the height of the housing bubble lenders offered deceptive loans in both credit and mortgage markets that proved dangerous to the entire economy. When the system crashed, the symptoms of broad-ranging fallout hit consumers in quick succession: home values declined, people lost their jobs, and credit card lenders started tightening standards, cutting off credit, and cancelling cards. It is in the aftermath of this collapse that we examine the experiences of similarly situated households carrying credit card debt and those with credit cards but no debt. The households in our non-debted sample proved better situated to weather the economic storm; their jobs were more stable, their housing wealth more reliable, and they were less likely to have the responsibility of supporting children in the home. In the following pages we'll evaluate the differences between households carrying credit card debt and those without by population demographics, asset ownership, experiences with employment loss and medical emergencies, and the usage, terms, and consequences of their credit cards.

Methodology

Knowledge Networks conducted a survey of 1,997 households, including 997 households who had carried credit card debt for more than three months and 1,000 households who had credit cards but no credit card debt at the time of the survey. The survey was conducted in February and March 2012. Respondents were randomly sampled using Knowledge Panel—a nationally representative panel that incorporates the views and opinions of all Americans and is not susceptible to the biases of "opt-in" panels. The Knowledge Panel utilizes an online questionnaire, achieving a probability sample based on Random Digital Dial sampling and Address-based sampling, and providing computer and internet access to those households who are not online.

For our survey, low- to middle-income is defined as a total household income between 50 percent and 120 percent of the local (county-level) median income. All of our respondents were at least 18 years of age. In order to capture working age households, this report looks at households under 65 years of age. In order to ensure that the debted sample captures households who carry credit card debt, as opposed to those carrying a temporary balance, we only included households who reported having a balance for more than three months. The margin of error for the sample of households carrying credit card debt is +/- 4.41 percentage points and the margin of error for the sample of households without credit card debt is +/- 5.3 percentage points.

DEMOGRAPHICS OF THE SAMPLE

D emos' National Survey on Credit Card Debt of Low- and Middle-Income Households included a nationally representative sample of 997 households who had carried credit card debt for more than three months (the debted sample) and 1,000 households who had credit cards but no credit card debt (the non-debted sample) at the time of the survey in February and March 2012. Our sample selection criteria ensured comparable debted and non-debted samples, with populations undifferentiated by composition of income, current employment, racial and ethnic background, age, marital status, and rate of homeownership. Where there were differences in the samples—levels of education and presence of children—we conducted regression analysis to determine which, if any, where predictive of debt.

INCOME: The survey defined low- and middle-income households as those with a total income between 50 percent and 120 percent of the local (county-level) median income. 81 percent of households in the debted sample reported their income between $25,000 and $74,999 a year, compared to a statistically indistinguishable 77 percent of non-debted households.

RACIAL AND ETHNIC BACKGROUND: The debted and non-debted samples were not statistically different in terms of race and ethnicity, including approximately 70 percent of households self-identified as non-Hispanic white, 15 percent identified as Hispanic, 11 percent identified as non-Hispanic Black, and 5 percent identified as other or multiracial.

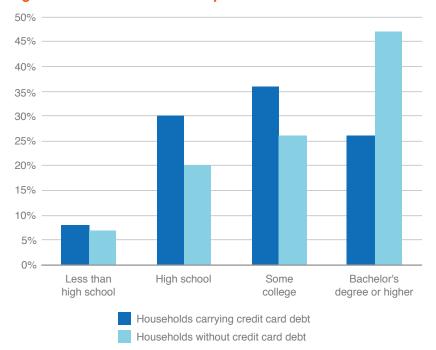**AGE:** This study examines data on those aged 18 to 65.

MARITAL STATUS: The debted and non-debted samples were statistically indistinguishable in terms of marital status, including 52 percent married couples, 15 percent divorced or separated, 20 percent never married, 11 percent living with a partner, and 2 percent widowed.

EMPLOYMENT STATUS: The debted and non-debted samples were statistically indistinguishable in terms of job status, with 77 percent employed: 62 percent working full-time and 15 percent part-time. In addition, approximately 5 percent reported each of the following reasons for not being employed: being retired, being a homemaker, having a disability or experiencing temporary unemployment.

RATE OF HOMEOWNERSHIP: Approximately 65 percent of both debted and non-debted samples are homeowners, while 35 percent rent their homes.

EDUCATION AND PRESENCE OF CHILDREN

Non-debted households are better educated than those carrying credit card debt, with 47 percent of non-debted households possessing a bachelor's degree or higher, compared to just 26 percent of households carrying credit card debt. Meanwhile 38 percent of households with credit card debt report having a high school degree or less, compared to 27 percent of non-debted households. The results of our analysis indicate that households headed by a college graduate are 22.3 percent less likely to be carrying credit card debt than those headed by high school graduates, and 32 percent less likely to be carrying credit card debt than those headed by someone who did not graduate high school.

Highest Level of Education Completed

Households carrying credit card debt
Households without credit card debt
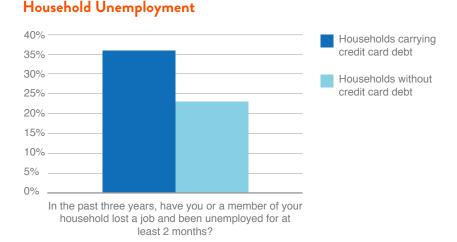
One could interpret the data on the role of education in a variety of ways. Perhaps education could be seen as an asset, like a savings account or home, that provides greater stability and security to a cardholder, providing resources (for example social capital such as a network of other college graduates who could help finding a job more quickly or offering a personal loan) that

enable them to avoid taking on credit card debt. Or perhaps higher levels of education translate into greater financial literacy: before new consumer protections for credit cards went into effect (see page 21 for more information) credit card agreements were especially difficult to navigate and interpret: more educated consumers who could decode the complicated terms and understand how to avoid hidden fees and deceptive charges, may have had an edge in avoiding accruing debt.

At the same time, households that include children under age 18 are more likely to be carrying credit card debt. It's not difficult to understand why: children bring new expenses—including the cost of child care for working families—to already-strained family budgets, increasing the odds of accruing credit card debt which may become difficult to pay off. According to our regression analysis, households that include any children under age 18 are 15 percent more likely to be carrying credit card debt than households with no children. It might be expected that younger children, who need more and costlier child care if parents are working, would contribute more to credit card debt than school-age children and teenagers, but we find the opposite. While households with children aged 5 and under are 7 percent more likely to be carrying credit card debt than households with no children, households with children aged 6-18 (which may also have younger children at home) are 17 percent more likely to be carrying credit card debt than childless households. The reason for this surprising finding may be that households with older children also tend to have more children. Another possible explanation is that credit card debt has continued to build up cumulatively for these families since children were young. Unfortunately our sample size of families with young children was too small to test these hypotheses further.
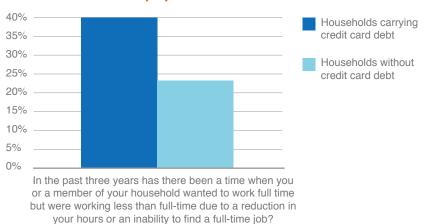
UNEMPLOYMENT

During the Great Recession and its aftermath, high unemployment and slow job growth have relegated record numbers of Americans to extended periods of joblessness, straining family budgets to their limits. In these households federal unemployment insurance is frequently the only form of steady income to cover basic expenses, but at an average of less than $300 per week it is often insufficient. Unemployed families cut back on spending, draw on their savings, and frequently turn to credit cards and other forms of borrowing to make ends meet. It's no surprise that when comparing households with and without credit card debt, we find that households that have experienced unemployment are significantly more likely to be carrying credit card debt than households that have not had to get by without a job.

As noted above, our samples of debted and non-debted households were statistically identical in terms of respondent's current personal employment status: the same percentages were employed and unemployed, and worked full- or part-time. But there was nevertheless a significant divergence when it came to experiences of job loss within the household in the last three years. In our sample of households carrying credit card debt, 36 percent report that someone in their household has lost a job and experienced unemployment for two months or longer in the last three years, compared to just 23 percent of households without credit card debt. Our regression analysis indicates that households that have experienced unemployment in the last three years are 14 percent more likely to be carrying credit card debt than households that were not hit by joblessness.

Household Unemployment

In the past three years, have you or a member of your household lost a job and been unemployed for at least 2 months?

Legend:
- Households carrying credit card debt
- Households without credit card debt

The lack of full-time employment also differentiates debted and non-debted households: 38 percent of debted households report that in the last three years there was a time that they or another member of their household wanted to work full-time but were able to secure only part-time employment. This is significantly greater than the 22 percent of households without credit card debt who reported the same employment problem.

Household Under-Employment

In the past three years has there been a time when you or a member of your household wanted to work full time but were working less than full-time due to a reduction in your hours or an inability to find a full-time job?

Legend:
- Households carrying credit card debt
- Households without credit card debt

We asked households directly whether their experiences with unemployment caused them to accrue credit card debt. Among low- and middle-income households with credit card debt, 26 percent report that a layoff or loss of a job contributed to their debt, with 16 percent reporting that it was the leading contributor to their debt. In addition, when asking households in our non-debted sample who had carried credit card debt in the past, 23 percent report that job loss was the primary reason for their prior credit card debt.

MEDICAL EXPENSES AND HEALTH INSURANCE COVERAGE

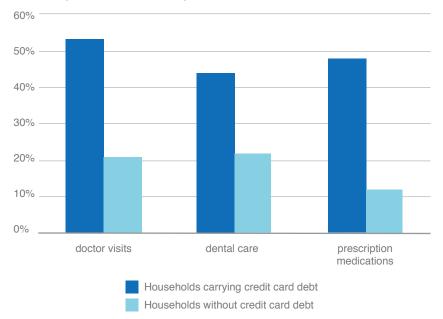When our survey was conducted in 2012, nearly 50 million Americans lacked health insurance, and faced significant barriers to affording the medical care they and their families needed. Even households with full coverage struggle to keep pace with increasing rising premiums, copayments, and deductibles. Persistently high unemployment rates add to this stress, since workers who are out of a job cannot rely on employer-provided health insurance. When medical expenses arise they are often unplanned and unavoidable, forcing households to take on debt to cover the cost. Our examination reveals that while households carrying credit card debt and those without debt reported that they incurred major medical expenses at the same rate, those costs had a very different impact depending on whether everyone in a given household had health coverage or not: households without health insurance were significantly more likely to carry credit card debt.

Thirty-six percent of households carrying credit card debt report that in the past three years, someone in their household has been without health insurance. This compares to 21 percent of households that report not having insurance in our sample without credit card debt. According to our regression analysis, households in which someone has gone without health insurance at some point in the last three years are 20.1 percent more likely to be carrying credit card debt than households in which no one has been uninsured.

Health Insurance Coverage

Households carrying credit card debt

Households without credit card debt

In the past three years, have you or anyone in your household been without health insurance?

Yet health care can be costly even when households do have health coverage: the costs of deductibles and co-pays add up and many health plans do not include coverage for dental or vision expenses. Among households carrying credit card debt—including both those with health insurance coverage for all household members and those without—62 percent report that out-of-pocket medical expenses contributed to that debt. Households carrying credit card debt are more likely to report they have experienced out-of-pocket expenses related to doctor visits, dental care, and prescription medications than their non-debted counterparts. For debted households with medical debt on their credit cards, it amounts to $1,555 on average.

Out-of-pocket Medical Expenses in the Last Three Years

Legend:
- Households carrying credit card debt
- Households without credit card debt

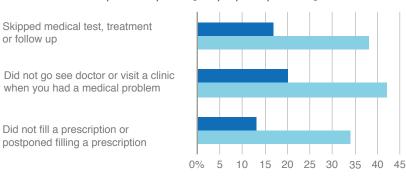Medical debt does not only appear on credit cards, of course—households with credit card debt are more likely to also have medical debt that is not on their credit cards. Just 10 percent of households without credit card debt have any outstanding medical debt, whereas 32 percent of debted households have medical debt that is not on their credit cards, in addition to medical expenses they may have charged to their cards.

Perhaps the most stark indicator that low- and middle-income households carrying credit card debt are facing real financial hardship is that these households forgo recommended medical care at a rate about twice that of non-debted households. Thirty-four percent of households carrying credit card debt report they did not fill a prescription—or postponed filling one—in the last year because of concerns about the cost, compared to 13 percent of households that had no credit card debt. Forty-two percent of debted households report they did not see a doctor for a medical problem due to cost concerns compared to 20 percent of non-debted households. And 38 percent of debted households report they skipped a medical test, treatment or follow-up compared to 17 percent of non-debted households.

Forgoing Medical Care

In the past year, have you or a member of your household tried to reduce medical expenses by doing any of the following...

Skipped medical test, treatment or follow up

Did not go see doctor or visit a clinic when you had a medical problem

Did not fill a prescription or postponed filling a prescription

0% 5 10 15 20 25 30 35 40 45

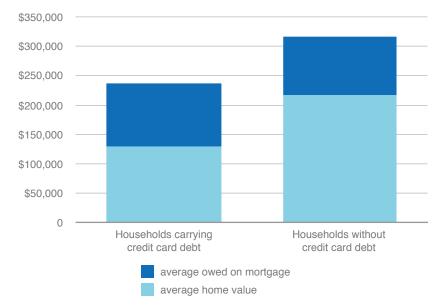■ Households without credit card debt
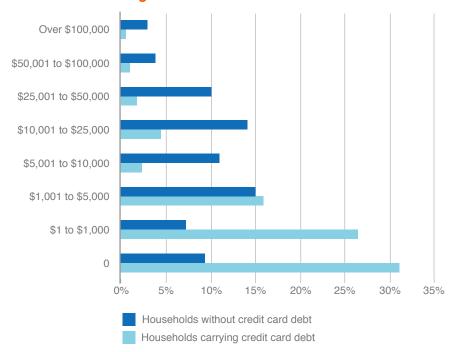■ Households carrying credit card debt

Among low- and middle-income households, the households without credit card debt had substantially more assets—including more savings, more valuable homes, and more equity in their homes—than the households that carried credit card debt. This finding corresponds to the larger body of research on the role of wealth and assets: when a family has assets, the current generation has stability in times of economic stress, and future generations have a head start to help pay for college, launch a small business, or make a down payment on a first home. In contrast, when families do not have assets to fall back on, they may turn to credit cards and other forms of borrowing to meet basic expenses when an unforeseen crisis hits. The reliance on revolving credit further increases a household's economic vulnerability and the probability that they will need to rely on credit cards in the future.

As noted above, the debted and non-debted households in our survey have statistically identical rates of homeownership. Yet among these homeowners, the homes of non-debted respondents are worth more: the average non-debted homeowner in our sample reports that their home is worth $216,749, which is 67 percent more than the average home value reported by homeowners carrying credit card debt. At the same time, it is the households carrying credit card debt that owe slightly more on their mortgages—$108,045 on average compared to $100,793 owed by households with no credit card debt. As a consequence, the average non-debted homeowner in our sample has significantly more equity in his or her home than their counterpart carrying credit card debt. In some cases, households report having negative equity in their homes, owing more toward their mortgages than their homes are currently worth. According to our regression analysis, homeowners that have negative equity in their homes are 24 percent more likely to be carrying credit card debt than those with a positive equity balance.

Home Equity: Value of Home and Amount Owed on Mortgage

Legend:
- average owed on mortgage (dark blue)
- average home value (light blue)

X-axis: Households carrying credit card debt | Households without credit card debt

The average non-debted household also reports an amount of savings 2.7 times greater than the average household with credit card debt: while non-debted households with savings have $27,541 on average in their savings account, the households with credit card debt that have savings report only $10,345 in their accounts. In addition, 31 percent of households carrying credit card debt report they have no money in a savings account at all—compared to just 9 percent of non-debted households.

Total Funds in Savings Account

Categories: Over $100,000 | $50,001 to $100,000 | $25,001 to $50,000 | $10,001 to $25,000 | $5,001 to $10,000 | $1,001 to $5,000 | $1 to $1,000 | 0

Legend:
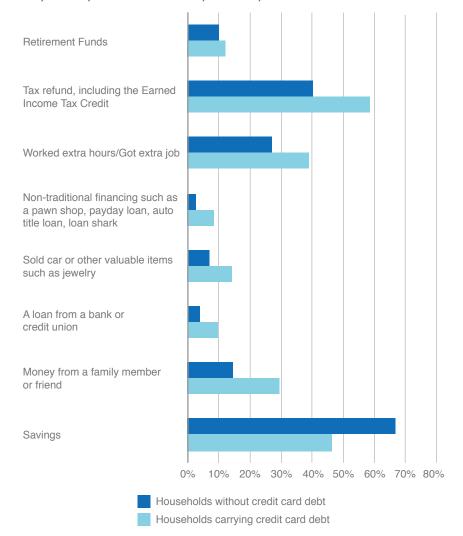- Households without credit card debt (dark blue)
- Households carrying credit card debt (light blue)

The lack of savings may be a significant reason that households turn to credit cards in the first place when they face unanticipated costs. Indeed, when asked how they deal with unexpected expenses, 67 percent of households without credit card debt responded that they draw on their savings, compared to just 46 percent of non-debted households. Households carrying credit card debt, meanwhile, are significantly more likely than their non-debted counterparts to say that other than using credit cards, they meet unexpected expenses by borrowing money from family or friends, using a tax refund, or working extra hours. This is not a picture of irresponsible financial behavior but rather of households with fewer assets to rely on in difficult times turning to a variety of means, including debt, to cope with bills.

Dealing with Unexpected Costs

In the past year, other than using credit cards, which of the following ways have you dealt with unexpected expenses?

- Households without credit card debt
- Households carrying credit card debt

DIFFERENCES IN SPENDING AND SAVING

Households carrying credit card debt and those with credit cards but no debt use their cards in different ways, yet these patterns defy popular presumptions about debtors as irresponsible borrowers. Instead, reported patterns of spending and saving are broadly consistent with our finding that non-debted households tend to have more assets: as a result, they are more likely both to make large, discretionary purchases, and also to be saving money on a monthly basis. Non-debted households, meanwhile are more likely to report that they made health sacrifices out of concern about running up additional debt. Some behaviors of debted households, such as having greater numbers of credit cards and being more likely to pay bills late, could be interpreted as indicators of irresponsible behavior, but they could also be understood as signs of living closer to the financial edge due to a lack of assets to draw on in difficult times.

Forty percent of households without credit card debt report they have purchased a major appliance at some time in the last three years, compared to just 28 percent of non-debted households. These purchases may have been discretionary, such as upgrading to a higher-end stove during a kitchen renovation, or necessary, such as purchasing a new furnace after the old one has broken down and is beyond repair. But when it comes to major purchases defined as non-essential, including a vacation or flat screen television, non-debted households are also significantly more likely to report a purchase, with 55 percent saying that they bought a big-ticket discretionary item in the last three years compared to 42 percent of households with credit card debt.

At first glance, the finding that debted households have more credit cards, on average, than their non-debted counterparts (3.48 compared to 2.91) and that households with credit card debt are more than twice as likely to report paying a utility bill late may appear to be indicators of financial laxity. Many financial experts advise consolidating credit cards with debt, while paying bills on time is a prudent practice. However, when the greater financial pressure facing households with credit card debt, as well as their lower level of assets, these behaviors may be signs of economic strain more than behaviors that have caused it.

Just as non-debted households have the resources to spend more without incurring debt, they are also more likely to report saving on a monthly basis—and to be saving more money. Sixty-four percent of non-debted households report they saved money in the last month compared to 42 percent of households with credit card debt. Among savers, non-debted households reported savings of $437 on average, compared to $205 on average among debted households. Among non-savers, debted households are more likely to report that their failure to put money away is a result of having no money left after paying bills (the reason cited by 75 percent) compared to just 46 percent of non-debted households who are not currently saving money. When we asked debted households who report they are not saving on a monthly basis, why they aren't saving, three out of four explained "there is no money left over after paying all the bills." An additional 21 percent asserted that they used to save regularly, but due to either an increase in costs or a drop in income, they no longer have money left over to save.

A final sign that the divergence between households with credit card debt and those without debt may not stem primarily from differences in their behavior comes from looking at the subset of non-debted households who report that they previously had credit card debt which they have now paid off. When asked *how* they paid off their credit card debt, these formerly debted households were most likely to report that they used their savings, took advantage of a tax refund, and/or got an extra job or worked additional hours at their current job. These are also the leading strategies that households with current credit card debt report using in an effort to reduce or eliminate it.

CONSEQUENCES OF DEBT

As one might expect, households carrying credit card debt experience more negative consequences of indebtedness than households without the burden of credit card debt. What is surprising is how far-reaching the consequences of this debt can be. We find that households carrying credit card debt are more likely to report they have been called by bill collectors, and are more likely to have entered into a settlement agreement with a credit card company. Households with credit card debt are also more likely to have experienced restrictions in credit and to report worse credit scores and declining credit. Poor credit is particularly significant because, as we will discuss below, credit reports and scores have a significant impact on Americans' economic security and opportunity.

More than half of households carrying credit card debt report they have been called by bill collectors, compared to just 21 percent of households without credit card debt. Similarly, while 20 percent of households with debt have entered into a settlement agreement with credit card companies, only 5 percent of their non-debted counterparts have ever reached that point. Households carrying credit card debt are also more likely to have seen their credit restricted in some way in the past three years, for example by having credit cards cancelled, their credit limit reduced, or by being denied a credit card when they applied for one, as the chart below indicates.

In the last three years, have you…	Debted households	Non-debted households
Had credit cards cancelled	12.24%	2.59%
Had your credit limit reduced	21.96%	6.80%
Applied for and been denied a credit card	22.28%	8.96%

The greater restrictions on credit faced by households carrying credit card debt are likely a result of the compounding implications of factors related to debt, rather than the debt itself. Both overall usage of available credit and timely payment of credit card bills and other financial obligations influence credit reports and scores, which in turn affect access to credit. Households carrying credit card debt report they have worse credit, on average,

than their non-debted counterparts. For example, while 53 percent of non-debted households report that they have "excellent" credit, only 19 percent of households carrying credit card debt say the same. Conversely, while 18 percent of households with credit card debt describe their credit as "poor" only 5 percent of non-debted households describe their credit this way.

The consequences of having poor credit can include credit restrictions like being denied a credit card or paying a higher interest rate on credit cards or other types of loans. But poor credit can also mean paying a higher premium for car or homeowner's insurance, needing a larger deposit to hook up basic utilities, and even having difficulty getting a job or renting an apartment as employers and landlords now commonly review credit histories when hiring or seeking tenants. As a result, struggles with debt become more difficult to escape.

The CARD Act Improves Consumer Protection for Credit Card Holders

In 2008 the US Congress passed the CARD Act, providing security for consumers by requiring that credit card companies comply with fair and transparent practices for billing and fees. The provisions of the CARD Act require that monthly credit card statements include key information about debts, including how long it will take to pay the entire balance if only paying the minimum amount due, as well as disclosure of charges from interest and fees. In addition, the CARD Act eliminated some practices that were harmful to consumers, like the retroactive application of higher interest rates on existing balances, and the administration of hair-trigger late fees. Since President Obama signed the CARD Act into law in May 2009, it has helped households to pay down debt faster and save money by avoiding unreasonable charges.

Since the fees and charges reformed by the CARD Act apply primarily to consumers with a credit card balance, it is not surprising that the households carrying credit card debt are more likely to report that they have benefitted from various provisions of the law. For example, where 33 percent of households with credit card debt report that the new CARD Act disclosures included in statements have influenced them to pay more towards their credit card balance in the typical month, 90 percent of households without credit card debt say the new information has produced no change in their credit card payment behavior. The CARD Act does offer benefits for some non-debted cardholders: 11 percent of non-debted households report they have been charged late fees less often since the CARD Act went into effect, and 9 percent say they have been charged over-the-limit fees less often. But households with credit card debt have seen larger benefits, with 25 percent reporting fewer late fees and 22 percent reporting fewer over-the-limit fees. This suggests that the CARD Act is working as intended to protect the most vulnerable card holders—households with debt who found excessive fees, deceptive terms, and interest rate changes to be obstacles to digging themselves out of debt.

CONCLUSION AND POLICY RECOMMENDATIONS

Considering low- and middle-income households with similar incomes, racial and ethnic backgrounds, and rates of homeownership, we examined why some households had credit card debt while others, although they had credit cards, remained debt free. We found that households without credit card debt had substantially more assets to fall back on than their debt-carrying counterparts and were significantly less likely to have had someone in their households experience unemployment or a lack of health care coverage. We also found that households with credit card debt tend to have worse credit, which puts them at further risk of economic decline, since, for example, many employers check credit history as part of their hiring process.

Americans who lack sufficient assets to fall back on should not have to rely on credit cards to supplement low pay and replace social support. Policies that give households the ability to survive without depending on debt are the primary means to put families back on stable ground. Our regression analysis shows that households that have experienced unemployment—even as long as three years ago—are 14 percent more likely to be carrying credit card debt than households that were not hit by joblessness. As the economy continues a slow climb toward previous employment levels, restoring access to extended unemployment insurance benefits, reducing barriers that keep laid-off workers from qualifying for unemployment insurance, and extending eligibility for unemployment insurance to include more low-wage and part-time workers when they're laid off can prevent hardship. At the same time, those who have jobs would benefit from the kind of workplace protections that promote living wages and secure employment.

Policies that ensure that all American jobs meet basic standards of decent employment would give low- and middle-income households the boost they need to make ends meet without reliance on credit. Raising the minimum wage, protecting the right to collective bargaining, and enforcing current labor standards more effectively all contribute to the ability of households to support themselves without taking on credit card debt. Expanding

access to health care coverage through the full implementation of the Affordable Care Act and further reforms would prevent medical expenses from becoming a source of significant additional debt. In addition to shared investments that put our country on the right track for workers and their families, our survey points to three areas where policy can make a difference in household budgets: medical debt, financial regulation, and credit reporting.

Medical Debt

MEDICAL DEBT PROTECTION Emergency health expenses can run into the thousands of dollars and burden families for years after they have recovered from the physical trauma. In the decades since the 1970s employers shed health care benefits as a provision of employment and households turned to debt to finance critical health expenditures. After decades without a policy response, the Patient Protection and Affordable Care Act (ACA) finally offers a solution that can lower the individual cost burden for health care. Yet medical debt will not cease to exist, and the rising cost of health services and lower insurance rates among people of color make it difficult to guarantee adequate coverage and quality of care. Since medical debts continue to accrue, there must be fair and non-discriminatory practices for their collection. Medical lending practices should not be permitted to use evaluations of the total credit available to patients. The appropriate financial services guidelines for health care facilities should be under the purview of the Consumer Financial Protection Bureau (CFPB).

Financial Regulation

EXTEND THE SUCCESSES OF THE CARD ACT The CARD Act is working for American households by standardizing best practices industry-wide. Our research and recent data from the CFPB show that consumers are better equipped to make informed choices and less subject to abuses in the areas addressed by the legislation—such as fair and transparent pricing. Yet problems of inadequate transparency and abusive charges remain. In their evaluation of the CARD Act, the CFPB identified a number of areas where credit card companies could promote higher standards of service. The best practices would treat add-on products, such as supplementary protections and credit monitoring, with the same standards of transparency and disclosure as are required for lines of credit, even when provided through third-party con-

tracts. Application fees—currently excluded from the standard imposed by the CARD Act that states that fees cannot exceed 25 percent of the total credit line in the first year—would be included in the first-year calculation of fees to ensure that the ratio of costs to credit remains reasonable. Moreover, a high standard for clear disclosure related to rewards programs, grace periods, and products that defer interest for an introductory period, would complement the practices already covered by the CARD Act.

BORROWER SECURITY Many households rely on credit to make investments in their futures, and often just to meet their basic needs. Because credit plays an essential role in the financial security of Americans, it should be governed by fair and responsible practices. The CARD Act began the industry reforms necessary to establish prudent guidelines and accountability for credit card companies. Federal legislation protecting borrowers by setting national usury limits, indexed to a federal rate, would complement the provisions of the CARD Act. Such legislation would provide borrower security by eliminating unjustifiably high interest rates on credit products ranging from credit cards to student loans and limiting late fees to $15 per late payment.

FAIRNESS IN BANKRUPTCY As Americans struggle to pay back debt, they have less to spend and invest, creating a drag on economic recovery. Staggering debt levels are compounded by bankruptcy rules that direct the flow of money toward banks and other mortgage lenders rather than American households. Bankruptcy is the traditional last resort for Americans overwhelmed by debt they cannot pay. In order to make bankruptcy a fair option to consumers, bankruptcy law should permit courts to restructure the debt on home mortgages by setting interest rates and principal at commercially reasonable market rates and extending repayment periods, allow judges to reduce the mortgage principal on a primary residence to the current value of the home, and to discharge student loan debt. Our survey found that households carrying credit card debt are 24.3 percent more likely than households without credit card debt to owe more than their mortgages than their homes are currently worth—suggesting that holding on to an underwater home may contribute to mounting credit card debt as well. At the same time, incorporating student loans into bankruptcy policy will make it possible for families to work for a better future without being crippled by the cost of education.

Credit Reporting

FAIR AND ACCURATE CREDIT SCORES AND REPORTS

Our survey found that households carrying credit card debt report they have worse credit, on average, than their non-debted counterparts, with consequences that could make it even more difficult for them to emerge from credit card debt. A stronger role for the CFPB could begin improvements in the transparency, validity, and appropriate use of credit reports and scores to ensure accuracy and accessibility of credit reports and the regulation of reporting information. In addition, all medical debt, disputed claims, unsafe credit products should be excluded from the report. The improvement of reporting and access would reduce the biases in credit scores and improve the economic security of both borrowers and lenders.

BAN EMPLOYMENT CREDIT CHECKS

Today, employers commonly look into the credit histories of job candidates as part of the hiring decision. While there is no evidence linking credit reports to trustworthiness or dependability, credit reports have repeatedly been shown to have race and income biases that make the practice of employment credit checks highly discriminatory. Using credit reports as criteria for hiring exacerbates the economic hardships facing households that may be carrying debt as a result of a medical emergency, a divorce, a layoff, or for those that experienced the most severe fallout from an economic downswing. Ten states have already passed legislation limiting the use of employment credit checks: federal legislation should be pursued as well.

DATA APPENDIX: REGRESSION ANALYSIS

Summary statistics of the debted and non-debted samples show statistically significant differences between the two populations. In order to look deeper into the relationship between these statistically significant variables and household credit card debt, we conducted a regression analysis to test the magnitude of their influence.

The specification is a probit model with a binary dependent variable indicating whether a household falls into the debted or non-debted sample (*s3a*). Our refined model includes a subset of those variables that reveal statistically significant differences in the summary statistics, based on model testing using STATA's linktest for specification errors and based on theoretical consistency. It includes a new variable accounting for the interaction between unemployment and health insurance coverage.

Our refined model for the total population takes the form:

$$s3a=\Phi(\beta_0+\beta_1 kids+\beta_2 saving+\beta_3 numbercards+\beta_4 ue\_hi+\beta_5 ppeducat+\beta_6 df8+\beta_7 df10).$$

Where *s3a* is a binary variable for debted or non-debted,

kids is a categorical variable including no children in the household, presence of children under 5, and presence of children ages 6 to 17,

saving is a binary variable indicating whether a household saves on a monthly basis,

numbercards is a continuous variable representing the number of cards currently owned by members of the household,

ue_hi is an interaction variable for the relationship between unemployment and health insurance coverage,

ppeducat is a categorical variable indicating educational attainment,

df8 is a binary variable indicating whether anyone in the household has experienced unemployment of at least 2 months duration over the past 3 years,

df10 is a binary variable indicating whether anyone in the household has been without health insurance in the past 3 years,

And Φ is the cumulative distribution function of the Gaussian distribution.

Final model for the total debted and non-debted samples							
s3a=Φ(β_0+β_1anykids+β_2saving+β_3numbercards+β_4ue_hi+β_5ppeducat+β_6df8+β_7df10)							
Independent Variable	**Variable Descriptor**	**Coefficient**	**Standard Error**	**t**	**P>t**	**[95% confidence Interval]**	
anykids	has kids	0.2335425	0.1017894	2.29	0.022	0.0338478	0.4332373
saving	saving on a monthly basis	0.4519623	0.0954579	4.73	0	0.264689	0.6392356
numbercards	number of credit cards owned	0.0776565	0.01994	3.89	0	0.0385373	0.1167757
ue_hi	interaction variable between unemployment and health insurance	-0.4759848	0.2309899	-2.06	0.04	-0.9291505	-0.022819
ppeducat	educational attainment	-0.2343693	0.0556379	-4.21	0	-0.3435221	-0.1252165
df8	household member unemployed in the past 3 years	0.2805244	0.1324448	2.12	0.034	0.0206886	0.5403602
df10	household member went without health insurance in the past 3 years	0.558966	0.153796	3.63	0	0.2572425	0.8606895
_cons	intercept	-0.2947469	0.2402635	-1.23	0.22	-0.7661061	0.1766123

The refined model shows significant results at the 95 percent confidence level for all included variables. In addition to the linktest for misspecification, we used the Wald test to verify our hypothesis that the coefficients are significantly different from zero. There is no pseudo-R-squared for survey weighted data.

In order to test variables related to homeownership, we restricted both debted and non-debted samples to include only homeowners, then specified and tested a second probit model for the home owning populations.

Our refined model for the home owning population took the form:

$$s3a=\Phi(\beta_0+\beta_1 \text{kids}+\beta_2 \text{saving}+\beta_3 \text{numbercards}+\beta_4 \text{ue\_hi}+\beta_5 \text{ppeducat}+\beta_6 \text{df8}+\beta_7 \text{df10}+\beta_8 \text{underwater}).$$

Where all variables are defined as those in the total sample and *underwater* is a binary variable indicating a ratio of mortgage debt to home value greater than or less than/equal to 1.

	Final model for the homeowning population						
	$s3a=\Phi(\beta\_0+\beta\_1kids+\beta\_2saving+\beta\_3numbercards+\beta\_4ue\_hi+\beta\_5ppeducat+\beta\_6df8+\beta\_7df10+\beta\_8underwater)$						
Independent Variable	Variable Descriptor	Coefficient	Standard Error	t	P>t	[95% confidence Interval]	
anykids	has kids	0.3820672	0.1378505	2.77	0.006	0.1113865	0.6527479
saving	saving on a monthly basis	0.3930877	0.1302412	3.02	0.003	0.1373486	0.6488268
numbercards	number of credit cards owned	0.0554601	0.0245204	2.26	0.024	0.0073123	0.1036079
underwater	mortgage debt/homevalue	0.5083307	0.2039681	2.49	0.013	0.1078228	0.9088385
ue_hi	interaction variable between unemployment and health insurance	-0.0991392	0.3450057	-0.29	0.774	-0.7765859	0.5783076
ppeducat	educational attainment	-0.3057151	0.0800481	-3.82	0	-0.462896	-0.1485342
df8	household member unemployed in the past 3 years	0.2164004	0.1699153	1.27	0.203	-0.1172421	0.5500429
df10	household member went without health insurance in the past 3 years	0.5965473	0.2569735	2.32	0.021	0.091959	1.101136
_cons	intercept	-0.0636501	0.3360133	-0.19	0.85	-0.7234395	0.5961393

The model for the home owning population showed significant correlation between underwater mortgages and credit card debt.

In the final step of analysis, we used the predicted marginal probabilities of entering the debted or non-debted sample for each of our explanatory variables, holding all others constant at their means. These post-estimate marginal probabilities provide interpretation of the coefficients determined in the two final probit models.

For example, interpreting the coefficients for unemployment, we see that the probability of entering the debted sample for a household where someone has experienced unemployment in the past 3 years is 66.7 percent—14 points higher than a household that did not experience unemployment over the period.

Independent Variable	Margin	Standard Error	z	P>/z/	[95% confidence Interval]	
df8						
No Unemployment	52.7%	0.0219882	23.97	0	0.4839032	0.5700955
Unemployment	66.7%	0.0318154	20.97	0	0.6047999	0.729514

Post-estimate marginal probabilities						
Independent Variable	Margin	Standard Error	z	P>/z/	[95% confidence Interval]	
kids						
No kids at home	0.5227346	0.0222122	23.53	0	0.4791996	0.5662697
Kids under 18 at home	0.6687764	0.0309306	21.62	0	0.6081535	0.7293994
saving						
Monthly Saving	45.8%	0.0249772	18.33	0	0.4089494	0.506858
No Monthly Saving	68.9%	0.0244637	28.16	0	0.6410245	0.7369205
ppeducat						
Less than high school	76.7%	0.0377235	20.33	0	0.6930453	0.8409185
High School	67.0%	0.0269834	24.82	0	0.6168924	0.7226652
Some College	57.9%	0.0183445	31.57	0	0.5432532	0.6151623
Bachelor's Degree or Higher	44.7%	0.0274004	16.3	0	0.3930485	0.500456
df8						
No Unemployment	52.7%	0.0219882	23.97	0	0.4839032	0.5700955
Unemployment	66.7%	0.0318154	20.97	0	0.6047999	0.729514
df10						
Health Insurance	50.8%	0.0212186	23.93	0	0.4661205	0.5492958
No Health Insurance	70.9%	0.032316	21.95	0	0.6460486	0.772725
numbercards						
1 card	51.9%	0.0265408	19.57	0	0.4674294	0.5714675
2 cards	53.2%	0.021418	24.84	0	0.489994	0.5739511
3 cards	54.9%	0.0190949	28.75	0	0.5116184	0.586469
4 cards	57.7%	0.0190957	30.22	0	0.5396701	0.6145237
5-7 cards	61.3%-65.7%	0.0219806	27.87	0	0.5695759	0.6557384
8-12 cards	71.5%-78.4	0.036541	19.56	0	0.6432381	0.7864763
13-17 cards	83.5%-83.9	0.0531558	15.7	0	0.7303907	0.9387578
22-30 cards	96.8%-98.7	0.0277196	34.91	0	0.9133735	1.022032
underwater						
mortgage debt/homevalue<=1	52.8%	0.0270587	19.5	0	0.474556	0.5806242
mortgage debt/homevalue>1	77.2%	0.0577147	13.37	0	0.6587873	0.8850247

ENDNOTES

1. Bureau of Labor Statistics, December 2012.
2. United States Census Bureau, "Income, Poverty, and Health Insurance Coverage in the United States: 2012," 2013.
3. "Zillow Negative Equity Report," December 2012.
4. Lawrence Mishel and Heidi Shierholz, "A Decade of Flat Wages: The Key Barrier to Shared Prosperity and a Rising Middle Class," Economic Policy Institute, August 2013.

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