Dēmos Fact Sheet: CREDIT CARD DEBT

Preliminary Findings from Dēmos' Low- to Middle-Income Household Survey, 2008

Credit card debt continues to threaten the financial stability of many low- and middle-income families in the United States, hampering their ability to save and move up the economic ladder. When shortfalls arise, credit has been the only available safety net to help these families make ends meet . In this economic crisis, even though America's households took on less credit card debt in 2008 than the year before, high levels of revolving debt from previous charges and compounding interest keep balances high and trap families in a vicious cycle.

As credit issuers begin to raise fees and penalties in 2009 to make up for losses in revenue elsewhere in the banking industry, the impact on America's households could be devastating.

Table 1. Characteristics of Households with Credit Card Debt

Average amount of credit card debt	$9,827
Average number of credit cards held	4
Average credit card debt as a percent of annual income	24%
% that have used a credit card to cover basic living expenses in the past year*	37%
% that have used a credit card to pay for medical expenses past year?	52%
% of families that are paying off a credit card they have cancelled*	35%
% paying more than 20% APR*	25%

* Of households with credit card debt.

Source: 2008 Dēmos low- to middle-income household survey

To better understand the impact of credit card debt on a household's financial status, Dēmos created the "credit card debt stress" ratio—that is, the ratio of a family's outstanding credit card debt to their annual income. Dēmos' 2008 survey reveals that while credit cards fuel discretionary spending, many families commonly use them to fund unavoidable expenses such as groceries, car repairs, and medical bills.

Which families have the highest levels of "credit card debt-stress" (credit card debt level as a percentage of household annual income)?

» Families who use credit cards to cover basic expenses.

» Families dealing with a layoff, car repairs or giving money to family to pay debt were more likely to have a higher relative debt-stress level.

Who has the most credit card debt?

» By age: The group with the greatest credit card debt in 2008 was 35-49 year olds with an average debt of $10,514. They were followed by older Americans 65 and up who experienced a 26 percent growth in credit card debt, carrying on average $10,235.

» By race/ethnicity: Hispanics had the highest level of credit card debt in 2008, carrying an average household debt of $10,002, compared to $9,775 in credit card debt for whites and $7,390 dollars for African Americans.

Communities of color have a disproportionate number of households facing high interest rates. While 1 in 4 low- and middle-income households have annual percentage rates (APRs) of 20% or higher, nearly a third of African Americans and Hispanics had APRs over 20% compared to less than one quarter (22%) of whites.

How do households pay off their credit card debt?

Dēmos asked families with credit card debt how they made their payments in the past year. More than half used tax refunds.

Table 2. Methods Used to Pay Down Credit Card Debt

Tax refund	59%
Worked extra hours/Got extra job	45%
Savings	34%
Money from Earned Income Tax Credit	24%
Refinanced, 2nd mortgage or Home Equity Line of Credit	19%
Money from a family member or friend	17%
Retirement funds	16%
A loan from a bank	11%

Source: 2008 Dēmos low- to middle-income household survey

In the midst of a recession, families are facing greater economic stress, making it harder to pay down credit card debt. It is no surprise that delinquencies have grown. By the first quarter of 2009, the percent of accounts 30 days past due and still accruing interest rose to 6.5%—an all time high.

POLICY RECOMMENDATIONS

Promote Methods of Saving for emergency and future investments such as college and a down payment on a home. Policies such as universal savings accounts and targeted tax credits to provide progressive matching are critical to helping low- and middle-income households build savings to tap for unexpected and emergency expenses.

Reestablish a Social Contract that shares prosperity between employers and workers, provides access to affordable healthcare, rewards hard work, offers good jobs, and provides a safety net for working families in hard times.

Create a Financial Product Safety Commission to set guidelines and require modifications for financial products such as mortgages, credit cards, car and personal loans to ensure that these products do not pose unacceptable risks to consumers.

Dēmos

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