

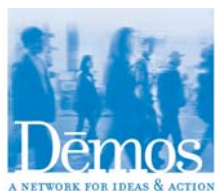
THE PLASTIC SAFETY NET

DEBT CARD



The Reality Behind Debt in America

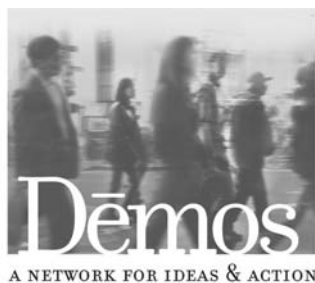
FINDINGS FROM A NATIONAL
HOUSEHOLD SURVEY OF CREDIT
CARD DEBT AMONG LOW- AND
MIDDLE-INCOME HOUSEHOLDS





About the Center for Responsible Lending

The Center for Responsible Lending (CRL) is a non-profit, non-partisan research and policy organization dedicated to protecting home ownership and family wealth by working to eliminate abusive financial practices. CRL is affiliated with Self-Help, one of the nation's largest community development financial institutions.



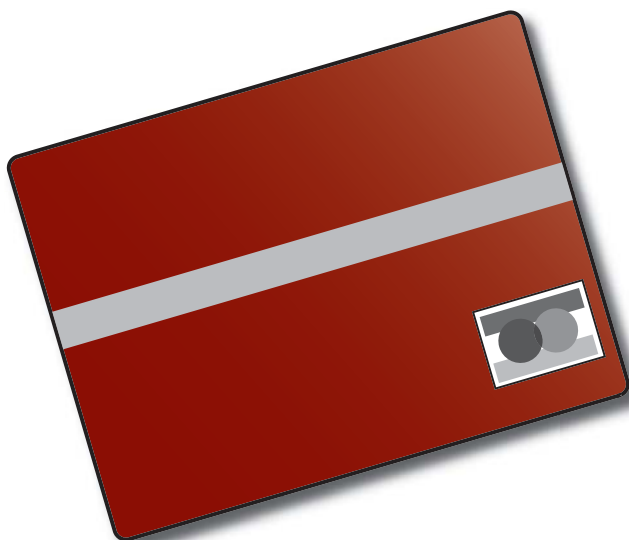
About Demos

Founded in 2000, Demos is a non-profit, non-partisan public policy organization deeply committed to the core values of American society: strong democracy, economic opportunity for all and effective government. Through research and advocacy, we work across the country to advance ideas and policies that will help ensure everyone has an equal say and an equal chance.

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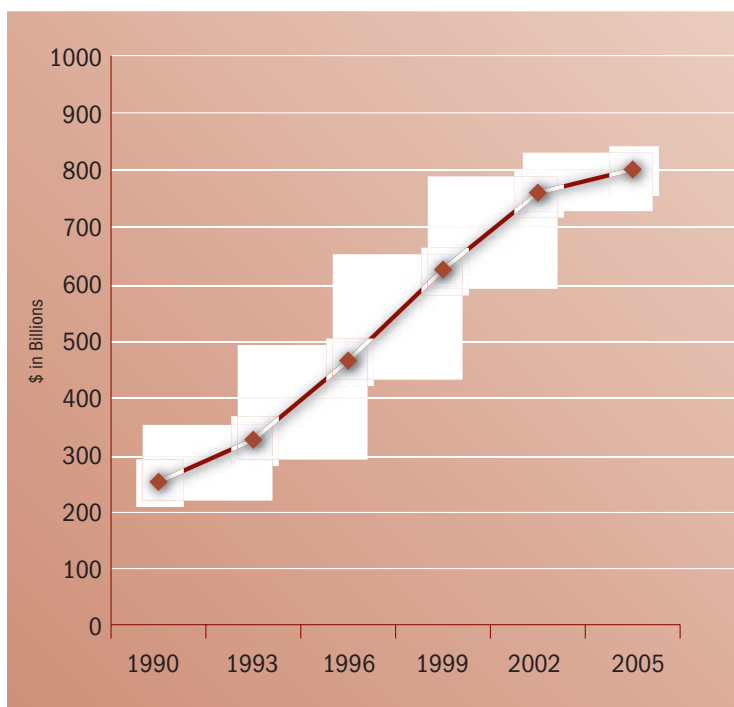
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Introduction

Several years into the new century, signs abound that American families are struggling to stay afloat in an increasingly volatile economy. Today, older trends ushered in by the new economy such as job instability, downsizing and declining employee benefits are being joined by new trends like outsourcing and free trade agreements. The result is a more fragile alliance between workers and employers—and families and the economy—in what has been called the increasing volatility of American life.¹ At the same time that workers have become more vulnerable, their economic safety net has steadily been eroded. Unemployment insurance benefits are less generous than before and harder to come by. Health insurance is no longer a standard employee benefit and public subsidies haven't grown to meet new demand. Pensions have

Figure 1: US Families' Growing Credit Card Debt



Source: Federal Reserve

changed dramatically from guaranteed retirement benefits offered by employers to an “at your own risk” investment system. Finally, over the last decade, the average household has experienced stagnant or slow-growing incomes that no longer keep pace with the rising costs of housing, health care and other basic expenses.

It is against this backdrop of economic and policy change that we can best understand the explosive rise in consumer debt that began in the 1980s and intensified in the 1990s. Credit card debt has almost tripled since 1989, and rose 31 percent in the past five years,

“One individual in the family was injured. There’s only all of a sudden one income. And your other income isn’t there. You start using credit cards to survive. It’s called survival. Not frivolous spending, you just buy groceries with the credit card, you can get gas, you do what you have to do to survive basically.”

—California focus group participant

with Americans now owing close to \$800 billion in credit card debt.² And thanks to low interest rates and soaring home values, Americans cashed out \$333 billion in home equity between 2001 and 2003 in an attempt to free up much needed cash. Bankruptcies, caused in large measure by employment or medical problems,³ rose from 616,000 in 1989 to over 1.8 million in 2004. Commercials offering debt consolidation are now ubiquitous. In one of these commercials, an upper middle-class, white, suburban father proudly showcases his material accomplishments: membership to the golf club, a beautiful, big house and a nice car. How did he achieve this success? In the spot, he proclaims, “I’m in debt up to my eyeballs. Somebody please help me.”

Does this advertisement accurately describe how and why Americans take on credit card debt? According to the findings from our national household survey of indebted low- and middle-income households—the first of its kind—the answer is a definitive “NO.” In fact, among the nearly half of all American households whose incomes fall between 50 percent and 120 percent of their local median income, credit card debt is most aptly described as the new “safety net” for managing essential expenses.

The rapid rise in debt among American households over the last decade is well documented, but it is not well understood. Existing data sources tracking debt, such as the Federal Reserve Board’s triennial Survey of Consumer Finances, provide only a limited picture of household indebtedness. Existing data sources don’t answer basic questions about household credit card debt, including how long the average household has been in debt and what types of purchases led to outstanding balances. Prior to the survey findings presented in this paper, there have been no data available to study how many American households are using credit cards and how they are managing their debt.

To answer these questions, Demos, along with the Center for Responsible Lending, commissioned a national household survey of households with credit card debt. The survey consisted of 1,150

phone interviews with low- and middle-income households whose incomes fell between 50 percent and 120 percent of local median income—roughly half of all households in the country. In order to participate, a household had to have credit card debt for three months or longer at the time of the survey. The survey findings reported here reflect 29 percent of low- and middle-income households, that is, nearly one-third of low- and middle-income households contacted had credit card debt for at least three months or longer. The findings of this survey represent 41 million people in 15 million households. The margin of error for the survey is plus or minus three percentage points for total respondents. (See Appendix 1 for additional details on the survey methodology, and Appendix 2 for more information on the demographics of survey respondents.)

SURVEY METHODOLOGY

This telephone survey was conducted by ORC Macro between February and March 2005 with 1,150 low- and middle-income adults (18 years or older) who reported having credit card debt for longer than the previous three months. “Low- to middle-income” was defined as having a total household income between 50 percent and 120 percent of the local median income. Credit card indebted households were identified based on the question “Do you or your spouse have any credit card debt; that is, money due on credit cards that you did not pay off in full at the end of last month?” Because the survey was conducted shortly after the holiday season, we chose to exclude from the survey any households who reported having credit card debt for less than three months. The screening questions also ensured that the respondent was a head of the household and that s/he was involved in making financial decisions. The margin of error for the survey is plus or minus three percentage points for total respondents. For results based on smaller subsets, the margin of error is higher.

ORC Macro developed the survey instrument in close consultation with Demos, the Fannie Mae Foundation and a technical advisory group convened for the project. The survey was given in either English or Spanish, based on the respondent’s preference. Households were contacted by phone using nationwide random-digit dialing. Twenty-six percent of the low- and middle-income respondents reported having credit card debt for at least three months.

The development of the survey questionnaire was informed by six focus groups convened prior to the telephone survey. Focus group participants were consumers with credit card debt in the Washington, D.C. metropolitan area, Pasadena, California and Chicago, Illinois. The groups were segmented by race/ethnicity, geographic location and language spoken. The group with Latinos/Hispanics was further segmented between English-speaking and Spanish-speaking groups.

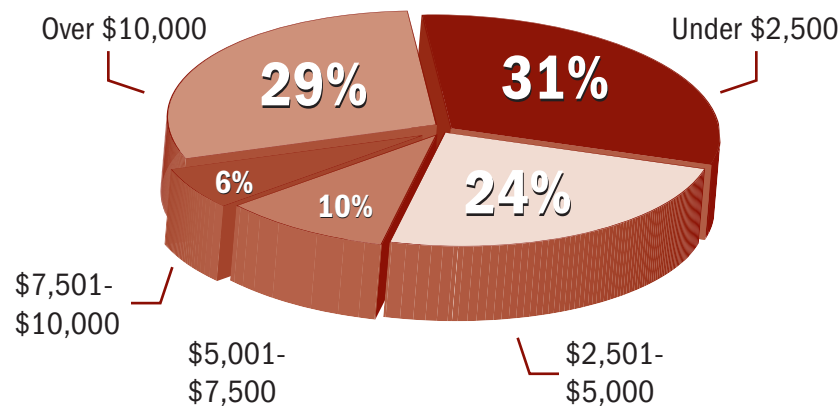
Key Findings

THE BASICS: AVERAGE/MEDIAN DEBT, LENGTH OF TIME IN DEBT

According to our survey, the average credit card debt of a low- and middle-income indebted household in America was \$8,650; the median was \$5,000. One-third of households had credit card debt over \$10,000, while another third reported credit card debt lower than \$2,500. (See Chart 1.)

Low- and middle-income households have on average \$8,650 in credit card debt.

Chart 1. Percent of Households by Level of Credit Card Debt



We examined the average and median amount of debt among households by race/ethnicity, age and income level. Age differences were less pronounced, except for Americans aged 65 and older, who had lower debt than all other age groups. As expected, average credit card debt was higher for households with higher incomes, though the median amount of credit card debt does not vary as dramatically by household income.

An examination of differences by race/ethnicity reveals that white households have the highest amount of credit card debt as compared with African Americans and Hispanics. **However, credit card debt has a much greater impact on the overall net worth of households of color because, on average, African-American and Latino**

households have only one-tenth of the wealth of white households.⁴ The 2002 median net worth for white, African American, and Hispanic households was \$88,651, \$5,988, and \$7,932 respectively.

Table 1: Mean and Median Credit Card Debt by Age, Income Level, and Race/Ethnicity

	Mean	Median
All	\$8,650	\$5,000
By Age		
18-34	\$8,182	\$4,700
35-49	\$8,938	\$5,500
50-64	\$9,124	\$5,000
65 and older	\$7,382	\$4,000
By Income Level		
Less than \$35,000	\$6,504	\$4,000
Between \$35,000 – \$50,000	\$8,319	\$5,000
Greater than \$50,000	\$10,472	\$5,100
By Race/Ethnicity		
Non-Hispanic Caucasian	\$8,972	\$5,000
Hispanic	\$6,432	\$4,100
African-American	\$7,926	\$5,000

The average length of time in credit card debt was 3½ years.

The majority of survey respondents (59 percent) had been in credit debt for longer than one year, with the average length being 43 months, or just over three and a half years. (The median length of time households reported being in debt was 30 months.) The duration of credit card debt did not vary much across demographic groups, though not surprisingly, households with higher levels of credit card debt were more likely to have been in debt for longer than a year: 75 percent for those with credit card debt higher than \$5,000 compared to 39 percent for those with less than \$2,500 in credit card debt.

Do these amounts of credit card debt represent a high-point or a low-point for these households? For 45 percent of households, the amount

“I’ve been in this debt for the past two years. But if you count the credit cards and when I started owing, it’s been about ten or twelve years.”

—California focus group participant

of credit card debt they had at the time of the survey was less than it was three years ago, while 42 percent of households reported their debt was more than it was three years ago. But regardless of whether their current credit card debt was higher or lower than three years before, nearly half of households (47 percent) reported having swings in the level of credit card debt—that is, after periods of paying down their debt, events happened that caused them to run up the debt again. This finding makes sense given the increased volatility in the income of US middle-income households; the average annual income swing of almost \$13,500 has doubled since the 1970s.⁵ Among the remaining households, 17 percent reported having “a high level of credit card debt for a long time,” and 20 percent reported this being “the first time their credit card debt was this high” at the time of the survey. Another 13 percent said that they were carrying debt to build up their credit score.

Nearly half of all households reported that after periods of paying down their debt events happened that caused them to run up their debt again.

While we examined for differences in the amount of credit card debt carried across demographic characteristics, such as age, race/ethnicity and income level, the data suggest that there are not dramatic differences. Rather, it appears the underlying reason behind some households having higher levels of credit card debt than other households was the occurrence of unforeseen events, such as job loss, medical expenses or car breakdowns. **Quite simply, what distinguishes low- and middle-income households with relatively high levels of credit card debt from those with lower levels of debt is chance and misfortune.**



THE REALITY BEHIND CREDIT CARD DEBT: BAD LUCK, BAD HEALTH AND HARD TIMES

Families with credit card debt are often thought to be shortsighted or ill disciplined, guilty of “living beyond their means.” Of course, societal pressures to consume—to acquire certain goods and to achieve a certain lifestyle—have their place in a discussion of credit card debt. But the survey findings reveal that much of the debt for low- and

Seven out of 10 households reported using their credit cards as a safety net—relying on credit cards to pay for car repairs, basic living expenses, medical expenses or house repairs.

middle-income households is ‘safety net’ debt. That is, families are going into credit card debt as a way to cope with drops in income or unexpected expenses.

The survey asked a series of questions about what types of expenses in the past year had contributed to the households’ current level of credit card debt (see Table 2). Seven out of 10 low- and middle-income households reported using their credit cards as a safety net—relying on credit cards to pay for car repairs, basic living expenses, medical expenses or house repairs. Only 12 percent of households did not report any type of safety net usage, which may indicate a relatively low percentage of credit card debtors who use credit to “live beyond their means,” purchasing items that are not critical or necessary.

Table 2: In the past year, please tell me if the following items have contributed to your current level of credit card debt, or not.

	Yes %	No %
Car repairs	48	52
Home repairs	38	63
A major household appliance purchase	34	66
Basic living expenses such as rent, groceries, utilities	33	67
An illness or necessary medical expense	29	71
A layoff or the loss of a job	25	75
Tuition or expenses for college for a child, a spouse or partner, or yourself	21	79
Money given to other family members, or used to pay the debts of other family members	19	81
Tuition or other school-related expenses for a child who is of high school age or younger	12	88

Percent Who Answered Yes

To none of these expenses:	12
To one or more	88
To two or more	71
To three or more	48
To four or more:	28

“The car needs work and you don’t have the money for the parts, so you charge it.”

—Illinois focus group participant

In addition to asking about specific types of expenses, the survey also asked households whether they had used credit cards in the past year to pay for basic living expenses, such as rent, mortgage payments, groceries, utilities or insurance, because they did not have money in their checking or savings account. **One out of three households reported using credit cards in this way—reporting that they relied on credit cards to cover basic living expenses on average four out of the last 12 months.** Households that reported losing a job sometime in the last three years and being unemployed for at least two months, as well as households who had been without health insurance in the last three years, were almost twice as likely to use credit cards to pay for basic living expenses. Not surprisingly, households who needed to use credit for their basic living expenses had lower levels of savings and higher credit card balances than households who did not use credit cards to pay for their basic expenses.

One out of three households reported using credit cards to cover basic living expenses on average four months in the last year.

We also investigated whether specific reasons for credit card debt were more likely to lead to higher relative credit card debt – that is, the ratio of a family’s outstanding credit card debt to their annual income. This is an important measure because it describes the “debt-stress” level of a household: for example, \$5,000 in debt is much harder to manage for a family earning \$20,000 per year than for one earning \$50,000. For the 963 respondents in our survey who provided the amount of both their credit card debt and annual income, this ratio of credit card debt to annual income averaged 21 percent and ranged from 0.2 to over 100 percent.⁶

Our findings illustrate that most debt-stressed low- and middle-income consumers are trying to cover unavoidable expenses, not discretionary purchases. (See Appendix 3 for details on the statistical analysis.)

- The most significant predictor of “debt stress” level was whether a household relied on credit cards to cover basic living expenses such as rent, mortgage payments, groceries, utilities or insurance.
- Households dealing with a layoff or major medical expenses were more likely to have a higher relative debt-stress level. These economically-vulnerable households were more likely to have

Households that experienced a layoff or major medical expenses were more likely to carry higher relative credit card debt.

higher relative credit card debt because they used their credit cards to cover expenses associated with an illness or necessary medical treatment, as well as basic living expenses. (We noted also that over half the households reporting a layoff also indicated they did not currently have health insurance.)

- While cited as expenses by many survey respondents, car repairs and the purchase of major appliances did not lead to higher relative levels of credit card debt. In addition, home repair expenses were a factor in higher relative credit card debt only for families who had not experienced a layoff or major medical expenses and thus generally were in a stronger financial position.



DEALING WITH DEBT: CUTTING BACK, PAYING UP AND BUDGETING

Most households reported feeling somewhat (46 percent) or greatly (16 percent) burdened by their debt, yet at the same time, they also were as likely to report that credit cards had improved their quality of life, either somewhat or strongly. This ambivalence about credit card debt was echoed in the focus groups conducted prior to the survey, in which the sentiment that “credit card debt was a necessary evil” was a dominant theme among credit card debtors. However, despite the households’ acceptance of debt as part of their life, indebted households were actively and conscientiously trying to reduce the amount of their debt.

In terms of their immediate plans in the next three months, 48 percent said they were trying to minimize their credit card use so that they could pay down their debt; another 33 percent responded that they would like to cut down on purchases but realized that they would use their credit cards as needed. Only seven percent indicated that their cards were maxed out and they could not use them further, and 11 percent said they would use their cards as they had in the past. In terms of their intended payment practices over the next three

“We’d be in a house if it weren’t for our credit card debt. We’d probably also have new cars, because our cars are getting to that dangerous point. And we would like to go on a really nice vacation together before we have children. And we would like to do nicer things, instead of just work, work, work, work to pay bills. So it really has stopped us from doing stuff that probably everybody does. But we’ve never missed a payment. That’s our goal – we’ve never, ever missed one in our lives.”

—California focus group participant

months, 10 percent reported they would be paying the minimum; 39 percent said they would pay the minimum plus a little extra; 41 percent planned to pay two to three times the minimum; and nine percent thought they would pay off the entire balance.

In addition to asking whether or not they only paid the minimum amount, we also asked people the monthly dollar amount of their last payment on their credit card bills. The average amount paid was \$700 in the previous month, with the median monthly payment reported as \$300. The reported payment amount works out to roughly 10 percent of the average credit card debt reported by households, more than five times the required monthly minimum payment, typically two percent until recently.⁷ **Indebted households are not only aware they need to pay more than the minimum in order to get out of debt, they actually are doing so.**

Even as they pay more than the minimum to climb out of debt, many households also report cutting back on certain expenses, particularly discretionary expenses such as taking a vacation, buying new appliances or going out for a special occasion. More than half of indebted households said they had cut back their discretionary expenses to a great extent (24 percent) or somewhat (28 percent) in the last six months. Two-thirds reported being on a budget to control their expenditures.

While some households expressed ambivalence about their credit card debt, there were some negative outcomes reported by a number of households. Forty-seven percent of households had been called by a bill collector. Just under half had missed or were late with a payment in the last year, with nearly a quarter of households reporting paying a late fee at least one or two times in the past year. The high incidence of late payments reported by survey respondents has important implications for their long-term ability to pay down their debt. In addition to charging late fees (that now range between \$30 and \$39),⁸ most issuers also penalize cardholders for late payments by increasing the interest rate on the account two- or three-fold, often after only one late payment.⁹ For example, a household with the average amount

The majority of households reported paying more than the minimum payment required each month.

Two-thirds of households reported being on a budget to control their expenditures.

Forty-seven percent of households had been called by a bill collector.

Just under half had missed or were late with a payment in the last year, with nearly a quarter of households reporting paying a late fee at least one or two times in the past year.

of credit card debt in our survey (\$8,650) would incur over \$1,100 in additional interest costs each year if their card's interest rate was increased from the typical 12 percent to the average 25 percent "default rate" for one late payment.¹⁰

Credit card debt was also more of a problem for households who were renters, including the 30 percent of these households who indicated they were currently trying to buy a house. As expected, renters in our survey tended to be younger and have lower income and savings than homeowners. Even though on average they carried a lower amount of credit card debt than homeowners (\$6,880 vs. \$10,296), a significantly higher proportion of renters reported using credit cards to cover basic living expenses (45 percent vs. 28 percent) or expenses due to a layoff (36 percent vs. 20 percent). Compared with homeowners, renter households also had fewer other financial resources besides credit cards, relying more on loans from family members (35 percent vs. 14 percent) and fringe lenders such as payday lenders, and pawnshops (12 percent vs. three percent) to cover unexpected expenses.

Renters also had more difficulty handling their credit card debt: over half had missed at least one payment in the previous twelve months, and 26 percent had missed three or more payments. And more than half of all renter households believed their current level of debt would hurt their ability to buy a home either to a great extent (27 percent) or somewhat (25 percent).

IV. DRAINING WEALTH: USING HOME EQUITY TO PAY DOWN CREDIT CARDS

Homeowners increasingly look to their home equity as a source of funds to help deal with rising household debt. While the mortgage lending industry promotes consolidation loans heavily in advertising messages, few cautionary notes are sounded.¹¹

Like over 30 million U.S. households, 40 percent of the homeowners in our survey refinanced or got a second mortgage during the past

“I worry about it, but I can still sleep at night. It’s something I know I have and I have to pay it. I make sure that I don’t max out my card.”

—Illinois focus group participant

three years.¹² Over half of these households used proceeds from a mortgage refinance or home equity loan to pay down credit card debt. The average amount of credit card debt paid down was \$12,000, which used up an average of 12 percent of their existing home equity. The majority of these households were middle class, with an average income under \$48,000.

If refinancing and paying down credit card debt provides a means for low- and middle- income homeowners to escape revolving debt, this could perhaps be a beneficial use of home equity: trading a short-term, higher-cost liability for lower cost, longer-term debt. At the same time, combining credit card debt with mortgage debt—thereby stretching out repayment of short-term debt over twenty or thirty years—runs a high risk of being a detrimental financial decision, even at a low interest rate.¹³ The scenario is even worse if the homeowner takes on a subprime mortgage at a higher interest rate.

40 percent of homeowners had refinanced during the last three years, with over half using the proceeds to pay off credit card debt.

Table 3: Monthly Payments and Total Interest Paid Under Different Debt Scenarios

	Amount	Annual Interest Rate	Monthly Payment	Number of Years to Repay	Total Interest Paid
Credit Card Debt	\$12,000	16%	3% or \$20, whichever is greater	18	\$9,287
Prime Mortgage Debt	\$12,000	6%	\$60	30	\$13,898
Subprime Mortgage Debt	\$12,000	9%	\$90	30	\$22,752

Regardless of the uncertain benefits in trading home equity for credit card debt, the results of our survey indicate that using home equity does *not* in fact decrease credit card debt levels for low- and middle-income households. The 20 percent of survey homeowners who had paid off some credit card debt with a mortgage refinance in the last three years had added \$12,000 to their mortgage debt and at the time of our survey still had average credit card debt of over \$14,000. As a result, they were carrying 18 percent more debt than homeowners in our survey who had refinanced a mortgage but

not paid down credit card debt—even though their incomes were almost identical. Adding to secured debt and incurring more credit card debt is a recipe for financial disaster—and one faced by millions of Americans.¹⁴

Table 4: Comparison of Homeowners in Survey

	Did not refinance mortgage in past 3 years	Refinanced mortgage, did not pay off credit card debt	Refinanced mortgage and paid off credit card debt
Average income	\$40,877	\$47,371	\$47,668
Average credit card debt paid off by mortgage refinance	\$0	\$0	\$12,067
Current average credit card debt	\$7,718	\$8,810	\$14,419
Average outstanding mortgage debt	\$63,162	\$99,338	\$111,460
Current mortgage and credit card debt	\$74,030	\$107,148	\$125,879

Why did some low- and middle-income homeowners continue to carry large credit card balances even after they have used equity in their homes to pay off credit card debt? Was it over-consumption? No. The reasons were the same ones discussed earlier: bad luck and lack of other traditional safety nets such as savings and unemployment benefits. Homeowners who used proceeds from a mortgage refinance to pay down credit card debt were more likely than other homeowners to have incurred subsequent credit card debt because of home repairs (65 percent vs. 43 percent), car repairs (56 percent vs. 44 percent), basic living expenses (41 percent vs. 23 percent), or a layoff (30 percent

“I never pay the minimum, I always pay more than that. I don’t want to be in debt too long. I want to pay as much as possible.”

—Illinois focus group participant

vs. 14 percent). For low- and middle-income homeowners who used credit cards and home equity as their primary safety net, the debt cycle continues.

The strategy of using home equity to pay off higher-cost credit cards is risky. While in theory it provides families with a short-term solution of lower monthly payments, it often fails to address the long-term economic realities confronting the family. Further, many refinancers in the past few years have taken on adjustable rate mortgages (38 percent of prime mortgage loans and as much as 70 percent of subprime mortgages), exposing them to even more risk as interest rates increase. Another risk factor is predatory lending, where some mortgage lenders exploit the burden of high credit card debt to seduce consumers into abusive mortgage loans—these have even more lasting and devastating consequences than a cumbersome non-secured debt burden.

The danger of missing a mortgage payment means many families are risking their homes—a family’s most important asset—in order to pay off unsecured credit cards. All of these factors lead to a crisis in personal finance: a blurred line between “productive credit,” which helps to build wealth, and “destructive debt,”¹⁵ which only depletes wealth and erodes families’ financial security.

Where Do We Go From Here? Policy Recommendations

DEBT IS NOT A SAFE NET: REFORMS FOR THE “DEMAND SIDE”

Despite the common perception that families use credit cards to acquire luxury items and “live beyond their means,” our research has demonstrated that a sizeable majority (71 percent) of low- and middle-income families depend on credit cards to pay for basic living expenses or to deal with unexpected financial emergencies.

An eroding safety net...

	Then	Now
Unemployment benefits -maximum duration	15 months (1975)	6 months (2004)
% workers covered by pensions	40% (1980)	20% (2004)
Federal budget for job training	\$27B (1985)	\$ 4.4B (2004)
% workers with employer- provided health insurance	72% (1979)	60% (2004)

*Source: Los Angeles Times, see endnote 1.

The exponential growth of credit card debt has taken place in an economic context that breeds uncertainty for households. “Income volatility”—fluctuation in family incomes—almost doubled in the last two decades of the twentieth century.¹⁶ At the same time, wages have been stagnant. Overall, wages barely moved (five percent, adjusted for inflation) for American households with incomes in the bottom 20 percent, and the next lowest

income quintiles only changed by 12 to 15 percent, respectively.¹⁷ Meanwhile, the share of family income devoted to “fixed costs” like housing, child care, health insurance and taxes has climbed from 53 percent to 75 percent.¹⁸

“It’s horrible (living paycheck to paycheck), you pray to God that none of your children get sick or that something like the refrigerator doesn’t break down because then that’s when you have to use the credit card to buy a new one and that means getting into debt.”

—California focus group participant

Our survey shows that for a significant minority of households, credit cards serve as a “plastic safety net” by providing a short-term solution for meeting immediate, pressing living expenses. However, rather than being a constructive financial tool, credit card debt can result in a downward financial spiral. Consequently, our nation cannot be complacent about the costs and risks associated with credit card debt. Credit cards are no substitute for adequate wages, affordable housing and affordable health care and insurance.

Community leaders, advocates, and legislators must confront these issues squarely. While larger economic issues are not addressed within the scope of this study, the results highlight the need for reform on a number of fronts. To help families build their own safety net without incurring burdensome credit card debt, we offer the following policy recommendations:

Promote increased savings, not increased debt, to meet unexpected financial emergencies.

Over the last three decades, America’s savings rate has steadily declined, and recently fell below zero.¹⁹ Individuals who can’t save often are caught in situations where they must use their credit cards in place of funds traditionally set aside for “rainy days.” This was demonstrated in our survey, where we found that households were more likely to use their savings to deal with unexpected expenses but used credit cards as a secondary source if savings are not available.²⁰ Additionally, over half (57 percent) of households who reported using credit cards for basic living expenses had less than \$1,000 in non-retirement savings. Notably, households with larger savings were likely to use their savings to pay off their credit card debt—something households with lower savings often could not do.²¹

Household savings serve two important functions: They help families to weather temporary income losses or unexpected expenses, and they help families plan for the future. Currently over a quarter of households in the U.S. are asset-poor—lacking the net worth needed to survive for three months at the poverty line.²² While the federal

government currently dedicates \$335 billion each year to promote individual asset-building, these benefits disproportionately help those who already have assets—less than five percent of benefits go to the bottom 60 percent of taxpayers.²³ We encourage policymakers to increase asset- and savings-building support for working families (for example, matched savings accounts and expanded Individual Development Accounts).

Improve wages for working families.

In our survey, the largest percentage of households using credit cards to pay essential living expenses were those with incomes of \$20,000 to \$50,000. In order to avoid excessive credit card debt, families must earn wages that will cover basic everyday expenses such as housing, food, and transportation. Unfortunately, in the past two decades, the U.S. cost of living has climbed 88 percent while incomes for the bottom 60 percent of households have risen only 5 to 15 percent.²⁴ Government policies should support efforts by families to meet the cost of living, so they are not forced to take on debt to cover basic living expenses.

Address the problem of the uninsured.

Our survey revealed that one-third of respondents who were without health insurance in the past three years attributed illness or other necessary medical expenses to their current level of credit card debt, and almost half of these households were using credit cards to pay for basic living expenses. Forty-five million people lack health insurance in the United States—the majority of them employed in full-time jobs.²⁵ While families struggle to cope with medical emergencies or chronic conditions, the increasing costs of health care create an additional burden on their financial livelihood. Improved access to affordable health care would help families significantly improve their financial position.

“I’ve been in this debt for the past two years. But if you count the credit cards and when I started owing, it’s been about ten or twelve years.”

—California focus group participant

Strengthen the unemployment insurance safety net.

Our survey found that households who had experienced a layoff in the past three years were more likely to have higher relative credit card debt. Other studies have shown that unemployment problems are at the heart of nearly two-thirds of bankruptcy filings.²⁶ The unemployment insurance system was designed to help workers get through a temporary job loss by replacing their lost earnings. Today, however, many workers are ineligible for benefits (especially low-wage workers and “nonstandard” workers such as temporary or part-time employees), and the benefit levels replace only about one-third of an average worker’s earnings.²⁷ States should consider policies to cover more low-wage workers, those most vulnerable to temporary income losses and most likely to lack savings or wealth to draw on during unemployment. A stronger social safety net would help families withstand the financial pressures related to job loss.



RESTORING RESPONSIBLE CREDIT PRACTICES: REFORMS FOR THE “SUPPLY SIDE”

Deregulation of the credit card industry has created an environment where credit card companies can construct the terms, rules, and practices of the credit card agreement without meaningful regulation. These new and complicated revenue-generating practices often fall harshly on the backs of those consumers who can least afford them. While more consumers have access to credit than ever before, this has come at a great cost for many households, especially low- and middle-income households who rely on credit cards to help make ends meet. Too often, the pricing strategies of credit card companies make it more likely that a family will endure persistent and burdensome debt, with little chance of paying or keeping down their debt.

While regulating credit was once the province of the states, deregulation and federal pre-emption have left states with little authority to regulate credit card practices—making federal policymakers bear the responsibility for reforming credit card practices. The states can still

play a role in encouraging Congress to act, by passing resolutions and helping to mobilize constituents. We encourage Congress to adopt the following policy recommendations to restore fair and responsible lending practices:

Reform the “penalty pricing” trap.

In our survey, nearly a quarter of households reported paying a charge for a late payment at least one or two times in the past year. And they are not alone—credit card issuers expect to collect \$16 billion in penalty fees in 2005.²⁸ Until 1996, a late payment on a credit card account typically resulted in a fee of \$10 to \$15, but now such late fees more commonly range from \$29 to \$39.²⁹ Of even greater consequence to consumers is the cascade of costs that late payments now trigger: after just one late payment, most major issuers will raise the interest rate on the account to a high “penalty rate” or “default rate” that currently averages over 25 percent.³⁰ This higher penalty rate also may be triggered by a cardholder exceeding the credit limit on the account.

These late payment penalties—high fees and interest rate hikes—may affect millions of cardholders of all credit risk levels, because grace periods have shrunk, giving customers less turnaround time.³¹ The new, higher default rates may be triggered under the contract without advance notice to the consumer. To create an even greater “sticker shock,” they are applied retroactively to the *entire outstanding balance*, rather than only to future charges.

Another increasingly common, if controversial, practice among card issuers is to extend their right to trigger the penalty rate for reasons unrelated to their own experience with the cardholder on the account. Known in the industry as “universal default” clauses, these revenue-generating policies amount to levying a fine before there’s an offense. Card issuers now routinely check their cardholders’ credit reports and may raise the interest rate on the card if there has been a change in the consumer’s score, or if there is a late payment reported to a

“I pay the minimum; I don’t have enough to send more.”

—California focus group participant

different creditor. Interest rate increases also can be triggered when a cardholder inquires about a car loan or mortgage, gets a new credit card, or bounces a check.³²

Specific reforms to address penalty pricing problems include the following:

- Eliminate universal default terms by requiring any penalty rate or fee increase to be linked to a material default directly related to a specific account with that lender.
- Limit penalty rate increases to no more than 50 percent above the account’s original rate. (For example, a 12 percent interest rate would be increased to an 18 percent penalty rate.) This policy would still provide the issuer with significant additional protection against payment risk. Recent changes in bankruptcy laws have provided additional protection for credit card issuers in the event of borrower default, further reducing the justification for higher penalty rates.
- Provide at least 30-days’ advance notice that the card issuer is invoking the penalty pricing clause.
- Prohibit the retroactive application of pricing changes so that rate changes are applied only to purchases made after the issuer gives notice of the rate change.
- Ensure that grace periods and payment posting rules and practices are not designed to trigger late charges and penalty rates.

Honor basic principles of contract law.

Shopping for reasonable terms or comparison shopping for credit cards is almost an exercise in futility, since all credit card issuers now reserve the right to unilaterally change the terms at any time.³³ This excerpt from a BankOne solicitation is a good example: “We reserve the right to change the terms (including APRs) at any time for any reason, in addition to APR increases which may occur for failure to comply with

the terms of your account.” This right to raise the rate at any time for any reason is in addition to their right to trigger a penalty rate under the initial contract terms. In other words, at the time you get the card, the base rate may be nine percent and the penalty rate may be 19 percent. But with unilateral power, the issuer has the right to change the base rate to 12 percent and the penalty rate to 25 percent.

Changes in the rates and fees on the account should be reasonable and related to the original contract. Any change made to the terms of the cardholder agreement regarding increases in the annual percentage rate (or decreases if that may be the case) should be limited to future activity on the card and should apply only after a minimum of 30 day’s advance notice, while cardholders should retain the right to pay off prior balances at the terms in place when those charges were made.

Disclose the cost of minimum payments.

Industry practices on minimum payments have attracted a great deal of attention from the press and regulators, and 90 percent of the respondents in our survey were aware of the need to make more than the minimum payment on their credit cards. Nonetheless, very small minimum payment requirements (typically two percent of the balance) have played a role in creating higher balances for borrowers.³⁴ Under new guidelines from federal regulators, the industry may be moving toward higher minimum payments.³⁵ The guidelines recommend that the minimum payments be sufficient to pay off accrued interest and fees, and make a reasonable reduction in principal. This effort should continue to avoid payment requirements that result only in deepening debt. However, any new policy should be implemented with care to assure that consumers have enough time to adjust their budgets for any resulting payment shock.

The 2005 changes in the bankruptcy law included mandates for new disclosures on the impact of confining monthly payments to the minimum charge. However, these mandated disclosures, scheduled to begin by late 2006, are unlikely to be effective.³⁶ Consumers

“I’ve had credit card debt for 13 years. I’ve had it since I was 20 years old, now I’m 33. I ruined my credit when I was 20 years old. I had about 30 credit cards. I spent it all on furniture and stupid things. I’m still paying them. It’s been 13 years and I still owe about \$15,500 on my cards. I haven’t charged anything since then, it’s all interest that I’m paying.”

—California focus group participant

should receive meaningful disclosures on the true long-term costs of paying minimum charges, and the 2005 amendments do not meet that standard.³⁷

Ban binding mandatory arbitration clauses.

As the credit card industry has been deregulated in areas meaningful to consumers, such as rate and fee limitations and change-in-terms notices, courts have provided the only redress for overreaching through application of general laws such as those prohibiting unfair and deceptive acts and practices. As a consequence, the industry has tried to restrict consumers’ access to courts by including boilerplate “mandatory arbitration” clauses in the cardholder agreements. These clauses bar consumers from bringing claims to court and require them to go through a private legal system that favors defendants. Typically, mandatory arbitration clauses entail substantial and uncertain fees,³⁸ limit the right of consumers to obtain information possessed by the card issuer that may help prove allegations, and may limit damages, even if the consumer can mount the other obstacles.³⁹ Arbitration clauses also typically prohibit the use of class action enforcement, which may make it uneconomical for consumers to enforce their remedies. Perhaps more importantly, arbitration typically is done in a “black box” of confidentiality, which means that the public does not learn when a company may be engaging in overreaching practices.⁴⁰ Ultimately, the result is a decline in accountability. This result is not only damaging to consumers, but also to honest competitors and the integrity of the marketplace. Companies should not be permitted to contractually prevent consumers from pursuing their grievances in a court of law.

Require meaningful underwriting standards.

Many observers have expressed concern about a decline in underwriting standards as the industry strives to achieve continued growth.⁴¹ (Credit card issuers sent over five billion direct mail solicitations during 2004, up 22 percent from 2003.⁴²) Pushing new cards and increased credit limits without evaluating whether the customer has a reasonable

ability to pay violates basic principles of sound lending. For example, some respondents in our survey had credit card balances equal to or greater than their annual incomes.

Real and meaningful underwriting standards should be established to ensure that the customer has a reasonably foreseeable ability to repay. While individuals have a responsibility to manage their finances wisely, lenders who offer credit without meaningful underwriting also bear responsibility for the resulting defaults. For instance, credit card solicitations to college students without employment income pose significant risk to young people inexperienced with credit. We encourage policymakers to require that credit cards issued to individuals under age 21 have a co-signer unless the cardholder has verified independent income or other means of support.

Conclusion

The rise of credit card debt, particularly among low- and middle-income families, is a troubling indicator of the current and future well-being of average, hard-working Americans. Families are using credit cards to cope with rising costs, stagnant incomes and the lack of alternative safety nets. The findings of this survey indicate that for many low- and middle-income households, credit cards are the primary safety net available to weather job losses and deal with unexpected expenses. In borrowing to make ends meet, these households are further draining their resources as they struggle to pay down their credit card debt, often inundated with high interest rates, excessive penalty fees and capricious contracts terms.

As this is one of the first national surveys aimed at understanding credit card debt and its impact on family economic well-being, we strongly encourage more research on debt, which is becoming a nearly universal means of coping with the new and volatile economic reality in America. In particular, the Federal Reserve should expand its Survey of Consumer Finances to capture more complete information on household indebtedness, especially among low-and middle-income households.

In the meantime, millions of households are living with high-cost debt exacerbated by declining or stagnant incomes, rising costs, and a fractured safety net. Reforms are needed to ensure these households are given a fair chance to pay down their debt and get back on the path to economic security. In addition, we encourage policymakers to address the larger economic issues facing today's working families, so these families can end their reliance on credit cards as a plastic safety net.

Appendix 1

METHODOLOGY

Initially, ORC Macro conducted six focus groups to prepare for the quantitative survey by exploring in-depth the issues to be addressed and the language for framing questions. All of the focus group participants had current credit card debt that was not paid in-full at the time they were screened for participation. Groups were segmented by race/ethnicity, geographic location, and language spoken. Racial/ethnic segmentation was used to see if there were notable differences among African American, Latino, and Caucasian participants. In addition, the Latino groups were divided into Spanish-speaking and English-speaking segments to see if there were differences between those populations. Finally, geographic segmentation was used to obtain representation from across the country. The three locations for focus groups were: the Washington, D.C. metropolitan area; Pasadena, California; and Chicago, Illinois. All groups contained a mix of male and female participants.

The perception about credit card debt and how people acquire credit card debt varied among focus group participants. Some of the same general trends emerged in all focus groups while other areas of the discussions varied by geographic region or participants' ethnic backgrounds. Specific findings included:

- Credit card debt was perceived to be an inescapable fact of life by most participants.
- Most participants said that they got into debt as a result of either unplanned emergency expenditures (such as medical or dental bills, car repairs) or college expenses for their children.
- While a few people said they had a plan to get out of debt within one to two years, most indicated that they would probably be in debt continuously because of recurring unexpected expenses.

“If I have extra, I’ll pay it, but if not, I just send the minimum.”

—Maryland focus group participant

- Despite their dependence upon credit cards and unending debt, most participants said that credit card debt did not have any real impact on their lives.

Based on the focus group findings, a draft survey instrument was created. This instrument was evaluated by a review panel that included representatives from ORC Macro and Demos as well as Jared Bernstein of the Economic Policy Institute, Robert Manning of Rochester Institute of Technology, Ellen Schloemer of Self-Help, Jeanne Hogarth of the Federal Reserve Bank, Steve Brobeck of the Consumer Federation of America, and Sharon Hermanson of AARP. A revised questionnaire was created and pre-tested before a final instrument was approved.

Before conducting the quantitative survey, an incidence test of 1,000 screening interviews was conducted, using the same screening questions that would be incorporated in the quantitative survey. An RDD (random digit dial) sample was drawn from the GENESYS database of active telephone exchanges. The incidence test determined the percentage of people who would qualify for the full quantitative survey. Short screening interviews were conducted with one of each household’s financial decision-makers. This test yielded a 15.5 percent incidence of households between 50 percent and 120 percent of the local area median income, in which someone in the household either had outstanding credit card debt on an active credit card for four months or longer, or currently had no credit cards but was still paying off cards they had previously.

For the quantitative survey itself, individuals were contacted by phone through a nationwide RDD sample:

- Of the more than 10,000 people reached, 49 percent responded positively when asked if their total family income fell in the relevant income range for their area. This group constitutes low- and middle-income households.

- Of this group, 79 percent currently had credit cards, while 12 percent of those without credit cards were paying off debt from credit cards that were no longer active.
- Twenty-nine percent of low- and middle-income households (and 14 percent of all households) either had credit card debt for at least three months or were paying off debt from inactive cards. This represents 41 million people in 15 million households.
- Finally, 80 percent (1,150 cases) of respondents who met our criteria completed the 25-minute survey.

In our initial screening questions, we made sure that the respondent was one of the heads of the household and that s/he was involved in making financial decisions. Two-thirds of the respondents were either married with a spouse or living with a partner. Of this group, 92 percent said they made joint financial decisions, and 91 percent said they knew “a lot” about their spouse’s debts. By and large, credit card usage was limited to the main householders, with only 10 percent saying that family members other than a spouse or partner used their cards; in 24 percent of the cases where other family members used the card, the usage was greater than 25 percent of the purchases.

The answers to the questions were very consistent, and in most cases, there were only a handful of respondents who refused to answer a specific question.⁴³ As expected, the demographic characteristics of the respondents varied widely and were reasonably comparable to the characteristics of low- and middle-income people as reported in recent national Census surveys. The main exception was that there was a much smaller share of respondents who completed 12 or fewer years of schooling (those who did not complete high school). However, when comparing the answers to the questions on levels of debt and attitudes to debt, those who did not complete high school did not answer them much differently than other respondents.

Appendix 2

CHARACTERISTICS OF SURVEY RESPONDENTS

Table 5 presents information on the demographic characteristics of the survey population:

- Forty percent were over 50 years-old.
- Seventy-eight percent were non-Hispanic Caucasian.
- Nearly 70 percent had some post-secondary education.
- Twenty-three percent were in households with over \$50,000, and 39 percent in households with incomes below \$35,000.
- Nearly 57 percent were married; this share did not change with all but one demographic characteristic: only 28 percent of African Americans were married.
- Fifty-four percent had at least one child present in the household; however this figure varied considerably with age as nearly 80 percent of householders who were over 50 years-old had no children present.
- Only 25 percent lived in rural areas with the plurality of respondents (44 percent) living in suburbs.

Table 5: Demographic Characteristics

Age	%
18-34	26.5
35-49	34.4
50-64	30.2
65+	7.6
Race/Ethnicity	%
Non-Hispanic Caucasians	78.2
Hispanics	7.7
African Americans	9.9
Asian and Other	4.3
Educational Attainment	%
No High School Diploma	4.3
HS Diploma and GED	26.4
Some Postsecondary without BA	34.5
BA or Graduate Degree	34.9
Total Family Income	%
Less than \$35,000	38.6
Between \$35,000-\$50,000	38.1
Greater than \$50,000	23.2
Marriage Status	%
Married/living with significant other	64.3
Never Married	12.5
Divorced/separated/widowed	23.2
Children Present	%
None	46.1
One	25.0
Two or more	28.9
Home Location	%
Urban	31.2
Suburban	43.7
Rural	25.1

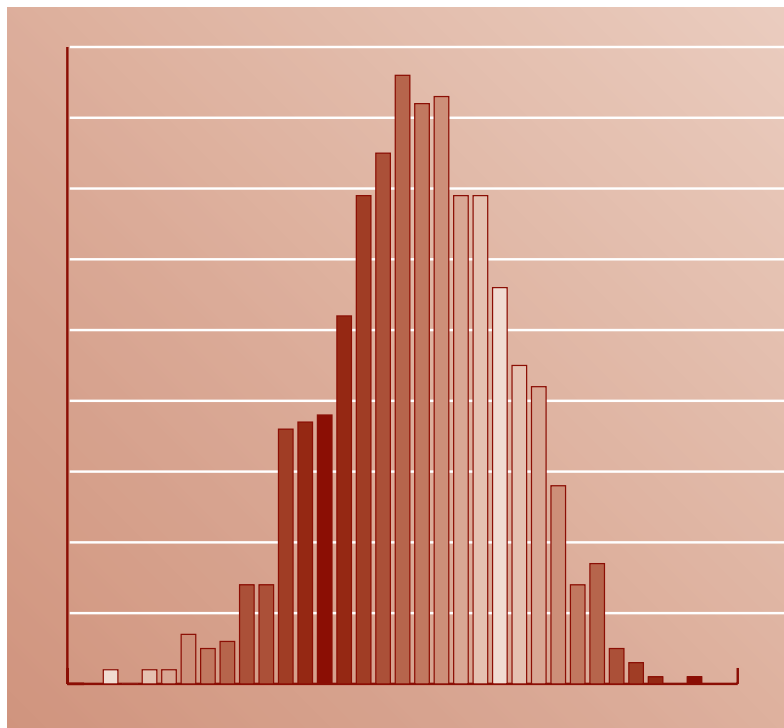
Appendix 3

DETAILS OF SURVEY STATISTICAL ANALYSES

Our analysis focused on whether any specific reasons for credit card debt were more likely to lead to higher relative credit card debt – that is, the ratio of a family’s outstanding credit card debt to their annual income. This describes a “debt-stress” level for a household: for example, \$5,000 in debt is much harder to manage for a family earning \$20,000 per year than for one earning \$50,000. There were 963 respondents in our survey who provided both the amount of their credit card debt and annual income. The mean of credit card to debt ratios was 0.21, with a standard deviation of 0.285.

To test the relationship between this ratio and reasons cited by survey respondents for adding credit card debt during the past year, we estimated a linear regression model. The dependent variable was the natural logarithm of the credit card debt to income ratio. This was a continuous variable and normally distributed.

Natural Log of Credit Card Debt to Income Ratio



The independent variables in our model included reasons cited by respondents for added credit card debt in the past year, using the following formula:

$$\text{Debt-stress} = \beta_0 + \beta_1 (\text{illness or medical expense}) + \beta_2 (\text{car repairs}) + \beta_3 (\text{home repairs}) + \beta_4 (\text{basic living expenses}) + \beta_5 (\text{household appliance purchase}) + \beta_6 (\text{college tuition}) + \beta_7 (\text{family layoff})$$

The results of this model are presented in Table 6, and demonstrate that some often cited reasons for adding credit card debt do not necessarily lead to higher relative levels of debt. Rather, it is consumers who take on credit card debt to cover basic living expenses, medical expenses, or home repairs, or to cover expenses after a layoff in their family, who are most likely to have higher levels of “debt stress.”

Table 6: Factors for Higher Relative Credit Card Debt			
	% Respondents Citing as Reason for Adding Credit Card Debt in Past Year	Beta	Significance (p < .01)
Car repairs	48	0.118	
Home repairs	38	0.079	***
A major household appliance purchase	34	0.149	
Basic living expenses such as rent, groceries, utilities	33	0.401	***
An illness or necessary medical expense	29	0.292	***
A layoff or the loss of a job	25	0.243	***
Tuition or expenses for college for a child, a spouse or partner, or yourself	21	0.046	

Intercept = -2.665, R² = .091

Using a similar model, we also examined whether households who had experienced potentially major economic “shocks” in the past three years (layoff, major medical expenses, or lack of health insurance) were more likely to take on higher relative credit card debt, and for what

reasons. The results of this regression showed distinct differences between these households and those in stronger financial condition, although using credit cards to cover basic living expenses was most significant for both.

Table 7: Factors for Higher Relative Credit Card Debt for Families with and without Economic Shocks

Reason for added credit card debt in past year	Families with Economic Shocks		Families without Economic Shocks	
	Beta	Significance (p < .01)	Beta	Significance (p < .01)
Car repairs	0.124		0.139	.
Home repairs	0.129		0.344	***
A major household appliance purchase	0.196		0.071	
Basic living expenses such as rent, groceries, utilities	0.382	***	0.470	***
An illness or necessary medical expense	0.347	***	0.155	
Tuition or expenses for college for a child, a spouse or partner, or yourself	0.093	.	0.000	

Intercept = -2.546, R^2 = .091 for families with economic shocks

Intercept = -2.667, R^2 = .071 for families without economic shocks

Endnotes

1. Peter G. Gosselin, "The New Deal: If America is Richer, Why Are Its Families Much Less Secure?," *Los Angeles Times* (October 10, 2004).
2. *Consumer Credit Outstanding, (revolving credit, not seasonally adjusted)*, Federal Reserve Statistical Release (September 8, 2005), at <http://www.federalreserve.gov/releases/g19/current/default.htm>.
3. Teresa A. Sullivan, Elizabeth Warren, and Jay Lawrence Westbrook, *The Fragile Middle Class: Americans in Debt*, p16, Yale University Press (2000).
4. *The Wealth of Hispanic Households: 1996 to 2002*, Pew Hispanic Center (October 18, 2004), at <http://pewhispanic.org/files/reports/34.pdf>.
5. The Los Angeles Times used the Panel Study of Income Dynamics for its analysis of family income volatility. The panel study has followed a nationally representative sample of about 5,000 families and their offshoots for nearly 40 years and is the most comprehensive publicly available income and earnings database in the world. It is run by the University of Michigan. The Times' analysis looked at five-year increments from 1970 to 2000 and examined the annual fluctuations in each family's income. (For example, for a family whose income rose from \$40,000 to \$45,000 over a five-year span: did the change occur in steady \$1,000 annual increases? Or did the family's income take a big jump in one year and plunge in another?) Based on the panel-study sample, The Times estimated the annual income swings, up or down, for 68% of all U.S. families—those who did not have the most extreme fluctuations. To zero in on working families, The Times focused on men and women 25 to 64 years old whose households had some income. The analysis looked at pretax income of all family members from all sources, including workplace earnings; investments; public transfers such as jobless benefits, food stamps and cash welfare; and private transfers such as inheritances. All amounts were adjusted for inflation, expressed in 2003 dollars. See Gosselin, *endnote 1*.
6. There was a standard deviation of 28.5.
7. As a result of 2003 federal regulatory accounting guidelines which require that minimum monthly payments on credit cards be sufficient to pay accrued interest and fees, and pay down a reasonable amount of principal, minimum monthly payments are set to rise by the end of 2005. OCC Bulletin 2003-1, Office of the Comptroller of the Currency (January 8, 2003). Julie L. Williams, testimony at *Hearings on Examining the Current Legal and Regulatory Requirements and Industry Practices for Credit Card Issuers with Respect to Consumer Disclosures and Marketing Efforts*, p16-17, Senate Committee on Banking, Housing and Urban Affairs (May 17, 2005). Garry Mitchell, "Higher Minimum Payments Ahead for Credit Card Debt," *Miami Herald* (August 19, 2005).
8. Jane J. Kim, "Major Issuers Boost Costs for Late Payments Past 30% Amid Rising Interest Rates," *Wall Street Journal* (August 11, 2005).
9. In one 2005 survey, 43% of credit card issuers who assessed penalty rates said these could be triggered by one late payment. This was up from 31% of issuers in 2004. *2005 Credit Card Survey*, Consumer Action (Summer 2005) at http://www.consumer-action.org:16080/English/CANews/2005_Credit_Card_Survey/.
10. Tim Westrich and Malcolm Bush, *Blindfolded Into Debt: A Comparison of Credit Card Costs and Conditions at Banks and Credit Unions*, Woodstock Institute (July 2005).
11. For instance, the chairman of the Federal Reserve Board has described "equity extraction" to pay down credit card debt as a positive financial move. See, e.g. *The Mortgage Market and*

Consumer Debt, remarks by Chairman Alan Greenspan, at www.federalreserve.gov/boarddocs/speeches/2004/20041910/default.htm.

12. "Refinancers" include those who refinanced a first mortgage or obtained a second home mortgage or home equity line or loan.
13. While this seems counter intuitive, the credit card payment will start at \$360 the first month and decrease each month afterward, while the additional monthly mortgage payment remains constant at \$72 (prime loan) or \$90 (subprime loan).
14. For more details on home equity extraction in the U.S., see Javier Silva, *A House of Cards: Refinancing the American Dream*, Demos (January 9, 2005).
15. Thomas J. Miller, statement at *Hearings on Predatory Mortgage Lending: The Problem, Impact, and Responses*, p1, Senate Committee on Banking, Housing, and Urban Affairs (July 26, 2001).
16. See Gosselin, *endnote 1*.
17. Isaac Shapiro, *What new CBO Data Indicate About Long-term Income Distribution Trends*, Center on Budget and Policy Priorities, p1, (March 7, 2005), at <http://www.cbpp.org/3-7-05tax.trm>.
18. Elizabeth Warren and Amelia Warren Tyagi, *The Two Income Trap: Why Middle-Class Mothers & Fathers Are Going Broke*, p51, Basic Books (2003).
19. *Personal Income and Outlays: July 2005*, News Release BEA 05-38 Bureau of Economic Analysis, U.S. Department of Commerce (July 2005), at www.bea.gov/bea/rels.htm.
20. Forty-nine percent of respondents reported using savings to cover unexpected expenses, the highest response rate for any option (other options included credit cards, loans from family members, bank loans, and non-traditional financing.) Of the respondents who tapped into savings, approximately half (47 percent) also used credit cards to cover unexpected expenses.
21. Forty-five percent of people with savings of \$5,000 or more used their savings to pay off their credit card debt, as opposed to 22 percent of those with savings of less than \$500.
22. Robert Haveman and Edward N. Wolff, *Who Are the Asset Poor? Levels, Trends, and Composition, 1983-1998*, Institute for Research on Poverty Discussion Paper #1227-01, University of Wisconsin-Madison (April 2001).
23. *Hidden in Plain Sight: A Look at the \$335 Billion Federal Asset-Building Budget*, p3, Corporation for Enterprise Development (Spring 2004).
24. See Shapiro, *endnote 17*, and U.S. Bureau of Labor Statistics Consumer Price Index at <http://www.bls.gov/cpi/home.htm>.
25. *Income, Poverty, and Health Insurance Coverage in the United States: 2004*, p16, U.S. Census Bureau (August 2005).
26. See Sullivan, *et al*, *endnote 3* at p5.
27. Andrew Stettner, Rebecca Smith and Rick McHugh, *Changing Workforce, Changing Economy: State Uninsurance Reforms for the 21st Century*, National Employment Law Project, p1, (2004) at <http://www.nelp.org/changingworkforce/About%20UI/Intorduction-cont.pdf>.
28. See Kim, *endnote 8*.
29. Patrick McGheechn, "Plastic Trap, Soaring Interest Compounds Credit Card Pain for Millions," *New York Times* (November 21, 2004). Tom Ramstack, "Fees Put Squeeze on Credit Cards," *Washington Times* (July 4, 2005).
30. See Westrich *et al*, *endnote 10*.

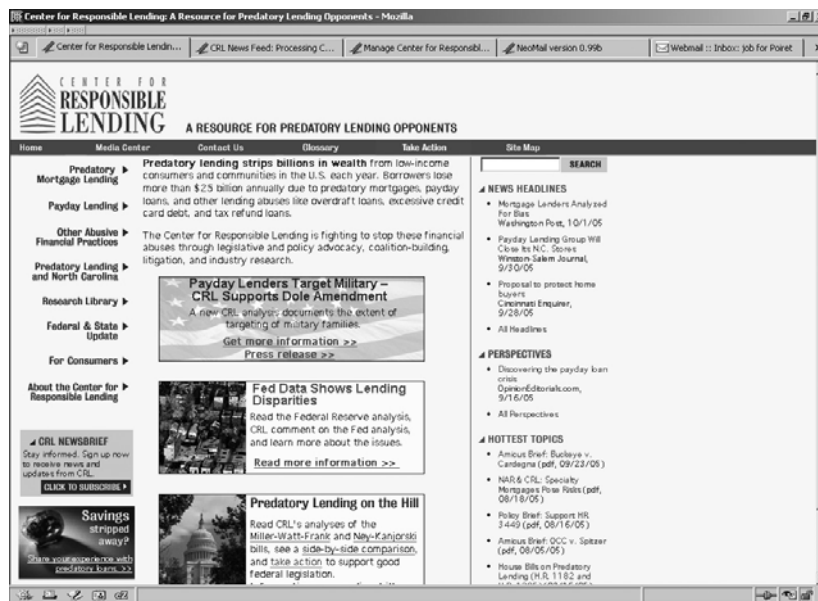
31. “Grace Period” is defined as the number of days between the close of the billing cycle and the date the payment is due. The grace period has dropped from 30 days to an average 21 days. See Westrich *et al*, *endnote 10*.
32. See 2005 Credit Card Survey, *endnote 9*.
33. Pamela Yip, “Credit Cards Hide Changes in Fine Print,” *Dallas Morning News* (June 20, 2005), at <http://www.nwn.com/sharedcontent/business/yip2/062005ccdrBizYip.2a73a9e4.html>.
34. Mara Der Hovanesian, “Tough Love for Debtors,” *Business Week* (April 14, 2005).
35. *Credit Cards 2005: The Outlook Dims*, p113, SMR Research Corporation (May 2005).
36. See PL109-8, Title XIII, Sec. 1301, to be codified at 15 U.S.C. § 1637(b)(11). The information given on statements will be of a generic nature, unrelated to specific accounts. To learn more, consumers will be directed to a cumbersome telephone system which even then will not provide specific information.
37. One more sound approach is contained in the Credit Card Minimum Payment Warning Act of 2005, S. 393, Sec. 2.
38. A study of the three largest arbitration providers found that arbitration forum costs could be up to five thousand percent higher than court fees. The study also found vastly higher arbitration costs for certain types of claims brought under a pre-dispute clause than for similar claims submitted on a post-dispute basis. *The Costs of Arbitration 2*, p43, 2, 71, Public Citizen (2002).
39. Companies frequently draft arbitration clauses to limit or prevent certain types of traditional monetary damages that predominantly benefit consumers and are central to effective law enforcement, including punitive damages and certain types of compensatory damages. Mark E. Budnitz, “The High Cost of Mandatory Consumer Arbitration,” 67, *Law and Contemporary Problems*, 133, 137, 141 & n.50 (2004).
40. Companies may benefit from a “repeat player” effect in consumer arbitrations because they may be involved in hundreds, thousands, or even tens of thousands of arbitrations, while each consumer claimant will likely participate in only one. First USA, N.A. is an example of a “repeat player.” Between 1998 and 2000, it filed over 51,000 claims against consumers with NAF. The cardholder prevailed in just 87 of the 19,705 awards made by the year 2000, while First USA prevailed in 19,618 or over 99.5%. As of the year 2000, First USA had filed over 51,000 claims against cardholders, while only four cardholders had filed arbitration claims with NAF against First USA. Caroline E. Mayer, “Win Some, Lose Rarely? Arbitration Forum’s Rulings Called One-Sided,” pE1, *Washington Post* (March 1, 2000).
41. The 2005 bankruptcy bill mandates a study of “indiscriminate lending.” P.L. 109-8, Title XII, Sec. 1229.
42. *The Profitability of Credit Card Operations*, p5, Report by the Board of Governors of the Federal Reserve System (June 2005), at <http://www.federalreserve.gov/boarddocs/rptcongress/creditcard/2005/ccprofit.pdf>.
43. The one prominent exception was that 15 percent of respondents did not report their total family income.



Predatory lending strips billions in wealth from low-income consumers and communities in the U.S. each year. Borrowers lose more than \$25 billion annually due to predatory mortgages, payday loans, and other lending abuses like overdraft loans, excessive credit card debt, and tax refund loans.

The Center for Responsible Lending is fighting to stop these financial abuses through legislative and policy advocacy, coalition-building, litigation and industry research. Visit our website for up-to-date information, including:

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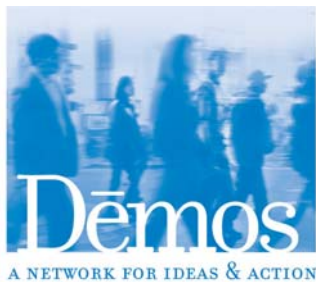
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