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THE PLASTIC SAFETY NET

How Households Are Coping in a Fragile Economy

Findings from a 2008 National Household Survey of Credit Card Debt Among Low- and Middle-Income Households

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ABOUT DĒMOS

Dēmos is a non-partisan public policy research and advocacy organization. Headquartered in New York City, Dēmos works with advocates and policymakers around the country in pursuit of four overarching goals: a more equitable economy; a vibrant and inclusive democracy; an empowered public sector that works for the common good; and responsible U.S. engagement in an interdependent world.

Dēmos was founded in 2000.

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Prior to working at Dēmos, José was the Vice President for Policy at the National Institute for Latino Policy (NILP), where he was in charge of the program priorities for NILP. As a staff member, he published the *East Coast Latino Voting Rights Act Reauthorization Manual* and *Latino Criminal Justice Statistical Abstract*, among others. José received his Masters in Social Work with a concentration in Social Policy from the University of Connecticut where he received the Alumni Award and his Bachelors from Dayton University where he received the O'Reilly Award for Service Leadership.

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Tamara Draut is Vice-President of Policy and Programs at Dēmos, where she's served as Director of the Economic Opportunity Program for the past seven years. Tamara oversees Dēmos' research, policy and advocacy work on issues related to economic security and mobility. She is the author of *Strapped: Why America's 20- and 30-Somethings Can't Get Ahead* published by Doubleday in 2006. Her research focuses on the growing debt burdens facing low- and middle-income households, and more broadly the challenges confronting households trying to work or educate their way into the middle class.

Tamara's research has been covered extensively by dozens of newspapers and magazines including the *The New York Times*, *The Washington Post*, *Newsweek*, *BusinessWeek*, *Chicago Tribune*, *The Wall Street Journal* and *USA Today*. Her writing has appeared in *The San Francisco Chronicle*, *The Boston Globe* and *The Boston Review*. She is a frequent television commentator and has appeared on the Today Show, ABC World News Tonight, CNN's Lou Dobbs Tonight and Fox News.

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INTRODUCTION

While the economic recession continues to threaten the financial security of low- and middle-income households, its effects have been heightened by the reality that, even before the downturn, millions of households were experiencing difficulties meeting the most basic expenses. Between 2000 and 2006, most households experienced stagnant or declining incomes.[1] At the same time, cost of living expenses increased by 27 percent[2]—leaving households with a growing gap between their incomes and their costs of living. These two factors, combined with low interest rates and inflated home values, helped fuel the growth of credit card debt and a huge increase in cash-out home refinancing. During the height of the housing bubble, from 2001 to 2006, homeowners cashed out $1.2 trillion (2006 dollars) in home equity and households accumulated nearly $900 billion in credit card debt.[3] As households tapped their savings and spent nearly all of their incomes, the nation's personal saving rate dropped to 0.4 percent of disposable income by 2006.[4]

Now, as families experience declining home values and tightened credit markets, many are falling behind on their mortgage and credit card payments. The Mortgage Bankers Association (MBA) recently reported a delinquency rate of 9.12 percent on all mortgage loans, the highest since the MBA started keeping records in 1972.[5] The per-

THE 2008 HOUSEHOLD SURVEY

These survey findings are an update of a similar survey commissioned by Dēmos in 2005 and reported in the publication, *The Plastic Safety Net*. Similar to the 2005 study, this survey collected information about the scope and nature of credit card debt—from the amount and duration of debt to the types of expenses that contribute to household indebtedness.

In developing the 2008 survey, however, we sought to deepen the level of information about low- and middle-income household indebtedness in several key ways. First, the 2008 survey was expanded to include a battery of questions about medical expenses and health care coverage. Second, the updated survey included additional questions about savings and assets, as well as questions to better gauge overall financial status. Finally, the updated survey oversampled African-American and Latino households to ensure a sample-size robust enough for statistical analysis. In addition, we also completed a survey of low- and middle-income households without credit card debt so we could study differences between indebted and non-indebted households. Future reports will provide findings comparing the two survey samples.

Methodology

The survey of indebted households was conducted by Macro International between April and August 2008 with 1,205 low- and middle-income adults (18 years or older) respondents 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?" To ensure that we were capturing households with credit card debt, as opposed to those households who may be temporarily carrying a balance, 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.

Macro International developed the survey instrument in close consultation with Dēmos. 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.

The final sample included oversamples of Hispanics and African Americans to allow for greater data analysis of these groups. For this Random Digit Dial survey, the 95% confidence interval has a margin of error of plus or minus 3.7 3 percentage points. The Hispanic sample has a margin of error of plus or minus 10.5 percentage points and the African American sample has a margin of error of plus or minus 9.4 percentage points. Weights have been added to account for disproportionate probabilities of selection.

centage of households more than 30 days past due on their credit card bills reached 6.5 percent during the first quarter of 2009, an all time high.[6] Late payments can have a domino effect on a household's financial stability as penalty fees accumulate and higher interest rates are triggered.

As low- and middle-income families continue to cope with rising unemployment, escalating health care costs and high debt burdens, it is important to understand why so many households relied on high-cost credit card debt and cash-out refinancings over the last decade. As this report indicates, many households increased their debt as a result of medical expenses, job loss and a growing list of financial obligations that their budgets were too stretched to cover. This report, which updates findings from a study first conducted in 2005 (see sidebar), indicates that at the dawn of this widespread and deep recession, households were already borrowing to make ends meet.

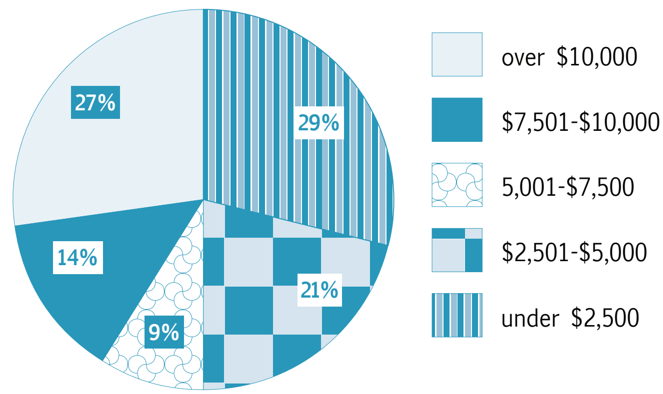
The survey—conducted between April and August 2008—consisted of 1,205 phone interviews with low- and middle-income households whose incomes fell between 50 percent and 120 percent of the local median income; such households comprise roughly half of all households in the country. In order to participate, a household had to have had credit card debt for three months or longer at the time of the survey. The survey findings reported here reflect 45 percent of low- and middle-income households which 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 3.73 percentage points for total respondents. (See sidebar for additional details on the survey methodology, and Appendix 2 for more information on the demographics of survey respondents.)

KEY FINDINGS

The Basics of Credit Card Debt: Average Amount, Length and Cost

The average credit card debt of low- and middle-income credit card indebted households in 2008 was $9,827, an increase from $9,536 in 2005. Just over one in four, or 27 percent of, households had credit card debt over $10,000, while 29 percent reported debt lower than $2,500 (see Chart 1). At the time of our survey, households reported that they had been in credit card debt for five years, on average. In addition, households reported that, on average, it would likely take them another 3.6 years to pay off their debt entirely.

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



The longer duration of credit card debt reported at the time of our survey does not necessarily mean households are accumulating larger balances with each passing year. When asked "Is the total amount of credit card debt that you have today less than, about the same, or more than the total amount of credit card debt that you had three years ago?," 48 percent said they had less debt than three years ago, while 42 percent reported having more debt and 10 percent reported having the same amount.

Most households reported having swings in their debt—periods of paying down balances then accumulating them due to external events (see Table 1).

Table 1. The Credit Card Debt Cycle

Which of the following four statements best describes your current and past experiences with credit card debt?

	2005	2008
I have had a high level of credit card debt for a long time	17%	16%
I have had swings in the level of my credit card: after periods of paying down my debt, events happened that caused me to run up my debt again	47%	52%
This is the first time I have run up my credit card debt to this level	20%	19%
I am keeping some debt to build up my credit score	13%	11%

We examined the average amount of debt among households by race/ethnicity, age and income level. As in 2005, age differences were less pronounced, although unlike in the previous survey, Americans aged 65 and older no longer had lower average credit card debt than all other age groups. In fact, older Americans' credit card debt increased 26 percent since 2005, the second highest average debt of any age group, after those aged 35 to 49 (see Table 2). Average credit card debt was higher for households with higher incomes.

Table 2. Average Credit Card Debt by Age, Income Level and Race/Ethnicity (2008 dollars)

	2005	2008	% Change
ALL	$9,536	$9,827	3%
BY AGE			
18-34	$9,020	$9,111	1%
35-49	$9,853	$10,514	7%
50-64	$10,059	$9,342	-7%
65 and older	$8,138	$10,235	26%
BY RACE/ETHNICITY			
Non-Hispanic Caucasian	$9,891	$9,775	-1%
Hispanic	$7,091	$10,002	41%
African-American	$8,738	$7,390	-15%
BY INCOME LEVEL			
Less than $35,000	$7,170	$7,598	6%
Between $35,000–50,000	$9,171	$10,737	17%
Greater than $50,000	$11,545	$11,914	3%

An examination of differences by race/ethnicity revealed a major change since our 2005 survey. In 2008, Latino households reported the highest level of credit card debt when compared to white and African-American households; in contrast, Latinos reported the lowest levels of credit card debt in 2005. In 2008, Latino households carried $10,002 dollars in credit card debt compared to $9,775 among white households and $7,394 dollars among African American households. The 41 percent increase in credit card debt among Latinos in just three years should be interpreted with extreme caution: the 2008 survey included an oversample of Latinos and African Americans but the 2005 did not. Thus, it is possible that the large change is simply the result of sampling error.

Nonetheless, a variety of factors could explain the high level of credit card debt among Latino families. Census data shows that more adults live in Latino households.[7] With more consumers under one roof, a "family" credit card may be used by more than one borrower. In addition, Latino borrowers have been targeted for costlier credit cards with high fees and interest rates, increasing their probability of accruing additional debt from late fees and penalty interest rate hikes.[8] Further study is needed before any firm conclusions are drawn.

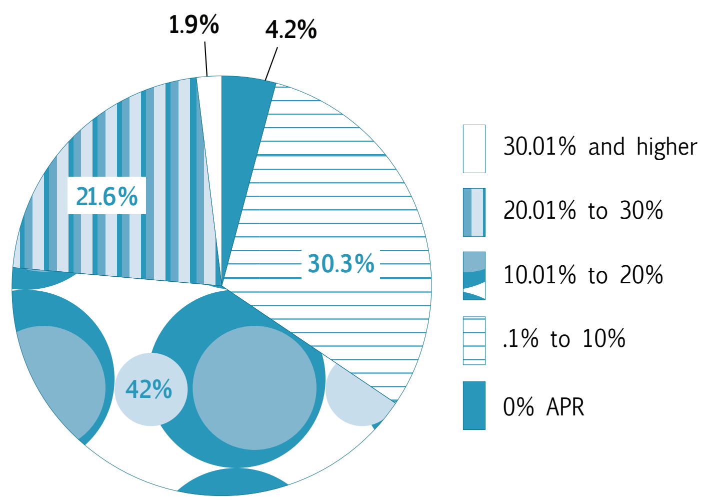
Another major change since the 2005 survey is the 26 percent increase in credit card debt among older borrowers. This finding is not surprising given that the data reflects the beginning of the economic downturn in 2008, which greatly reduced the value of retirement savings.

1 in 4 households pay more than 20% interest on their cards.

The amount of credit card debt carried by an individual or household reflects not just the cost of their purchases, but also the interest rate, as well as any additional fees. The cost of debt can vary widely and, among our survey respondents, the average interest rate reported ranged from 0 percent to 40 percent, with 14.8 percent as the average interest rate paid on the card with the highest balance. But many households pay much more than the average: one in four households reported paying 20 percent interest or more on their card with the highest balance (see Chart 2). Compared to 2005, the average interest rate was slightly higher in 2008 (14.8 percent versus 13.1 percent) and slightly more households reported paying interest rates higher than 20 percent. Households of color are much more likely to be paying interest rates greater than 20 percent. Nearly one-third of African-American (32 percent) and Latino (30 percent) households paid interest rates higher than 20 percent, compared to less than one-quarter (22 percent) of white households.

The survey also asked a series of questions about late payment fees and interest rate increases. We found that nearly one-half of all households reported they had been late on a payment and charged a fee as a result—on average, four times in the last year. In addition, 51 percent of households who made a late payment in the past year reported that their interest rate had gone up as a result. Late payment penalty fees and interest rate increases can quickly lead to higher balances. The most recent survey of card issuers found the highest penalty rate was 31.9 percent, with the average penalty or default rate being 26.9 percent and the average late fee being $25.9.[9]

Chart 2. Average Interest Rate Paid on Credit Card with the Highest Balance



The Big and Small: The Many Reasons for Credit Card Debt

The survey asked a series of questions about the types of expenses in the last three years that had contributed to the households' current level of credit card debt (see Table 3). This series was expanded from our 2005 survey to include a fuller range of expenses for households to identify as reasons for their credit card debt, including questions about purchases most people would describe as non-essential.

Table 3. Types of Expenses Contributing to Credit Card Debt

Smaller purchases of non-essential goods and services that can add up over time, such as meals at restaurants, movies, DVDs, clothes and other such expenses	48%
Car repairs	41%
Home repairs	32%
Major purchase of a non-essential good or service, such as a vacation, flat screen TV or other big-ticket item	29%
A major household appliance purchase such as a refrigerator, a dishwasher or an air conditioner	25%
Layoff or loss of job	24%
Starting up a new business or running an existing business	15%
Money given to, or used to pay the debts of, relatives	13%
Tuition or expenses for college for a spouse or partner, or yourself	10%
Tuition or expenses for college for a child	9%

The most frequently cited expenses contributing to credit card debt were smaller purchases of non-essential goods and services (48 percent), followed by car repairs (41 percent) and home repairs (32 percent).

More than one out of three households reported using credit cards to cover basic living expenses on average five months in the last year.

While small, non-essential purchases were the most frequently cited type of expense contributing to credit card debt, note that the question referred to examples of purchases that are clearly non-essential, such as movies and DVDs, as well as purchases that are arguably essential at least some of the time, such as clothes and even meals at restaurants (see full question in Table 3). Importantly, many households reported relying on credit cards for expenses that are clearly necessary, particularly those related to car and home repairs. In addition, nearly one out of four households reported expenses related to a layoff or job loss as contributing to their debt.

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.

To understand the extent of households' reliance on credit cards to pay for essential expenses, we examined the percentage of households who cited at least one of the following expenses as contributing to their credit card debt: car repairs, home repairs, layoff or job loss, starting or running a business, money given or loaned to relatives, or college expenses. Three out of four low- to middle-income households reported using their credit cards as a safety net, relying on credit cards to pay for at least one of these expenses over the last three years.

In addition to asking about the types of essential expenses listed above, the survey included a separate question about whether households 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 enough money in their checking or savings account. More than one out of three households (37 percent) reported using credit cards in this way—reporting that they relied on credit cards to cover basic living expenses, on average, five out of the last 12 months. Compared to the 2005 survey, slightly more households (37 percent in 2008; 32 percent in 2005) reported using credit cards to cover basic living expenses, and for one additional month.

Not surprisingly, households who needed to use credit for their basic living expenses had higher credit card balances ($13,302) than households who did not use credit cards to pay for their basic expenses ($7,795).

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 credit card debt is much harder to manage for a family earning $20,000 per year than for one earning $50,000. For the 985 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 24 percent.

Based on a linear regression analysis, we find that most low- and middle-income households with high debt-stress levels are using credit cards to pay for unavoidable expenses, not discretionary purchases. (See Appendix 2 for details of this statistical analysis.)

- The *most significant predictor* of higher "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.

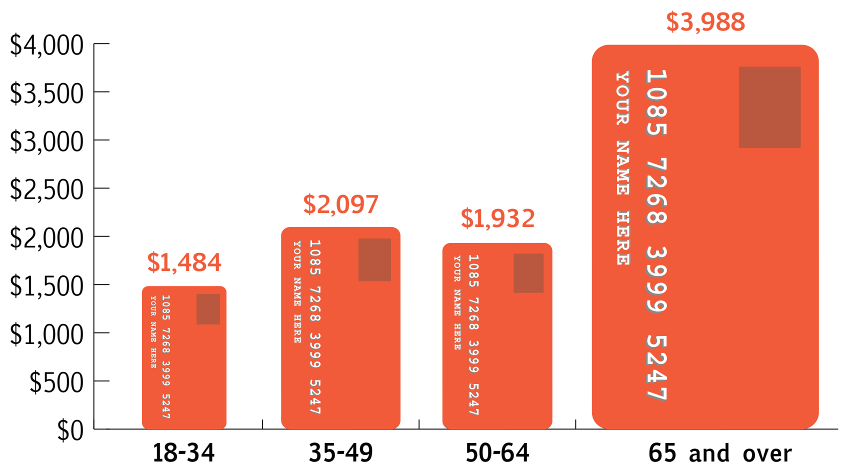
- In addition, using credit cards to cover expenses related to job loss or layoff, car repairs or providing money to relatives, was also predictive of a higher "debt-stress" level.

Borrowing to Stay Healthy: Medical Expenses and Credit Card Debt

Health care costs are rising sharply, placing stress on employers, individuals and families. As employers look to rein in benefit costs, they are increasingly turning towards health insurance options that feature greater employee cost-sharing through higher deductibles, co-payments and other forms of out-of-pocket expenses. Others are dropping coverage entirely. Bankruptcy research shows that medical debt, particularly among older Americans, has been cited as the most common reason for declaring bankruptcy.[10] To better understand whether or not medical expenses were contributing to household credit card debt, our 2008 survey asked a series of questions about common out-of-pocket medical charges.

In 2008, ***more than one-half of indebted low- and middle-income households (52 percent) cited medical expenses as contributing to their credit card debt.*** In fact, compared to all other expenses we inquired about in the survey, out-of-pocket medical expenses was the most frequently reported expense that contributed to credit card debt. On average, these households reported that $2,194 in credit card debt was attributable to medical expenses. Older households, those 65 and over, reported the highest amount of credit card debt due to medical expenses: $3,988 (see Chart 3). In addition to credit card balances related to medical expenses, 30 percent of households also reported carrying an average of $3,174 in additional medical debt not reflected on their credit cards.

Chart 3. Average Amount of Credit Card Debt Due to Medical Expenses by Age



The survey asked a series of questions about the type of out-of-pocket medical expenses (not including premiums) that had contributed to the households' credit card debt over the last three years (see Table 4). The top two out-of-pocket charges cited were prescription drugs and dental expenses.

Table 4. Types of Expenses Contributing to Credit Card Debt

Percentage of Households Citing Specific Medical Expenses Incurred Over Last Three Years that Contributed to Their Credit Card Debt	
Prescription medications	27%
Dental expenses	24%
Visits to the doctor	20%
Hospital stays	13%
Emergency room visits	12%

Previous research has found that households with medical debt often forego treatment by not filling prescriptions, delay seeking follow-up care, or pursuing other potentially dangerous strategies to avoid incurring more debt.[11] Our survey found that households who cited medical expenses as contributing to credit card debt also pursued similar cost-cutting strategies (See Table 5).

Table 5. Households Forgoing Care or Treatment to Reduce Medical Costs

In the past year, did you try to reduce your medical expenses by doing any of the following:	
Did not go see doctor or visit a clinic when you had a medical problem?	36%
Did not fill a prescription or postponed filling a prescription?	33%
Skipped medical test, treatment or follow up?	30%

Digging Out: Household Strategies for Reducing Credit Card Debt

Our survey indicates that households employ a range of strategies to pay off their debt, with the majority using their tax refund toward debt reduction and nearly half of respondents citing working extra hours or taking on an extra job in order to get out of debt. In addition, families that qualified for the Earned Income Tax Credit used the cash infusion to pay down credit card debt (see Table 6).

Table 6. Household Strategies for Paying Down Debt in the Last Year

In the past year, which of the following have you used to pay down your credit card debt?	% of Families
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%
Sold car or other valuable items such as jewelry	9%
Stopped going to school	8%
Non-traditional financing such as a pawn shop, payday loan, auto title loan, loan shark	7%
Life insurance	3%
Money from a savings group such as a ROSCA or a Su Su*	1%

*ROSCAs or Su Su are groups of individuals who agree to meet for a defined period of time in order to save and borrow together.

In addition to asking about ways households tried to pay down debt in the last year, the survey asked households about their use of home equity or refinancing over the last five years. Overall, half of the homeowners in our survey had refinanced, taken out a second mortgage or accessed equity through a home equity line of credit in the last five years. Of those households, half used the proceeds to pay down their credit card debt. The average amount of credit card debt paid off was $14,344.

In the past five years, credit card indebted homeowners paid an average of $14,344 off their credit card debt with their home equity.

The problem of using home equity to pay down debt is that it rarely solves the underlying financial pressures that are behind rising credit card debt among low- and middle-income households. Indeed, the 24 percent of homeowners who had paid off some credit card debt with home equity in the last five years still had average credit card debt of nearly $14,000 at the time of the survey. As a result, they were carrying 20 pecent more debt than homeowners in our survey who had refinanced a mortgage but <u>not</u> paid down credit card debt. The use of home equity through refinancing is made even worse if the homeowner takes on a subprime mortgage at a higher interest rate—which we now know millions of homeowners did with disastrous results.

POLICY RECOMMENDATIONS

American households are facing a devastating recession with little home equity and high levels of credit card debt. With few assets to turn to, low- and middle-income Americans will have a harder time recuperating from the economic downturn under mounting debt. Much of this debt has been accumulated to pay for basic costs or essential expenses—such as health care, car repairs and home repairs—as more low- and middle-income households are confronting rising costs amidst stagnant or falling incomes. In short, the recession exacerbated the trend toward greater economic insecurity that has been building over the last several decades. Households have had to devote increasing shares of their incomes to health insurance and medical care, housing, transportation and child care at the same time that employment has grown more precarious and decent wages are increasingly hard to come by for all but the most highly educated.

Addressing the rising burden of debt will require a multi-pronged approach focused on 1) increasing household savings; 2) strengthening employment and the safety net along with reducing cost pressures; and 3) ensuring fair lending practices.

1) Policies to Promote Savings

The United States currently does not have a comprehensive savings and asset-building policy, but rather a scattershot set of policies that, when taken together, largely benefit households that need help the least.

The existing patchwork of policies that promote or reward savings and asset-building overwhelmingly benefit households that already have substantial net worth and economic security. According to analyses by the Corporation for Enterprise Development, while the federal government spent $367 billion on asset-building policies in 2005, 45 percent of these subsidies went to households with incomes over $1 million.[12] The largest asset-building expenditure, the home mortgage deduction, is particularly skewed toward the best-off households in America. While the wealthiest 10 percent of earners receive 59 percent of the tax benefits, the "bottom" 60 percent receive a meager 3 percent of this investment budget.

In order to grow and strengthen the middle class and combat the growth of debt, America needs to embrace a set of principled investments that better target those households for whom a modest subsidy would make a significant difference in building emergency savings and saving for 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. We also need a set of policies (see recommendation below) that would address abusive and predatory lending practices, which often drain what little wealth households have accumulated.

2) Strengthening the Safety Net and Reducing High Health Care Costs

The survey findings illustrate three key areas in which policy could dramatically reduce the reliance of low- and middle-income households on credit card debt to make ends meet: job loss, low wages and rising medical costs.

- **Modernizing the unemployment insurance system.**

  Nearly a quarter of low- and middle-income households with credit card debt reported that they had accumulated their debt as a result of a job loss. Other studies have shown that unemployment problems are at the heart of nearly two-thirds of bankruptcy filings.[13] 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. For those who are eligible, the benefit levels replace only about one-third of an average worker's earnings.[14] 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.

- **Strengthening the position of low-wage workers in the labor market.**

  In addition to improving wages and benefits for workers by enacting the Employee Free Choice Act—a bill in Congress that would help level the playing field and give workers the freedom to choose a union—the Federal government should expand the Earned Income Tax Credit. The EITC lifts millions of families out of poverty each year by supplementing their earnings. The EITC currently distributes $40.6 billion annually to about 22.5 million Americans. Currently, the EITC only provides a very small benefit to childless adults (7.65 percent of initial earnings compared to 34 percent for families with one child), and offers no benefits for childless workers under age 25. According to the Center for American Progress, there are over 3 million poor childless adults age 18 to 24—1.6 million of them work, including 240,000 who work year-round. Expanding the EITC for childless adults, particularly young adults, would reduce their poverty and encourage labor force participation. The maximum EITC for childless workers should be increased to 20 percent of initial earnings, nearly triple its current level.

- **Addressing rising health care costs and the growing number of uninsured.**

  Our survey revealed that more than half of low- and middle-income households with credit card debt reported that medical expenses had contributed to their debt. 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.[15] Improved access to affordable health care would help families' significantly improve their financial position and reduce their need to pay for out-of-pocket expenses by accumulating credit card debt.

3) Ensure Fair Lending Practices

In May 2009, Congress passed and the President signed into law the CARD Act (Credit Card Accountability Responsibility and Disclosure Act), which prohibits several of the most abusive terms and practices in the credit card market. The law will re-regulate the credit card industry by banning lending practices such as retroactive rate increases on existing balances for cardholders in good standing. Furthermore, it will require 45 days notice of all rate increases on new charges, ban "double-cycle billing" and allow cardholders to cap how much they can charge to their cards, in order to avoid overdraft fees. Importantly, it calls for the outright ban of "universal default" clauses, which automatically hike rates on a card based on unrelated financial activity, such as late payment of another bill. The law also protects consumers from "any time, any reason" interest rate increases and account changes, prohibits unfair application of card payments, and restricts marketing to college students.

- **Establishing a new agency focused on consumer financial protection.**

  While the CARD Act was vital to addressing troubling practices in the credit card market, consumer protections for financial products have fallen dramatically short in the last decade, as the collapse of the sub-prime market and the resulting record pace of foreclosures has illustrated. The current patchwork system of regulators overseeing consumer financial products—some 10 altogether—are ill-equipped to do the job of protecting consumers. The existing structure has often been paralyzed by jurisdictional disputes and by an emphasis on safety and soundness, often causing indifference to whether or not financial products were providing real benefits to consumers. Common sense financial regulatory policy that protects consumers also directly assures the safety and soundness of financial instructions. In addition, none of the agencies have the resources to tackle consumer protection adequately, nor the worldview to investigate consumer abuses where they are most likely to occur: in low-income communities of color.

  In June 2009, the Obama administration released their proposal for financial regulatory overhaul. Included in the proposed reforms was the creation of a new agency to oversee consumer protection, the Consumer Financial Protection Agency. As proposed, this agency would have the authority to write and enforce rules across a range of financial products. The idea, originally proposed by Harvard Law Professor Elizabeth Warren, would dramatically improve consumer protection and ensure its vital role in financial regulation is no longer secondary to issues of safety and soundness. As the agency's mission and jurisdiction is developed, a key component will be ensuring the new agency is focused on the aggressive marketing of toxic financial products to communities of color—and that its data collection, monitoring and assessment of product features are designed to capture information in these communities.

APPENDIX 1: TABLE OF RESPONDENT CHARACTERISTICS

Table 7. Demographic Characteristics of Survey Respondents

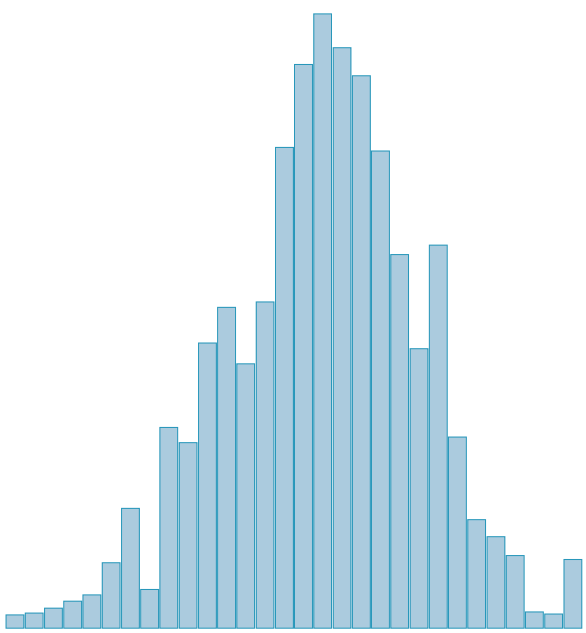
	CREDIT CARD INDEBTED FAMILIES
AGE	*n = 1085*
18–34	17.5%
35–49	31.8%
50–64	34.2%
65 and above	16.8%
Mean age	*49.7*
Median age	*50*
GENDER	*n = 1094*
Male	34.6%
Female	65.4%
RACE	*n = 1076*
Non Hispanic-White	73.7%
Black or African American	12.8%
Asian	0.5%
Native Hawaiian or Other Pacific Islander	0.6%
American Indian, Alaska Native	2.2%
ETHNICITY	*n = 1094*
Hispanic	10.4%
Non-hispanic	89.7%
EMPLOYMENT	*n = 1094*
Full-time employed	55.4%
Part-time employed	13%
Retired	12%
Temporarily unemployed	4%
INCOME LEVEL	*n = 985*
Less than $35,000	26.1%
Between $35,000 and $50,000	27.9%
Greater than $50,000	36.1%
Mean income	*$49,337*
Median income	*$44,123*
EDUCATION LEVEL	*n = 1094*
No high school diploma	4.9%
High school diploma or GED	24.6%
Some postsecondary education without BA	34.6%
BA or graduate degree	36.1%
HOUSEHOLD SIZE (ADULTS AND CHILDREN)	*n = 1094*
Mean household size	2.9
Median household size	2
HOME OWNERSHIP STATUS	*n = 1188*
Home owners	73.5%
Renters	24.8%

APPENDIX 2:
REASONS FOR RELATIVE HIGHER CREDIT DEBT STRESS

One of our analyses 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 "credit card 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 985 respondents in our survey who provided both the amount of their credit card debt and annual income. The credit card debt-to-income ratio was 0.24, 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.

Chart 4. 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:

Debt-stress = β 0 + β 1 (illness or medical expense) + β 2 (car repairs) + β 3 (home repairs) + β 4 (basic living expenses) + β 5 (household appliance purchase) + β 6 (college tuition) + β 6 (family layoff) + (money given to, or used to pay the debts of, relatives)

The results of this model are presented in Table 8, 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, job loss, or payment of debt for a family member, who are most likely to have higher levels of "debt-stress."

Table 8. Factors for Higher Relative Credit Card Debt

	Beta	Sig (p<.05)
Job loss	0.065	0.05
Starting a business	-0.005	0.88
Car repairs	0.095	0.00
Home repairs	0.038	0.22
Tuition for child	0.020	0.52
Tuition for self or spouses	-0.080	0.07
Paying debt for relatives	0.095	0.03
Major household appliance	0.006	0.84
Major purchase of non-essential good	-0.018	0.55
Minor purchase of non essential good	-0.010	0.75
Basic living expenses such as rent groceries and utilities	0.172	0.00
Medical expenses	0.047	0.13
Intercept = -2.527, R2 = .074		

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