Four Personal Stories From 'Borrowing to Make Ends Meet'

PERSONAL STORY

Michelle Gardner, Military Mom

September of 2001 was a hard month for Michelle. First, 9/11 pulled the country to the brink of war, threatening to drag her newlywed husband—a U.S. Army staff sergeant—into active combat. Second, the mail was late.

While the first problem eventually subsided (her husband wasn't shipped out), the second problem set off a chain of events that reads like a Kafka novel about credit card debt.

Michelle's credit card problems started in the summer of 2000, around the time of her wedding. Her husband's military salary brought in about $1,500 a month—hardly enough to support a young family. Expenses from the wedding and from starting a new life together left the couple nearly $8,000 in debt. Michelle quickly realized that her family's financial future was in danger, so she enrolled with Consumer Credit Counseling services to consolidate her debt.

"My credit card payments should reflect my real balance. I'll definitely pay what I owe, but I can't pay these crazy penalty fees!"

Joining CCC gave her a clear plan for working her way out of debt. Every month, she made a $262 payment to CCC, which distributed the money to her creditors. The plan worked smoothly—until September of 2001.

"One of my credit card companies, Cross Country bank, slapped me with some extra charges in October," Michelle says. "When I asked why, they said that [a payment was late], and that gave them the right to stick me with late fees and raise my rates to 27 percent. Well, I told them, 'Of course the payment was late! Didn't you notice 9/11? Didn't you notice the whole anthrax scare shutting down the mail system? Where have you been living?'"

Cross Country had no response to that, Michelle says, and quickly changed their tune. They called her back and blamed the late fees and rate hikes on a "3 percent" rule—if she wasn't paying off 3 percent of her balance each month, the payment plan became invalid and the fees started accruing. Again, Michelle questioned that explanation.

"I wanted to know, when did that rule go into effect? How come you would take my money for almost a year and then all of a sudden change the rules?"

Cross Country backpedaled a second time. They finally sent her a letter saying that she had missed her November billing cycle by two days, thus incurring the extra fees and the rate hikes. But Michelle says she has the documents to prove that the fees started accruing in October—a month before she supposedly missed her payment.

"Look, all I want is for my payments to reflect my real balance," Michelle says. "I'll definitely pay what I owe, but I won't pay these crazy penalty fees. We're a military family living paycheck to paycheck. I'm busy worrying about whether my husband will get sent to Iraq, and trying to take care of my son, and looking for steady work, and now this? It's just too much."

PERSONAL STORY

Roberto Towler, Bankrupt by Credit Card Debt

As a professional accountant, Roberto always used his credit cards with the utmost care. His civil servant salary, around $30,000 a year, did not give him much margin for error. But when life, in his words, "threw me a bunch of curveballs," he had no choice but to rely on his cards—a situation that eventually led him to bankruptcy.

In early 2000, Roberto suffered a significant back injury and had to take unpaid leave from work for two months. Though his health insurance covered most of the medical expenses, the months of lost salary sharply drained his savings. He found himself nervously relying on his credit card.

"I started using my cards for things I'd never charged before," Roberto says. "Toiletries, clothes for my son, groceries ... I was very uncomfortable doing it, but I didn't have much of a choice. I had to feed my son."

After recovering from his injury and going back to work, Roberto slowed down his credit card use as much as possible, but was unable pay off the debt he had accumulated. "I found myself only paying the monthly minimums, which I never did before. But all my paycheck was going to pay my bills. I just didn't have money to pay the credit cards."

Roberto's largest monthly bill was his rent, which has gone up significantly in the past few years. "When I moved into my apartment in 1985, I was paying $363 a month," he explains. "Now, I pay $770. That's a bigger and bigger chunk of my budget all the time. And the landlord doesn't take no for an answer." In fact, Roberto's housing costs became such a burden that at one point, he had to take a cash advance from a credit card to pay his rent.

After another debilitating medical problem and a few months of struggling with increasingly unsympathetic debt collectors, Roberto made the difficult decision to file for bankruptcy. At the time of his declaration, he was $29,000 in debt—$22,000 of credit card debt and $7,000 of medical bills.

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"Credit cards are the worst thing I can think of for hardworking people living paycheck to paycheck," he says. "They [credit card companies] are all about making money, no matter who they are making money from."

Within his community, Roberto is not alone. The Harlem Bethel Gospel Church, where he regularly attends service, recently offered a counseling session on credit card debt. Roberto was surprised to see how many of his fellow congregants attended the event. "There were so many people there, everyone asking different questions, telling their stories," he recalls. "This credit card problem seems to strike everyone."

"For me, life threw a curveball—no, a bunch of curveballs—and I had no choice but to use credit cards," Roberto says. "A lot of things added up in the same time. The cards helped me in the short term, but in the long run, they pushed me into Chapter 11."

PERSONAL STORY

Marika Kovach, Laid Off After 9/11

In May of 2003, Marika, age 61, lost her health insurance. She couldn't afford the $300 monthly premiums after her unemployment benefits ran out in April. She feels healthy enough, she says, and has more pressing expenses to worry about—she has to pay $600 a month to credit card companies, on an income of $0.

Born in Hungary, Marika immigrated to the U.S. in 1962 to escape the repression of the Eastern Bloc. "I consider 1962 my birthday," she laughs, revealing her youthful optimism. In 1992, Marika moved to New York to find a steady job. During her job search, she covered her most basic costs—food, rent, and transportation—with the only source of credit she could find: high interest cash advance loans from her credit cards. After a few months, she landed a full-time secretarial job at music giant BMG. By this time, however, the compound interest had driven her debt up to about $16,000.

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"The worst part was in the beginning, with the 20 percent interest rates," Marika recalls. "By the time I started working at BMG, I was paying the credit cards five or six hundred dollars a month, and only covering my interest charges."

Determined to pay off her debts, Marika lived the life of a pauper. "I spent no more than five dollars a day on food," she says. "I never went out, never bought new clothes. I wasn't making that much money, but what money I made went to pay back my credit cards." Her frugal lifestyle helped her slowly chip away at her balance until, after a decade of work, it was down in the low thousands.

Then came 9/11 and New York City's subsequent economic crash. Marika was unexpectedly downsized from her job in November of 2001. At age 59, her prospects for finding employment were slim. But she had no choice—she was still in debt, had no savings, had no family to fall back on, and needed to pay her bills. Besides, Marika has an exuberant work ethic. She constantly talks about her desire to be a productive member of society, in whatever way she can. Not looking for work was unthinkable.

Two years and scores of resumes later, Marika is still unemployed. To meet her basic needs, she has relied on meager unemployment benefits and, once again, credit cards.

At this point, Marika's credit card debt is so high that she is ashamed to reveal an exact figure. "No, I just can't say how much it is," she demures. "That is too personal. But trust me, it is a very large number."

She will, however, reveal some of the details of her life. "I have to be very thrifty," Marika says. "I eat next to nothing. But I must spend some money to feed myself. I cannot eat grass, can I?"

PERSONAL STORY

John Miller, Semi-Retired Business Reporter, Age 64

John, the son of a banker, grew up in an era when credit cards were first introduced to the public. He remembers the first gas cards, the Sears cards, and eventually the Visa and MasterCards of today. As a television business reporter and then small-business owner, John used his credit cards responsibly, building good credit and never falling behind on his payments. After all, he understood better than most how compound interest worked. In his words, "I knew as much about finances as just about anyone."

It was ironic, then, that at age 55 a set of unfortunate circumstances over a two-year period forced John to go into deep credit card debt, and eventually into bankruptcy.

"After a lifetime of financial conservatism and caution, it only took two years of bad luck ... to get myself almost $50,000 in debt."

First, his wife began to have medical problems. Though not terribly expensive, her problems kept her from working, so John was supporting both of them on one income. Second, his video production business, which ebbs and flows with the economic cycles, took a turn for the worse. Third, through selling his home in Park City, Utah, he incurred a significant amount of IRS tax debt, which he owed at the end of the year.

The triple whammy of circumstances forced John to quickly burn through his savings. After that, John began to rely heavily on credit cards. In the space of two years, he amassed about $10,000 in credit card debt, $30,000 of IRS debt, and $7,000 in debt for the condo he moved into. He floated his credit card debt for three years by paying the monthly minimums, but it became clear he wasn't making a dent in his principal. "The minimum payments are intentionally scheduled so that you only pay off the interest, or part of the interest, and never make a dent in the principal. It's a nefarious scheme," says John.

John tried to negotiate with his credit card companies. With his training as a business reporter and his solid credit history, he thought he had a good chance of persuading the companies to lower his rates. But they would not negotiate. They insisted that he pay around 20 percent interest on all his credit card debt.

So John found himself in a strange position. Essentially, he had a choice—pay off his debts, or start saving for retirement. From a financial planning perspective, it made little sense to spend his pre-retirement years paying off high-interest credit card debt, leaving him no money to save for the future. He finally accepted the disappointment of having to tarnish a lifetime of financial responsibility, and filed for Chapter 13—at the rates he was being charged, it was the only viable option.

John has now paid off his debts, and is back to using a credit card sparingly and paying it off normally. In John's words, "I have re-established control over my financial life." In fact, he became so well-educated during his Chapter 13 proceedings—and got so angry about the system—that he is working with Jumpstart, a financial literacy group, to teach young people how to avoid getting caught in the debt trap. He's also considering writing a book. And he's been in conversation with Sen. Orrin Hatch's office about a "debtors bill of rights," because Hatch is the chair of the Judiciary Committee.

This turnaround was not without its emotional toll. "My credit card debt put a tremendous amount of emotional pressure on me," John recalls. "In some ways, their tactics are like legalized extortion."

"When you think about it simply, all of us who get into credit card debt, our stories are the same—we spent above our income, period, and that put us into debt," John says. "People do need better financial literacy. But circumstances happen that no one can control. My credit card companies were unreasonable, and charged outrageous rates."

"I always thought I would be able to catch up, and tried to enjoy the same standard of living even though my expenses were up and my income was down. After a lifetime of financial conservatism and caution, it only took two years of bad luck, tough circumstances, and poor planning to get myself almost $50,000 in debt."