Borrowing to Make Ends Meet

The Growth of Credit Card Debt in the '90s

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Tamara Draut
Director, Economic Opportunity Program

Javier Silva
Senior Policy and Research Associate

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Dēmos: A Network for Ideas and Action
220 Fifth Avenue, 5th Floor
New York, NY 10001
212-633-1405
212-633-2015
www.demos-usa.org

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Preface

At the close of the 1990s, against the backdrop of the economic boom, many low- and moderate-income families were struggling financially and taking on credit card debt at rates unprecedented in American history. There is growing evidence that a combination of structural and economic trends coupled with abusive credit card industry practices left working families with few options other than to borrow heavily during the '90s to make ends meet. As poverty and severe economic inequality continue to be pervasive, high credit card debt will only serve to exacerbate this growing trend.

However, there are larger implications facing families beyond their ability to service high credit card debt. This debt severely compromises entry into the middle class through the purchase of an asset—primarily a first home—as so many Americans have in previous generations, as more and more resources are diverted to high-interest credit card payments. Access to low-cost financial services and credit, particularly in economically distressed communities, is uncommon, relegating these communities to substandard financial services. High credit card debt also threatens middle-income families who have already achieved the American dream. In many cases, these working families are one paycheck from financial disaster.

The report analyzes several years of data from the Federal Reserve Board's Survey of Consumer Finances: 1989, 1992, 1995, 1998, and 2001. The report frames the findings within the context of structural and economic trends as well as credit card industry practices. The report prescribes a set of policy options which begin to address industry practices as well as the growing economic insecurity facing Americans.

This study is the first report in a series examining the relationship between credit card debt and economic security conducted by the Economic Opportunity Program at Dēmos. This study was undertaken as part of Dēmos's ongoing efforts to focus new public and political attention on the challenge of providing greater economic opportunity and security for Americans in the 21st century. Dēmos will work with policymakers and advocates to promote policy solutions to address the growth of debt and curb excessive industry practices. Dēmos's other major area of work, democracy reform, reflects our view that addressing this and other urgent national problems requires broader participation by all Americans.

Miles Rapoport
President

Tamara Draut
Director, Economic Opportunity Program

$4,126

Average credit card debt for an American family in 2001

Executive Summary

The mid and late 1990s will always be remembered as an era of unprecedented prosperity. But for most American families, the roaring '90s had a dark underbelly—it was also the Decade of Debt.

Between 1989 and 2001, credit card debt in America almost tripled, from $238 billion to $692 billion. The savings rate steadily declined, and the number of people filing for bankruptcy jumped 125 percent.

How did the average family fare? During the 1990s, the average American family experienced a **53 percent increase** in credit card debt, from $2,697 to $4,126 (all figures measured in 2001 dollars). Low-income families saw the largest increase—a 184 percent rise in their debt—but even very high-income families had 28 percent more credit card debt in 2001 than they did in 1989.

$2,697

Average credit card debt for an American family in 1989

Credit card debt is often dismissed as the consequence of frivolous consumption. But an examination of broad structural and economic trends during the 1990s—including stagnant or declining real wages, job displacement, and rising health care and housing costs—suggests that many Americans are using credit cards as a way to fill a growing gap between household earnings and the costs of essential goods and services. Usurious practices in the credit card industry, in the form of high rates and fees, have taken advantage of the increased need for credit. As a result, a growing number of American families find themselves perpetually indebted to the credit card industry, which—despite claims of losses and chargeoffs—remains one of the most profitable sectors of the banking industry.

During the 1990s, the average American family's credit card debt rose by 53 percent.

key findings

Average Credit Card Debt Increased by 53 Percent. American families in all income groups rapidly accumulated credit card debt in the 1990s. According to 2001 data from the Survey of Consumer Finances, 76 percent of American families hold credit cards, 55 percent of those with cards carry debt, and the average amount of debt is $4,126.

Average Debt of American Families, by Income Range

Family income group	*Families holding credit cards in 2001*	*Cardholding families reporting debt in 2001*	*Average household credit card debt in 2001*	*Percent increase 1989–2001*
All families	76%	55%	$4,126	53%
< $10,000	35	67	1,837	184
$10,000–$24,999	59	59	2,245	42
$25,000–$49,999	80	62	3,565	46
$50,000–$99,999	90	56	5,031	75
$100,000 or more	98	37	7,136	28

Dēmos's calculations from the Survey of Consumer Finances, 1989, 1992, 1995, 1998 and 2001.

As the previous table shows, between 1989 and 2001:

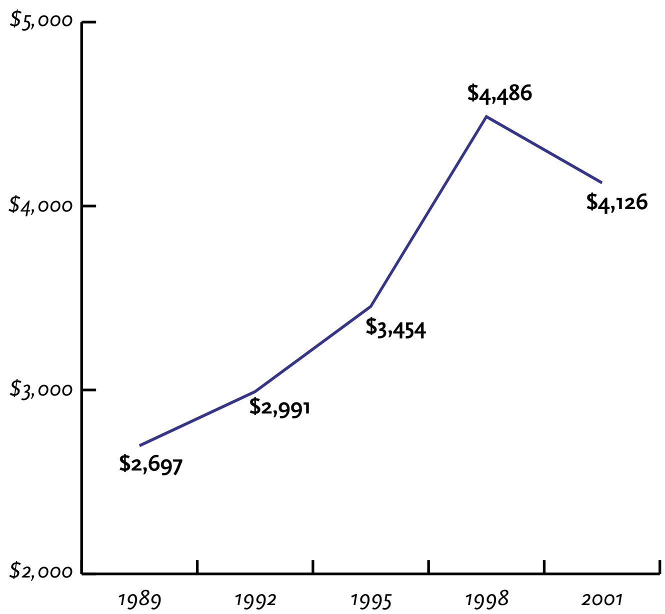
- Credit card debt among **very low-income families** grew by an astonishing **184 percent**. But **middle-class families** were also hit hard—their credit card debt rose by **75 percent**.
- **Very low-income families** are most likely to be in credit card debt: 67 percent of cardholding families with incomes below $10,000 are affected. Moderate-income families are not far behind: 62 percent of families earning between $25,000 and $50,000 suffer from credit card debt.

It is important to note that these figures may be substantially underreported. The absolute figures (for example, $4,126 of average debt) are based on data that consumers reported about themselves in surveys. Aggregate data on outstanding revolving credit reported by the Federal Reserve puts the average credit card debt per household at about $12,000—nearly three times more than the self-reported amount. Although the survey figures may underestimate the severity of credit card debt, they can be compared accurately from year to year, showing us a clear trend: debt skyrocketed for all income groups in the last decade.

It should be noted that while debt substantially increased between 1989 and 2001, average credit card debt fell between 1998 and 2001 for all income groups. Preliminary research and data suggests a portion of credit card debt was transferred using cash-out refinancing, home equity loans, and credit lines—taking advantage of 40-year lows on interest rates during this period. Other factors contributing to the decrease in credit card debt, which is mostly observed in families with incomes less than $50,000, are low unemployment rates and increases in wages during the 1998 to 2001 time period.

However, the declining trend in credit card debt between 1998 and 2001 should be observed with caution, due to the lingering recession that began in March 2001 and the continued rise in unemployment rates.

Average Credit Card Debt in the 1990s



Dēmos's calculations from the Survey of Consumer Finances, 1989, 1992, 1995, 1998 and 2001.

Average Debt by Race/Ethnicity. Though they may be less likely to have credit cards, the black and Hispanic families who do use them are more likely to have credit card debt than white families. The higher reliance on credit cards among black and Hispanic families may reflect the lower than average incomes, savings, and wealth among these groups.

Race/Ethnicity	*Percent holding credit cards in 2001*	*Cardholding percent reporting debt in 2001*	*Average credit card debt in 2001*
All families	76%	55%	$4,126
White families	82	51	4,381
Black families	59	84	2,950
Hispanic families	53	75	3,691

Dēmos's calculations using 2001 Survey of Consumer Finances.

what's driving the rise in debt?

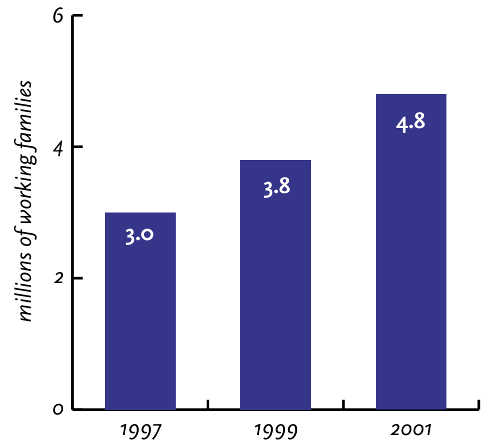
Families with credit card debt are often thought to be shortsighted or ill disciplined, guilty of "living beyond their means." While materialistic pressures or desires are part of the story, major trends in wages, housing costs and health care costs strongly suggest that structural economic factors helped fuel the Decade of Debt.

As the data below indicate, the 1990s saw health care and housing costs rise for many segments of the population, while real wages stayed flat or decreased.

Housing Costs. The number of working families with severe housing burdens—those spending more than 50 percent of their income on housing—grew dramatically in the late '90s. From 1997 to 2001, that number increased by nearly 60 percent, jumping from 3 million to nearly 5 million working families (see graph at right).

Health Care. Health care premiums consistently increased over the decade. Between 1989 and 1990 alone, they jumped 18 percent; between 2000 and 2001, they jumped another 11 percent. In addition, the proportion of individuals whose employers paid the full costs of health coverage fell significantly.

Housing Crisis Increased

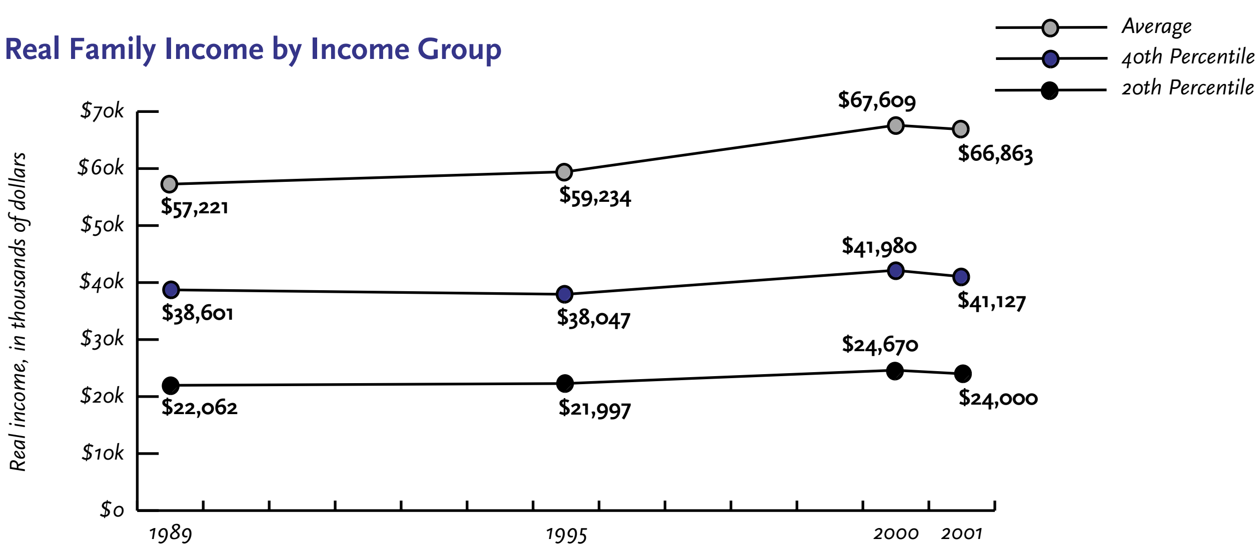


Source: *America's Working Families and the Housing Landscape*

Real Income. Real incomes for low- and moderate-income families were stagnant or declining. Family incomes for the bottom 40 percent of the income distribution finally rose in the last half of the 1990s, but quickly declined between 2000 and 2001 with the onset of the recession.

Although more research would be needed to establish a causal relationship between these trends and the concurrent rise in credit card debt, the preliminary data suggest a meaningful association.

Real Family Income by Income Group



Source: *State of Working America, 2002*

industry practices in an unregulated market

Since the late 1970s, America's credit card industry has enjoyed a period of steady deregulation. Two Supreme Court rulings, the first in 1978 and the second in 1996, effectively hobbled state usury laws that protected consumers from excessively high interest rates and fees. The rulings allowed national banks to charge the highest interest rate permitted in the bank's home state—as opposed to the rate in the state where the customer resides.

Taking advantage of this deregulatory climate, the credit card companies ushered in a wave of unscrupulous and excessive practices in the 1990s—all aimed at keeping consumers in debt. Some of these practices include:

Aggressive Marketing. Direct mail solicitations jumped from 1.52 billion in 1993 to over 5 billion in 2001.

Relentless Credit Extension. Between 1993 and 2000, the industry more than tripled the amount of credit it offered to customers, from $777 billion to almost $3 trillion. The average cardholding household now has six credit cards with an average credit line of $3,500 on each—for a total of $21,000 in available credit.

Lowering of Minimum Payment Requirements. Minimum payment requirements—the amount of their balance customers can pay without incurring a penalty—dropped from 5 percent to only 2 or 3 percent, making it easier for consumers to carry more debt. Assuming an interest rate of 15 percent, it would now take more than 30 years to pay off a credit card balance of $5,000 by making the minimum payment.

Amount of Time and Money It Takes to Pay Off Debt at New "Monthly Minimum" Rates

Credit card balance	*Interest rate*	*Years to pay off debt*	*Interest cost*
$5,000	15%	32	$ 7,665
$5,000	18	45	13,531
$8,000	15	37	12,581
$8,000	18	52	22,260
$10,000	15	39	15,857
$10,000	18	56	28,079

Most credit cards assume a minimum payment of 2 percent of the balance or $10, whichever is higher. Source: Dēmos's calculations.

Skyrocketing Late Fees and Penalties. Late fees have become the fastest growing source of revenue for the industry, jumping from $1.7 billion in 1996 to $7.3 billion in 2001. Late fees now average $29, and most cards have reduced the late payment grace period from 14 days to 0 days. In addition to charging late fees, the major card companies use the first late payment as an excuse to cancel low, introductory rates—often making a zero percent card jump to between 22 and 29 percent.

The credit card industry's punitive practices have paid off. Despite the industry's complaints about sharp increases in delinquencies and charge-offs, credit cards are continually one of the most profitable sectors in the banking industry. Pretax return on assets, a key measure of profitability, averaged 4.2 percent in 2002, the highest level since 1988.

a starting point for policy change

New legislation is needed to protect consumers from abusive industry practices, including excessive interest rates and fees. Additionally, it is important that policymakers acknowledge the growing economic insecurity facing low- and moderate-income families by addressing the lack of savings and assets, low or stagnant wage growth, rising unemployment and soaring housing and health care costs. The following policy recommendations are aimed at jumpstarting a conversation with policymakers, economic security advocates and asset building organizations.

Addressing Industry Practices

- Enacting a National Usury Law
- Regulating Late Payment Policies
- Increasing the Minimum Payment Requirement
- Improving Disclosure of Cardmember Terms

Expanding Asset Building and Access to Credit

- Scaling up Individual Development Accounts
- Increasing Access to Alternative Forms of Short-term Credit
- Expanding Financial Literacy Education

Addressing Economic Insecurity

- Maintaining Bankruptcy Laws for Families in Severe Economic Distress
- Closing the Gap between Earnings and Costs:
    - Increasing the Minimum Wage
    - Bolstering Unemployment Insurance
    - Expanding Health Insurance Coverage and
      Access to Quality Early Childhood Education and Care

conclusion

The growth of credit card debt, particularly among low- and moderate-income families, is a troubling indicator of economic disparity in this country. To cope with rising costs, stagnant incomes and a porous safety net, there is evidence that many families are using their credit cards to meet their basic economic needs. As unemployment continues to rise and communities grapple with historic budget deficits by cutting funding for essential services, we can expect more and more families to rely on this wealth-draining form of short-term credit.

personal story

Julie and Jerry Pickett, Struggling Midwestern Parents

On the surface, the Picketts have everything a middle-class family could want—three healthy kids, a house in suburban Middletown, Ohio, a strong network of friends and family, and two small businesses of their own.

But under that rosy surface, a financial timebomb threatens to wipe them out. The Picketts are being crushed by $40,000 in credit card debt, though they only have a combined yearly salary of about $45,000.

Julie and Jerry haven't always been in such financial straits. When they married ten years ago, they both earned modest livings, she in the retail business and he as the owner of a small plumbing and heating company. Though they used their credit cards often, they rarely missed a payment and floated manageable balances.

At that time, Julie had another good reason to avoid credit card debt. Between 1992 and 1994, she worked as a credit card debt collector for Bank One. Her job, as she puts it, "was to harass customers over the telephone to pay up." Ironically, she never imagined herself on the other end of the line. "I just didn't consider myself one of 'those people' that spent irresponsibly and wouldn't pay what they owed," Julie said.

Then the Picketts had twins. Without the option of affordable child care, Julie had little choice but to quit her job and stay at home to take care of them. At the same time, her husband's business—always a seasonal endeavor—slowed down. Their cash reserves rapidly dwindled. The credit cards went from occasional tools to lifelines. "I bought everything on them, you know, groceries, clothes for the kids, gas, everything," Julie says.

After a few years of mounting debt, the Picketts had another child, which kept Julie's hands full at home. They struggled to take care of their family on Jerry's mid-range but seasonal salary. Unable to afford private health care, they enrolled in Medicaid.

As soon as the kids started school, Julie went back to work at her own small retail business. Even with the extra income they could not pay the bills. They began missing their minimum monthly credit card payments. "That's when our debt began to spiral out of control," Julie says. "The situation began to get scarier and scarier."

"I'm still paying for groceries I bought for my family eight years ago."

That fear is compounded by threats from their creditors. Debt collectors—the same people Julie used to work with—call their house constantly. "We don't even answer the phone anymore," Julie says. "It's always a collector, calling to harass us."

At this point, the Picketts feel helpless and used. They are frustrated that the credit card banks aggressively extend credit to help cover life's unexpected twists—such as the birth of twins—but then become so unforgiving when the bills come due. "I feel like the credit card companies make it so easy to rack up charges," Julie says, "and then when you get in over your head, they say, 'Oh well!'"

"At this point, I don't know what we're going to do," Julie admits. "I'm still paying for groceries I bought for my family eight years ago."

Introduction

It is now widely acknowledged that not all Americans shared in the prosperity of the middle and late 1990s. Most of the new wealth generated during this so-called "go-go" era went to a relatively small number of high-income families, particularly those in the top 1 percent of households. Earnings in the early part of the decade were essentially stagnant for most low- and moderate-income families, and many families actually lost ground. Little is known about how these families have coped with a decade of flat wages and rising prices for basic goods and services, like shelter, food and health care. An analysis of data from the Survey of Consumer Finances suggests that families may have used increasingly available lines of credit to fill the gap.

Credit cards fill the growing gap between household income and basic living expenses.

This report examines trends in credit card debt among all families during the 1989–2001 period, with particular emphasis on lower- and moderate-income families. It also examines debt among older Americans, and considers how rising medical and housing costs may have contributed to the rise in credit card debt. The report looks at how bank deregulation has affected the pricing, availability and marketing of credit cards. Finally, the report offers a set of policy recommendations to begin addressing the problem.

methodology

The data analyzed in this report are drawn from the Survey of Consumer Finances (SCF), a triennial survey of the assets and liabilities of American families sponsored by the Board of Governors of the Federal Reserve System with the cooperation of the U.S. Department of the Treasury. The five most recent surveys, covering the 1989–2001 period, are examined in this report. All amounts are in 2001 dollars, and the recommended SCF weights were used to ensure that the data reflect the general population.

This report examines trends in credit card debt among families with credit card debt—42 percent of the survey population in 2001. By excluding those families that do not have revolving (outstanding) balances on their credit cards we get a more accurate picture of the problem of credit card debt. The SCF's definition of "family" is close to the Census Bureau's definition of "household," which includes married couples and single individuals. Households and families are used interchangeably throughout the report. A complete discussion of this and other methodological issues is contained in Appendix A.

Rising Credit Card Debt 1989–2001

Between 1989 and 2001, average credit card debt among all families increased by 53 percent, from $2,697 to $4,126 (2001 dollars). The percentage of families deeply in debt, defined as having total debt that exceeds 40 percent of income, increased by 65 percent. In 1989, 10.4 percent of all families faced such debt hardship—by 2001, the figure rose to 17.2 percent.

While these increases in debt are unprecedented, there is evidence to suggest that credit card debt is severely underreported. The data from the Survey of Consumer Finances (SCF) relies on self-reporting of debt by families, not on actual inspections of statements. There is evidence that consumers tend to severely underestimate their credit card debt. This is suggested by comparing self-reported debt to estimates based on aggregate figures reported by the Federal Reserve. For example, based on the total credit card debt outstanding in 2002 ($750.9 billion), the average household debt was $12,000 in 2002—significantly higher than that reported by families in the SCF survey.[1] The SCF does, however, allow for comparisons across different income groups, something aggregate data does not (see Appendix A). While the actual amount of debt is substantially underestimated in the SCF, the trends are clear: between 1989 and 2001, credit card debt among low- and moderate- income families rose to record levels.

The average family saw its credit card debt grow by 53 percent in the 1990s.

Table 1. Average Credit Card Debt Among Families With Credit Card Debt (2001 Dollars)

	1989	*1992*	*1995*	*1998*	*2001*	*change 1989–2001*
All indebted families	$2,697	$2,991	$ 3,454	$4,486	$4,126	**53%**
< $10,000	646	1,465	2,620	2,974	1,837	**184**
$10,000–$24,999	1,578	2,150	2,541	2,824	2,245	**42**
$25,000–$49,999	2,435	2,671	3,043	4,236	3,565	**46**
$50,000–$99,999	2,881	3,506	3,777	5,043	5,031	**75**
$100,000 and up	5,585	5,668	6,806	7,338	7,136	**28**

Dēmos's calculations from the Survey of Consumer Finances, 1989, 1992, 1995, 1998, and 2001.

Although debt increased between 1989 and 2001, one should note that between 1998 and 2001, debt declined for all income groups. While further research is necessary, preliminary research and data suggests that a portion of credit card debt was transferred using cash-out refinancing, home equity loans, and credit lines. The explosion of these loans over the last several years, due to interest rates decreasing to 40-year lows and appreciating housing prices, begins to explain the modest reduction of credit card debt during the period. According to the Federal Reserve, in 2002 homeowners raised $130 billion through home equity loans and lines of credit and almost $200 billion through cash-out refinancing. Of these totals, a significant portion was used to reduce credit card debt.[2] In another Federal Reserve study, 26 percent of funds from cash-out financing loans were used to reduce higher cost credit card debt.[3] It's important to note that the option of paying off credit card balances through home equity loans is not available to the millions of families that do not own their homes, or who have very little equity. Additionally, folding credit card debt into home equity loans does carry a risk because credit card debt becomes "secured" by the home mortgage, making homes vulnerable to seizure in the event of default on the loan.

Other factors contributing to the decrease in credit card debt, which is mostly observed in families with incomes less than $50,000, are low unemployment rates and increases in wages during the 1998 to 2001 time period. According to the Bureau of Labor Statistics, the unemployment rate from 1998 to 2001 was at its lowest point in more than 30 years, averaging 4.3 percent over the four-year period.[4] The decrease in unemployment then served to boost demand for mostly low-wage, unskilled workers. As a result, it is likely that many families, particularly those at the lower deciles, benefited from low rates of unemployment and were able to pay down credit card debt over the period.

However, the decline in credit card debt between 1998 and 2001 is likely to have been short-lived. According to the Federal Reserve, the National Bureau of Economic Research and others, the 10-year economic expansion ended in March 2001, signaling the start of a new recession. Since the beginning of the recession, nearly 2 million jobs have been lost with no signs of improvement—causing unemployment rates to surge to over 6 percent. (The unemployment rate in May 2003 was 6.1 percent.) These recent economic trends give rise to concerns about the ability of families to continue servicing and reducing their credit card debt during prolonged periods of economic downturn.

credit card debt by income group

Very Low-Income Families (Under $10,000). The percentage of very low-income families with credit cards increased from 28 percent in 1989 to 35 percent in 2001 (see Table 2). Very low-income families have the highest percentage of indebted cardholders of all income groups, with over two thirds of cardholding families reporting outstanding balances in 2001. Between 1989 and 2001, mean credit card debt among these families almost tripled from $646 in 1989 to $1,837 in 2001 (see Table 2).

These increases must also be viewed in the larger context of total family debt. During the 1990s, more and more low-income families faced debt hardship—commonly defined as having debt/income ratios greater than 40 percent. Among credit card debtors with incomes under $10,000, the percentage with total debt from all sources exceeding 40 percent of income increased dramatically, from 12 percent in 1989 to 32 percent in 2001.

Table 2. Prevalence of Credit Card Debt Among Very Low-Income Families (2001 Dollars)

Household income under $10,000	*1989*	*1992*	*1995*	*1998*	*2001*
Have a card	27.5%	29.2%	33.0%	28.5%	34.8%
Carry a balance	49.1%	56.4%	53.7%	64.3%	66.7%
Average debt	**$646**	**$1,465**	**$2,620**	**$2,974**	**$1,837**
Percent change between years		127%	79%	14%	–38%
Percent change 1989–2001					184%

Dēmos's calculations from the Survey of Consumer Finances, 1989, 1992, 1995, 1998 and 2001.

Low-Income Families ($10,000–$24,999). Dramatic increases in credit card debt were not restricted to the lowest income group. Credit card debt among families with incomes between $10,000 and $24,999 also grew throughout the decade, although at a slower pace than that of the lowest-income families (Table 3). Between 1989 and 2001, these families increased their mean credit card balances by 42 percent, from $1,578 to $2,245. The percentage of these families with debt also increased significantly over the decade. In 1989, about 49 percent of cardholders carried debt. By 2001, 59 percent reported credit card debt.

Unlike all other income groups, the percentage of low-income families with debt/income ratios greater than 40 percent declined between 1989 and 2001, from 21 percent to 15 percent respectively.

Table 3. Prevalence of Credit Card Debt Among Low-Income Families (2001 Dollars)

Household income $10,000–$24,999	*1989*	*1992*	*1995*	*1998*	*2001*
Have a card	52.1%	60.1%	61.8%	56.1%	59.4%
Carry a balance	49.0%	55.7%	59.1%	59.4%	58.9%
Average debt	**$1,578**	**$2,150**	**$2,541**	**$2,824**	**$2,245**
Percent change between years		36%	18%	11%	–21%
Percent change 1989–2001					42%

Dēmos's calculations from the Survey of Consumer Finances, 1989, 1992, 1995, 1998, 2001.

Moderate-Income Families ($25,000–$49,999). Moderate-income families sank deeper into credit card debt over the 1990s. In 2001, families with incomes between $25,000 and $49,999 had an average of $3,565 in credit card debt, up 46 percent since 1989 (see Table 4). While the amount of debt increased, the percentage of cardholders who reported having credit card debt was unchanged over the decade. The percentage of households with debt/income ratios greater than 40 percent increased by almost four percentage points, from 11.7 percent in 1989 to 15.6 percent in 2001.

Table 4. Prevalence of Credit Card Debt Among Moderate-Income Families (2001 Dollars)

Household income $25,000–$49,999	*1989*	*1992*	*1995*	*1998*	*2001*
Have a card	77.3%	78.2%	81.7%	77.6%	79.9%
Carry a balance	62.7%	63.9%	62.4%	59.8%	62.4%
Average debt	**$2,435**	**$2,671**	**$3,043**	**$4,234**	**$3,565**
Percent change between years		10%	14%	39%	–16%
Percent change 1989–2001					46%

Dēmos's calculations from the Survey of Consumer Finances, 1989, 1992, 1995, 1998, 2001.

Middle-Income Families ($50,000–$99,999). In 2001, families with incomes between $50,000 and $99,999 had an average credit card debt of $5,031—a 75 percent increase from the 1989 average. As Table 5 illustrates, the largest increases in debt occurred between 1995 and 1998. The burden of credit card debt also shifted to a smaller percentage of middle-income families: the percentage of cardholders reporting credit card debt dropped from 64 percent in 1989 to 56 percent in 2001. The percentage of families with debt hardship nearly tripled, from 6 percent of families in 1989 to 16.3 percent in 2001.

Table 5. Prevalence of Credit Card Debt Among Middle-Income Families (2001 Dollars)

Household income $50,000–$99,999	*1989*	*1992*	*1995*	*1998*	*2001*
Have a card	91.3%	91.4%	95.4%	92.0%	90.0%
Carry a balance	64.2%	57.6%	62.9%	60.9%	55.9%
Average debt	**$2,881**	**$3,506**	**$3,777**	**$5,043**	**$5,031**
Percent change between years		22%	8%	34%	0%
Percent change 1989–2001					75%

Dēmos's calculations from the Survey of Consumer Finances, 1989, 1992, 1995, 1998, 2001.

credit card debt by race

Average Credit Card Debt among Black and Hispanic Families. Since 1995, credit card debt among black and Hispanic families has been considerably lower on average than that of white families. In contrast to the trends for families by income group, both black and Hispanic families' credit card debt increased between 1998 and 2001, with black families' debt increasing by 10 percent to $2,950 and Hispanic families increasing by 19 percent to $3,691 (see Table 6). Between 1992 and 1995, black and Hispanic families reduced their credit card debt—Hispanic families by 31 percent—while debt among white families rose by 20 percent. Although debt among Hispanic and black families did rise substantially between 1995 and 1998, it remained considerably lower than that of white families. These trends are substantially similar when examined by income group.

Table 6. Average Credit Card Debt, by Race/Ethnicity (2001 Dollars)

Race/Ethnicity	*1989*	*1992*	*1995*	*1998*	*2001*
White	**$2,603**	**$3,111**	**$3,731**	**$4,907**	**$4,381**
Percent change between years		20%	20%	32%	–11%
Percent change 1989–2001					68%
Black	**$3,033**	**$2,416**	**$2,205**	**$2,691**	**$2,950**
Percent change between years		–20%	–9%	22%	10%
Percent change 1989–2001					–3%
Hispanic	**$2,616**	**$3,082**	**$2,131**	**$3,112**	**$3,691**
Percent change between years		18%	–31%	46%	19%
Percent change 1989–2001					41%

Dēmos's calculations from the Survey of Consumer Finances, 1989, 1992, 1995, 1998, 2001.

Both black and Hispanic families are less likely to have credit cards than white families. In 2001, 59 percent of black families and 53 percent of Hispanic families had credit cards, compared to 82 percent of white families. These disparities may reflect the lack of access to mainstream financial services in urban and poor communities as well as the heavy concentration of higher-cost credit services including payday lenders and pawnshops.[5] Although black and Hispanic families have lower rates of card ownership, black and Hispanic cardholders are more likely to have credit card debt. The percentage of cardholders with credit card debt in 2001 was 51 percent among whites, 84 percent among blacks, and 75 percent among Hispanics (see Table 7). The higher reliance on credit cards among black and Hispanic families may reflect the lower than average incomes, savings, and wealth among these groups. More research is needed to better understand these trends.

The percentage of cardholders with credit card debt in 2001 was 51 percent among whites, 84 percent among blacks, and 75 percent among Hispanics.

Table 7. Prevalence of Credit Cards and Debt, by Race/Ethnicity

Race/Ethnicity	*1989*	*1992*	*1995*	*1998*	*2001*
White					
Have a card	76.8%	79.2%	79.6%	77.9%	82.0%
Carry a balance	53.9	53.2	55.3	54.5	50.7
Black					
Have a card	43.0	45.0	49.7	50.3	59.1
Carry a balance	77.5	79.7	85.0	77.2	83.5
Hispanic					
Have a card	48.4	43.2	59.5	53.8	52.6
Carry a balance	71.6	81.1	85.2	81.0	75.4

Dēmos's calculations from the Survey of Consumer Finances, 1989, 1992, 1995, 1998, 2001.

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."

"Credit cards are the worst thing I can think of for hardworking people living paycheck to paycheck."

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.

"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."

Debt Among Older Americans. Over the last decade, credit card debt among Americans over the age of 55 has increased more than it has among the general population, rising even more substantially among those over age 65. These trends are particularly disturbing given the fact that most elderly households have incomes below $20,000, and on average, spend 25 percent of their income on health care.[6] Among those over 65, the average balance increased by a dramatic 149 percent to $4,041 between 1989 and 2001. The largest increase in debt for older Americans occurred between 1995 and 1998—mirroring trends for other groups. After 1998, Americans between the ages of 55 and 64 reduced their debt by 24 percent; still, credit card debt among those over age 65 rose by 3 percent over the same period.

Table 8. Average Credit Card Debt of Older Americans (2001 Dollars)

Average Debt	*1989*	*1992*	*1995*	*1998*	*2001*
All Families	$2,697	$2,991	$3,454	$4,486	$4,126
Percentage change between years		11%	15%	30%	–8%
Percentage change 1989–2001					53%
Families Age 55–64	$2,608	$2,778	$3,417	$5,358	$4,088
Percentage change between years		7%	23%	57%	–24%
Percentage change 1989–2001					57%
Families Age 65 and older	$1,626	$2,143	$1,859	$3,919	$4,041
Percentage change between years		32%	–13%	111%	3%
Percentage change 1989–2001					149%

Dēmos's calculations from the Survey of Consumer Finances, 1989, 1992, 1995, 1998, and 2001.

The Pain of Prescription Drug Costs. One reason for the rise in credit card debt among older-aged Americans may be rising medical costs, including the cost of prescription drugs. Between 1993 and 2000, Medicare beneficiaries' spending on out-of-pocket medical costs grew faster than their income (5.4 percent on average versus 3.8 percent).[7] In 2000, senior citizens on average spent $3,526 out-of-pocket on health care costs. The increase in out-of-pocket costs is in some part attributable to growth in prescription drug spending—which makes up the second largest component in out-of-pocket spending, after premium payments.[8] According to the Congressional Budget Office, Medicare beneficiaries spent over $560 on average in 2000 for prescription drugs.[9]

During the '90s, debt by families age 65 and over grew by 149 percent.

Under these circumstances, older Americans on fixed incomes have a finite set of options. Some may forgo the medications they need; others may forgo other necessities (such as food) in order to buy medication; still others may resort to credit cards.

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.

"I spent no more than five dollars a day on food.... What money I made went to pay back my credit cards."

"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?"

Possible Factors Driving Debt

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. As Juliet Schor examines in *The Overspent American*, the rising income inequality of the 1990s intensified the pressures to "keep up"—and at the same time, made it increasingly more expensive to do so.[10] However, the record growth of credit card debt over the last decade, particularly among low- and moderate-income families, suggests the need for a more nuanced interpretation.

An examination of the spending patterns and behaviors of low-income families raises doubts about the impact of frivolous spending on credit card debt.[11] Data from the 1999 Consumer Expenditure Survey show that poor families spend most of their income on basic needs. The lowest decile—the bottom 10 percent of the population ranked by income—spend 70 percent of their budget on food and housing, compared to an average of 53 percent in other families. The lowest decile also spends proportionately more of their income on health care. Spending data on items that may be considered non-necessities—meals outside the home and clothing—reveals discretionary spending that is quite constrained. For example, families in the lowest 10 percent spent about 12 percent of their total food expenditures on food outside the home, compared to 29 percent in other families. In 1999, the lowest decile spent an average of $255 on clothing. The other 90 percent of families spent an average of $1,611 per year on clothing. Lastly, the use of credit cards by low-income seniors to purchase prescription drugs, or to fill the gap between Social Security income and expenses, has made headlines across the country.[12]

In the face of rising costs and stagnant incomes, Americans are turning to credit cards to meet their basic needs.

Although the spending patterns of low–income families are clear-cut, there is scant hard data to show the circumstances under which people use their credit cards, or to reveal precisely why they go into debt. This makes it especially challenging for researchers trying to explore the shifting dynamics of debt. In the absence of hard data, researchers have to rely on qualitative data—gleaned through interviews and case studies—to inform their arguments. Researchers also need to pay careful attention to the way in which wider social and economic trends parallel and reinforce each other. New research is critical to better understanding the underlying factors behind the rise in debt among low- and moderate-income households, and to understanding the length and duration of this debt and the impact it has on a family's ability to save and build wealth.

While proving that increased housing and health costs, declining wages, and a porous safety net have directly contributed to higher credit card debt is beyond the scope of this report, a strong case can be made that structural factors have contributed to increasing credit card debt among low- and middle-income families. The declining or slowing wage growth for low- and middle-income workers in combination with rising costs for housing and medical care are important explanatory factors.[13] Another possible factor is the labor market restructuring which began in the 1980s and continued throughout the 1990s. This restructuring has brought layoffs for many workers in the "primary" labor market—where jobs are full time and compensation includes health and pension benefits—as well as an increase in employment in the "secondary" labor market, where many jobs are part-time or temporary and do not offer benefits. Finally, the deregulation of the financial services industry, which made it easier for the credit card companies to extend high-interest credit to struggling low- and moderate-income families, is another factor that needs to be examined.[14]

personal story

Rosa Gonzalez, Airline Industry Casualty

For most of her working life, Rosa had a healthy relationship with credit cards. She used them infrequently and always paid their balances on time. On a moderate income of $22/hour as a TWA ticket agent, she had accumulated savings of about $10,000—a testament to hard work and frugality.

Then, September 11 devastated the airline industry. Rosa and about 6,000 other TWA employees lost their jobs in October of 2001. The airline told its employees that the layoffs were temporary—that a recovery was around the corner, and the jobs would return. Rosa kept her chin up and expected to go back to work soon.

She waited. Negotiations dragged on. Contracts got delayed. Her unemployment checks didn't cover much, and after a while her savings had been spent down to nothing. While she knew it was a bad idea, she was forced into using her credit cards to cover basics: food, medical bills, electric bills and phone bills. She figured that a healthy paycheck was right around the corner, and she could pay the cards back then. Besides, where else could she get the money?

"We [laid-off airline employees] couldn't go to a bank and ask for a loan," she explains. "No job, no money, no house—why would they give me a loan? I had to use the credit cards."

"I know a [laid-off] pilot who has more than $40,000 in debt, because he pays his mortgage with his credit card. He has no other choice."

Rosa's unemployment benefits ran out in July of 2002. To maintain her health insurance, Rosa was paying $490 a month to a COBRA plan, "almost as much as my rent," using her credit card. Then her car insurance payments were due—she needs the car to get to employment meetings at the airport—and she put that on the card. Next were the medical and dental bills, then the car's brakes, then food and gas ... everything went on the credit card.

Rosa recently maxed out her last card. While she tries to pay her monthly minimums, her balance is growing quickly due to high interest rates.

Rosa says she is far from alone. Many of her friends from TWA have turned to their credit cards as their only form of income. "I know a pilot who has more than $40,000 in debt, because he pays his mortgage with his credit card now," she says. "He has no other choice. A lot of the pilots have turned to drinking, they are so depressed."

As for her outstanding debt, she doesn't have a clear plan, and fears that the interest is getting out of control. "I don't really know how I'll pay them off," she admits, "I'm just hoping things will change, the economy will change, and I will get my old job back."

stagnant incomes, job displacement, and workplace insecurity

Stagnant Incomes. During the early 1990s, real incomes for low- and moderate-income families were stagnant or declining. Then beginning in 1995, family incomes grew at an accelerated pace. From 1995 to 2000, real family income for the bottom two quintiles grew faster than 2 percent per year. However, due to the revolving nature of debt and interest, most families did not significantly reduce their credit card debt between 1995 and 2000. By 2001, the recession had erased many of the gains created during the booming economy of the late 1990s. During the one-year period between 2000 and 2001, family income for the bottom quintile dropped by 2.7 percent.

Table 9. Annual Growth Rate of Real Family Income, 1989–2001

	Percentile					
Year	*20th*	*40th*	*60th*	*80th*	*95th*	*Average*
1989–2000	1.0%	0.8%	1.0%	1.2%	1.7%	1.5%
1989–1995	0.0	–0.2	0.1	0.3	0.7	0.6
1995–2000	2.3	2.0	2.2	2.4	2.9	2.7
2000–2001	–2.7	–2.0	–0.9	0.2	–0.3	–1.1

Source: Lawrence Mishel, Jared Bernstein, and Heather Boushey, The State of Working America: 2002/2003. *Economic Policy Institute.*

Job Displacement. At the same time that the costs of basic goods and services were rising, workers faced job displacement and often did not recoup their earnings upon re-employment. In any three-year period over the last two decades, 8 to 12 percent of workers suffered at least one job loss, and many received lower wages and fewer benefits in their new jobs.[15] These displaced workers suffered an average wage loss of 14 percent, and 29 percent moved to jobs without health benefits. In a recent report, the Bureau of Labor Statistics noted that between 1999 and 2001, the number of displaced workers equaled 9.9 million, up from 7.6 million in the previous survey. By January 2002, 22 percent of these displaced workers from the 1999–2001 survey period were still unemployed, and 14 percent were not in the labor force. Lastly, 29 percent of long-tenured employees who found employment in January 2002 reported earnings losses of 20 percent or more.[16]

Underemployed. Non-standard, or contingent, work includes a variety of different work arrangements, including part-time work, temping and self-employment. Contingent workers are persons who do not expect their jobs to last or who report that their jobs are temporary. Contingent work also pays less, is much less likely to provide health or pension benefits, is less likely to be unionized, and by definition provides far less job security than regular full-time employment. Financial planning for contingent workers is extremely difficult because both wages and the length of employment can fluctuate. This is particularly true of temporary and on-call workers, who are disproportionately young, black or Latino, and female.

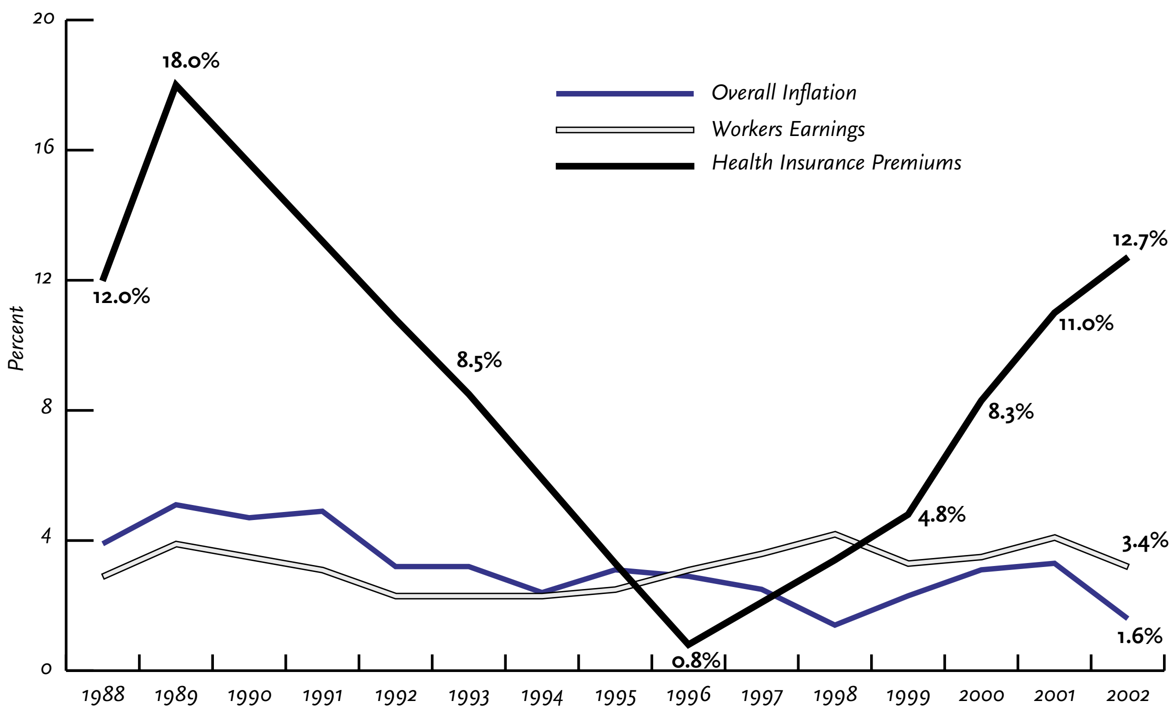
Between 1995 and 2001, the contingent labor force decreased slightly from 6.0 to 5.4 million workers, or 4.9 percent and 4.0 percent of the labor force respectively. During the economic boom unemployment rates reached 30-year lows and contingent labor decreased by 0.9 percent. While a number of workers who comprised the contingent labor force found advantages such as flexibility to these types of work arrangements, according to a recent study by the Bureau of Labor Statistics more than half of contingent workers would have preferred a traditional full-time job.[17] This preference by the contingent workforce reflects a constant desire for the job security and financial stability that standard work arrangements can offer.

rising living costs

Health Care Costs. Low-income families were particularly hard hit by the rising health care costs of the 1990s. For example, people earning under $10,000 spent 23 percent of their income on health care expenses including premiums, out-of-pocket costs, and wage-reductions from employer-paid premiums.[18] At the same time, the percentage of jobs that offered health insurance declined. Between 1983 and 1998, the proportion of individuals whose employers paid the full costs of health coverage fell from 45 to 27 percent.[19] Low-income Americans run the highest risk of being uninsured, with over a third of the poor and a quarter of the near-poor lacking health coverage.[20] This lack of insurance takes its toll on family finances—nearly 30 percent of uninsured adults say that medical bills had a major impact on their families' lives[21] (see Figure 1).

In addition, health insurance premiums have increased over the last decade. As Figure 1 shows, while wage growth and inflation have remained relatively constant over the past 13 years, the rate of premium growth has been volatile, ranging from a low of 0.8 percent in 1996 to highs of 18 percent in 1989 and 11 percent in 2001.[22]

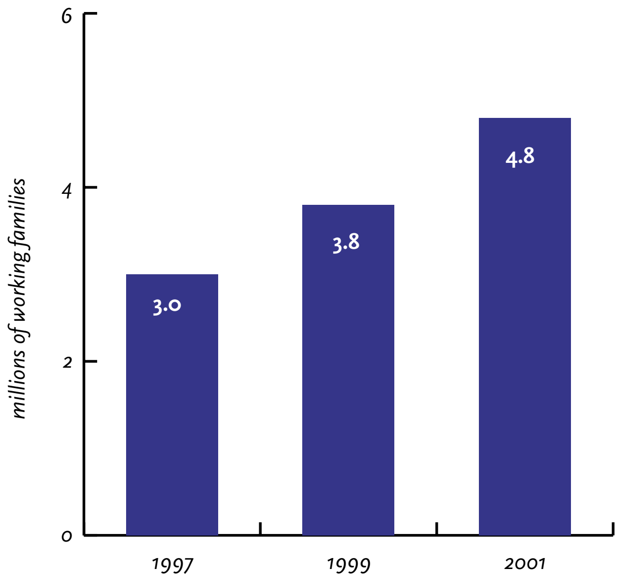
Figure 1. Increases in Employer Health Insurance Premiums Compared to Increases in Overall Inflation and Workers' Earnings, 1988–2001



Sources: Changing Health Care Marketplace, *2002.* Chartbook, *May 2002.*

Housing Costs. Housing costs also rose during the late 1990s. Home prices soared, with inflation-adjusted prices increasing by 16 percent between 1993 and 2000.[23] Average monthly rents rose at about twice the overall inflation rate between 1995 and 1997.[24] As a result, the cost burden facing low- and moderate-income working families has continually increased since 1995. Between 1995 and 1997, the percentage of low- to moderate-income working families (earning between $10,700 a year and 120 percent of local area median income) spending more than 50 percent of their income on housing grew by 17 percent.[25] This trend continued during the economic boom of the late 1990s, when the percentage paying more than 50 percent rose again by 29 percent between 1997 and 1999.[26] By 2001, nearly 5 million households faced severe cost burdens for housing (Figure 2).[27]

Figure 2. Number of Households With Severe Cost Burdens for Housing



Source: America's Working Families and the Housing Landscape

The declining value of the minimum wage, together with rising rental and home prices, have made it very difficult for low- and moderate-income families to find affordable housing. Today, in no state does a full-time minimum wage job enable a family to afford a two-bedroom apartment at the current market rate.[28] In 24 states, even two workers earning the federal minimum wage lack the income needed to cover fair-market rents without exceeding the 30 percent of income threshold for affordability.

The Effects of Deregulation on Industry Practices

Beginning in the late 1970s, the banking and financial industry has been steadily deregulated. For consumers, this wave of deregulation has been a mixed blessing. It has expanded the availability of credit to many moderate- and low-income consumers, but at a very high cost. This high cost, the result of finance charges, penalty fees, and increased credit lines, helped usher in the Decade of Debt.

the dismantling of state usury laws

Deregulation of the industry began with a Supreme Court ruling in 1978. In *Marquette National Bank of Minneapolis v. First Omaha Service Corp* (hereafter *Marquette*) the Court ruled that Section 85 of the National Banking Act of 1864 allowed a national bank to charge its credit card customers the highest interest rate permitted in the bank's home state, as opposed to the rate in the state where the customer resides.[29] As a result, regional and national banks moved their operations to more lender-friendly states, such as South Dakota and Delaware, where there were no usury ceilings on credit card interest rates. In domino-like fashion, states began loosening their own usury laws, limiting the chances for consumers to get a lower rate from a local or state bank.[30] Today, 29 states have no limit on credit card interest rates.[31]

Key Supreme Court Cases Deregulating Banking and Financial Industry

Supreme Court Case	*Ruling*	*Effect*
Marquette National Bank of Minneapolis vs. First Omaha Service Corp (1978)	Allows a national bank to charge credit card customers the highest interest rate permitted in the bank's home state.	National banks physically moved their credit card operations to states that allowed banks to charge the highest interest rates.
Smiley vs. Citibank (1996)	Allows fees to be defined as "interest" for the purposes of regulation.	In conjunction with rules established by *Marquette*, the laws regulating fees are now determined by the state laws in which the bank is located.

As a result of *Marquette*, credit card companies that are located in states without usury laws and without interest rate caps—essentially all the major issuers—can charge any interest rate they wish, as long as they comply with consumer disclosure rules. This ruling had tremendous impact on the growth of the credit card industry and its profitability. Before *Marquette*, complying with 50 different state laws represented a high cost burden for the credit card companies. The *Marquette* decision allowed banks to nationalize credit card lending and take full advantage of the ease of centralized processing provided by the Visa and MasterCard system. As a result, credit cards, which were once the province of the wealthy and elite business class, quickly became part of mainstream American culture. Riskier borrowers—those on the lower end of the income distribution—were brought into the market, and lenders were able to charge higher interest rates to compensate for the increased risk.[32]

The rise in credit card debt during the '80s and '90s reveals how quickly this transformation occurred: In 1999 dollars, from 1980 to the end of 1999, credit card debt grew from $111 billion to nearly $600 billion.[33]

card companies take advantage of deregulated interest rates

Credit card interest rates began to soar in the high-inflation post-*Marquette* environment, reaching averages of 18 percent, and have remained high in comparison to drops in the federal funds rate.[34] Several economists have remarked on the reasons why consumers continue to pay, and card companies continue to charge, exceptionally high interest rates. Some point to the high consumer transaction costs involved in switching, while others point to a lack of competition in the credit card marketplace.[35]

At the end of 1999, ten issuers dominated 77 percent of the credit card market, which amounted to $372 billion in card loans and 262 million accounts (Table 10). During 1999, nearly $1.2 trillion dollars were charged on credit cards issued by the top ten issuers.

Table 10. Top Ten U.S. issuers, 1999

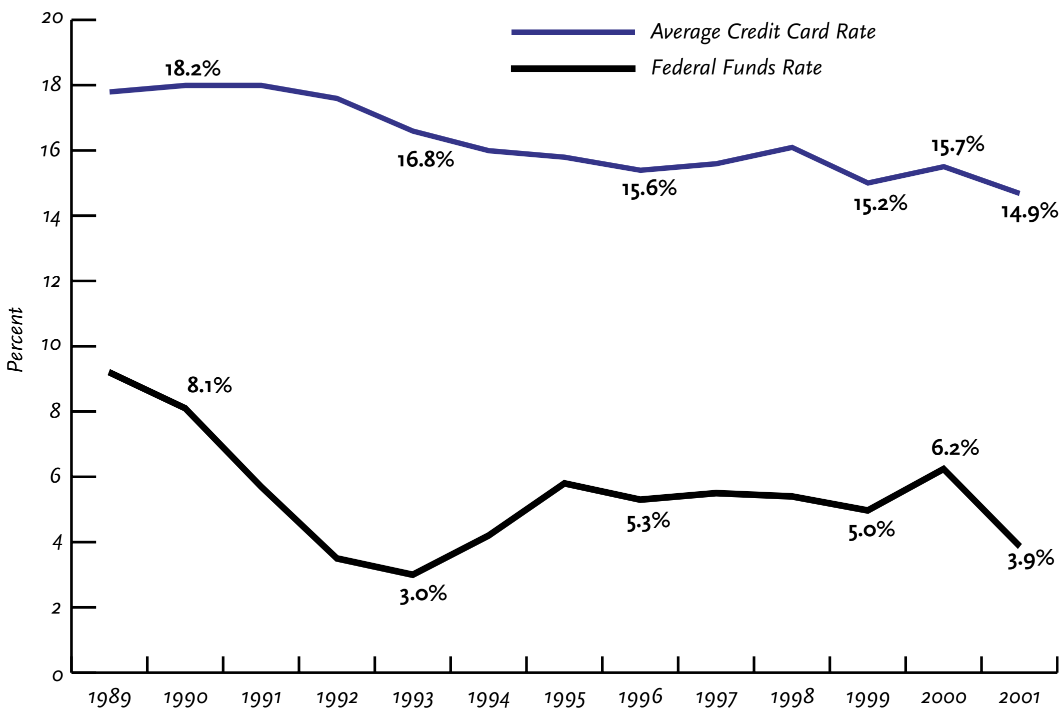
Issuer/Rank	*Card Loans (in billions)*	*Accounts (in millions)*
Citibank	74.2	40.6
Bank One/First	69.4	43.1
MBNA	63.1	28.9
Discover	38.0	38.5
Chase Manhattan	33.6	20.5
American Express	23.4	23.5
Bank of America	20.9	21
Providian	18.7	15.2
Capital One	16.4	22
Fleet	14.3	8.5
Total	**372**	**261.8**

Source: Carddata, February 2000

Credit card companies did not lower their rates when inflation slowed and national interest rates came down. As a result, the card companies' "spread"—the amount charged above what it costs them to loan the funds—has remained high, consistently at or above 10 percent over the last 15 years.

This trend has continued even as the federal-funds and prime rates have dropped to historic lows. The Federal Reserve lowered rates 11 times in 2001, from 6.24 percent to 3.88 percent.[36] But these savings didn't get passed on to consumers: during the same period, credit card rates declined only slightly from 15.71 percent to 14.89 percent.[37]

Figure 3. Federal Funds Rate and Average Credit Card Rates



Sources: The federal funds rate data is based on historical data from the Federal Reserve. Average credit card rates are from the U.S. Census Bureau, Statistical Abstract of the United States: 2002, *p. 728.*

soaring penalty fees

In the mid-1990s, further deregulation of the credit card industry again contributed to the increasing costs of credit for consumers. In 1996, the Supreme Court ruled in *Smiley vs. Citibank* that fees could be defined as "interest" for the purposes of regulation. As such, under the rules established by *Marquette*, the laws regulating fees were now to be determined by the state laws in which the bank was located. Prior to the ruling, the card companies were bound by the state laws of the customers' residences.

The credit card companies quickly capitalized on this ruling. While annual fees have largely disappeared, credit card companies now levy several different penalty fees: the late fee, the "over the limit" fee, the balance transfer fee, the foreign exchange fee, and the cash advance fee. As a result, total consumer penalty fees jumped from $8.3 billion in 1995 to $18.9 billion in 1998.[38] Late fees, which now average $29, have been the fastest growing source of revenue for the industry.[39] One of the nation's largest card issuers, MBNA, is now assessing cardholders with balances over $1,001 a late fee of $35.[40] Since 1996,

steady rise in fees and penalties

Revenue From Penalty Fees

1995: **$8.3 billion** 1998: **$18.9 billion**

Late Fees

- Average late fee:
  1996: **$13** 2002: **$29**
- Revenue from late fees:
  1996: **$1.7 billion** 2002: **$7.3 billion**
- Grace period for late payments: **0 days**
- Most major issuers consider a payment late if it arrives after **2:00 p.m.** on the due date
- Late payments now trigger interest rate hikes up to **29%**
- Percentage of card companies that raise the rate after one late payment:
  1998: **46%** 2000: **69%**

the amount of revenues generated by late fees has soared from $1.7 billion to $7.3 billion annually.[41] In addition, most major issuers have reduced the late payment grace period from 14 days to zero days.[42] It is important to note that the increased use of late fees by card companies is not reflective of any losses in their interest income. Between 1994 and 1998, credit card interest income grew from $34.8 billion to $58.1 billion.[43]

Interest income has surged as a result of the significant percentage of accountholders who revolve credit card balances each month. Around 40 percent of accountholders who pay off their entire balances each month, or convenience users, pay no interest at all—essentially receiving an interest-free loan. In 2000, 57 percent of accountholders paid finance charges, down from 71 percent in 1991. Thus, revolvers bear the brunt of the cost, through high interest payments, of managing and administering credit card accounts.

Lastly, since the passage of the 1986 Tax Reform Act, the cost of consumer debt has increased for revolvers due to the elimination of interest deductibility of consumer debt from federal taxes.[44]

One of the more egregious practices of the 1990s has been the imposition of penalty interest rates for late payments. All the major card companies now raise the interest rate on a card the first time a payment is late. These rates tend to be much higher than average rates, with most cards charging customers between 22 and 29 percent for up to a year following

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?"

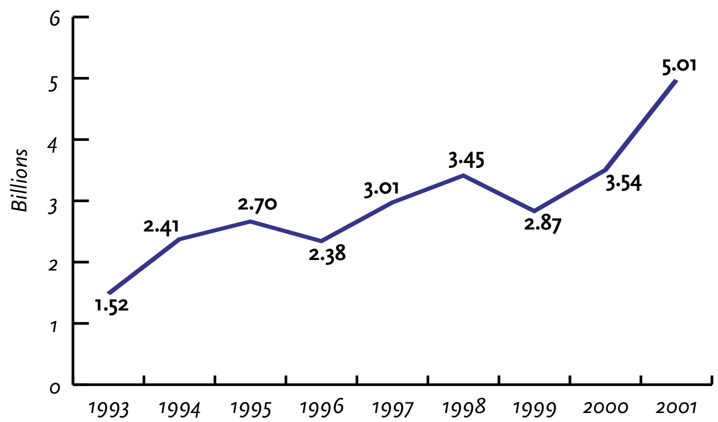
Cross Country backpedaled a second time. They finally sent her a letter saying that she had missed her November billing cycle by two days, thus incurring the extra fees and the rate hikes. But Michelle says she has the documents to prove that the fees started accruing in October—a month before she supposedly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

the first late payment.[45] According to a survey done by the Public Interest Research Group (PIRG) in 2000, 69 percent of credit card issuers now raise a cardholder's rate after one late payment, up from 46 percent in 1998.[46] While the slowing economy and recent recession has led to sharp increases in delinquencies and charge-offs (losses from accounts that can't be recouped), 2001 was nevertheless the industry's most profitable year since 1989.[47]

Aggressive Marketing and Credit Line Expansion. While many American families are going into debt to pay for basic expenses, the aggressive marketing tactics of the credit card companies have certainly helped fuel the use of credit cards. During the 1990s, the credit card companies sent billions of solicitations (Figure 4) to attract new customers and greatly expanded the amount of credit available to the average household. Between 1993 and 2000, the amount of credit extended grew from $777 billion to almost $3 trillion (2000 nominal dollars).[48]

Figure 4. Number of Credit Card Solicitations, in Billions



Source: Mail Monitor, a service of BAIGlobal, Inc.

The advertising has paid off. According to CardWeb (online publisher of information pertaining to payment cards and subsidiary of RAM Research Group), the average household with at least one credit card has 6 bank credit cards. Considering that the average credit line extended is about $3500 (up from $1,800 in 1992), the average cardholding household has $21,000 in credit available to use.

Low Minimum Payment Requirements. During the 1990s the credit card companies also lowered their minimum payment requirements from 5 percent to only 2 or 3 percent of the outstanding balance. This makes it easier for consumers to carry more debt by lowering their obligated payment each month. It also ensures more interest income for the card companies, as consumers who pay only the minimum will revolve their balances over a longer period of time. For example, an $8,000 credit card balance with an annual interest rate of 15 percent and a minimum payment requirement of 2 percent would take just over 37 years to pay off—and would cost $12,790 in interest alone.

Table 11. Amount of Time and Money It Takes to Pay Off Debt at New "Monthly Minimum" Rates

Credit card balance	*Interest rate*	*Years to pay off debt*	*Interest cost*
$5,000	15%	32	$ 7,789
$5,000	18	46	13,931
$8,000	15	37	12,790
$8,000	18	54	22,805
$10,000	15	40	16,122
$10,000	18	58	28,524

Most credit cards assume a minimum payment of 2 percent of the balance or $10, whichever is higher. Source: Dēmos's calculations.

Policy Recommendations

In the face of rising costs for essential goods and services, many families have turned to credit cards as a socially acceptable solution for maintaining living standards during periods of income loss or stagnation. The credit card companies have responded to this increasing financial vulnerability by further strapping customers with a high-cost combination of interest rates and fees. New legislation is needed to provide better consumer protections from abusive industry practices, including excessive interest rates and fees. Additionally, it is important that policymakers acknowledge the growing economic insecurity facing low- and moderate-income families. There is a pressing need to address the lack of savings and assets, low or stagnant wage growth, rising unemployment and soaring housing and health care costs. The following policy recommendations are aimed at jumpstarting a conversation with policymakers, economic security advocates and asset building organizations.

addressing industry practices

Enacting a National Usury Law

Although societies have long protected borrowers by limiting the interest rates charged by lenders—a practice dating back to biblical times—there are practically no such protections in the credit card market. Because usury laws in the United States have traditionally been set at the state level, the practical effect of the *Marquette* ruling has been a credit card market characterized by excessive finance charges. The charging of interest rates in the 22 percent to 29 percent range is not isolated to fringe lenders in the market, nor to the subprime category of the industry. These rates are excessive by any measure, and cannot be rationalized as necessary to allow higher-risk customers into the marketplace. Card companies should certainly be allowed to use "tiered pricing"—charging different interest rates to customers based on their risk profile—but there should be a limit to what is acceptable. In this post-*Marquette* environment, only legislation at the national level can reinstate usury limits on credit card lending.

New legislation is needed to provide better consumer protections from abusive industry practices, including excessive interest rates and fees.

In November 1991, the United States Senate passed legislation that would have restricted the amount of interest a credit card company could charge, to 4 percent more than the IRS charged delinquent taxpayers (roughly 14 percent at the time).[49]

Most proponents of establishing a usury law for credit card lending believe that a "floating limit" is preferable to a fixed percentage.[50] For example, the usury law may specify that the highest rate that can be charged on a credit card loan is a certain percentage above the prime rate. The benchmark may also be the federal funds rate, the discount rate or any other common interest rate. By tying the limit to the credit card companies' cost of borrowing, it ensures the companies' profitability during periods of high inflation when interest rates tend to climb. It also ensures that savings are passed on to customers when the national interest rate declines.

The other approach is to set a fixed limit on the amount of interest that can be charged. In the seminal book *Wealth of Nations*, Adam Smith argues for usury laws tied to a moderate interest rate which would be set just above the lowest market price, or "the price which is commonly paid for the use of money by those who can give the most undoubted security." [51]

Discussions with policymakers and other stakeholders are needed to establish an appropriate mechanism or benchmark to prohibit the excessive interest rates being charged by credit card companies.

Regulating Late Payment Penalties

In the last several years, all the major credit card companies have begun charging fees and raising interest rates for late payments. The definition of late payment varies by issuer, but many consider a payment late if it is not received by 2:00 p.m. on the due date. All the major issuers penalize late payments by charging the customer a fee (typically $29) and by raising the interest rate on the card—typically to between 22 percent and 29 percent. Depending on the company, the consumer may have to make one year of payments on time before they can receive the original rate.

Congress should amend the Consumer Protection Act or the Truth in Lending Act to define the parameters of "late payment" to ensure that consumers are being treated fairly and appropriately. Any penalty interest rate should fall within the usury limit specified above. A national limitation on late fees should consider that prior to the Supreme Court ruling, most states limited late fees to $10 or $15.

Increasing the Minimum Payment Requirement

During the 1990s the credit card companies lowered the minimum payment requirement from 4 or 5 percent to only 2 or 3 percent of the outstanding balance. This encourages consumers to carry more debt by lowering their obligated payment each month. The Consumer Federation of America recommends legislation requiring card issuers to require minimum payments of at least 4 percent for all new customers.[52]

Improving Disclosure of Cardmember Terms

Past legislation aimed at improving disclosure of cardmember terms has focused on issues regarding the annual percentage rate of the card. These improvements have made it easier for consumers to tell what the "real" interest rate is on the account, as opposed to the introductory or "teaser" rate, through increased type size and other refinements. However, important terms of the cardmember agreement remain obscured to the consumer, often buried in the fine print and printed on the reverse side of the statement. These include the penalty structure for the card (e.g., the fee for late payment, the definition of late payment, the change in rate for late payment, over-the-limit fees, etc.). Legislation is needed to improve the accessibility of this information in order for consumers to understand the complete terms of the card, and to be made aware of any changes that are made to the agreement. In addition, consumers should be informed in their monthly statements about the cost of only paying the minimum amount as well as the length of time it would take to pay off balances of various sizes by making only the minimum payment.

expanding asset building and access to credit

Scaling up Individual Development Accounts

Household savings hold two important functions: they help families weather temporary income losses or unexpected expenses and they help families plan for the future. Currently over a quarter of households are asset poor—lacking the net worth needed to survive for three months at the poverty line.[53] There is evidence from The American Dream Demonstration (ADD) and the Center for Social Development (CSD) that poor people, with proper incentives and supports, will save regularly and acquire productive assets.[54] To begin rebuilding the capacity of American families to save, programs that offer Individual Development Accounts (IDAs) should be expanded. IDAs are special matched savings accounts that are emerging as one of the most promising tools to enable low-income American families to save, build assets, and enter the financial mainstream. Government and/or private funds are used to match money deposited in a special IDA account. After a specified period of time, money can be withdrawn by the individual and invested in a business, a home, education or any number of asset options. IDAs should also be available to low- and moderate-income families that may already own a home but lack any liquid wealth or savings.

Increasing Access to Alternative Forms of Short-Term Credit

Low- and moderate-income households often lack access to other forms of short-term credit, such as an unsecured bank loan or line of credit attached to a checking account. As a result, many low- and moderate-income families are using an expensive combination of credit for unexpected expenses or emergencies. These include credit cards as well as payday advances and pawnshop loans. Financial institutions should be encouraged to expand the range of credit options available to low- and moderate-income households. In addition to traditional loans, both credit unions and banks offer lines of credit or overdraft protection to individuals who hold checking accounts—but often limit this service to those with exceptional credit history.

promoting financial literacy

Expanding Financial Literacy Education

Many families begin borrowing without realizing the full consequences or nature of revolving debt. A 1997 nationwide survey of American high school seniors conducted by the Jump$tart Coalition for Personal Financial Literacy showed that survey respondents answered only 57 percent of the questions correctly, and only 5 percent received a "C" grade or better.[55] Another study by the National Endowment for Financial Education (NEFE) and the U.S. Department of Agriculture Cooperative State Research, Education and Extension Service demonstrated that as little as 10 hours of classroom instruction could effect significant change in how teens handle their money.[56] Financial literacy education provided by community-based organizations or through the workplace can play an important role in helping families better prepare for the future and avoid predatory or fringe banking services often marketed in lower-income neighborhoods. Public policies should be used to support financial education in our schools, offer incentives for employers to provide workplace financial education, and provide increased support to community-based efforts.

addressing economic insecurity

Prevent the Gutting of Bankruptcy Laws for Families in Severe Economic Distress

Consumers filing for bankruptcy will face more barriers to financial improvement if Congress enacts bankruptcy reform legislation it has considered for the last five years. This reform would force those who file for Chapter 7 to repay more of their debts, restricting the opportunity for low- and moderate-income families to obtain a clean start. Chapter 7 is the bankruptcy code that allows most of the debts to be erased. In 2001, an average of 70 percent of the almost 1.5 million bankruptcy filings were Chapter 7 cases.[57] It is critical to preserve bankruptcy laws that help families in severe economic crises relieve their debt and rebuild their financial future.

Closing the Gap Between Earnings and Costs

Over the last two decades, low- and middle-income families have been afflicted by rising costs and stagnant wages. The result has been a dramatic increase in credit card debt, along with a decline in savings. Both of these trends must be reversed to ensure the overall stability and long-term health of the economy. The problem of stagnating wages is complex, and entails a panoply of policy interventions aimed at restructuring the system of reward and opportunity in the labor market. Interventions can include enacting high-road development strategies, bolstering union membership, and ensuring corporate accountability for tax breaks. These changes will take years, if not decades, to ameliorate today's highly stratified and unstable labor market.

However, there are several policy changes that would provide immediate benefits to today's struggling low- and moderate-income families. Because these policies have been part of an ongoing debate over economic security and opportunity in this country, they are only briefly summarized here in this report.

- **Increasing the Minimum Wage**
  Increases at the national, as well as state, level should be considered. The effects of increasing the minimum wage are substantial, and could help reduce the reliance on credit cards to meet basic needs. Each 25-cent increase in the minimum wage would boost the earnings of a full-time minimum wage worker by $520 per year.[58]

- **Bolstering Unemployment Insurance**
  The unemployment insurance system was designed to help workers get through a temporary job loss by replacing their lost earnings. Today, however, most workers are ineligible for benefits, and the benefit levels replace only about one-third of an average worker's earnings. For example, at the end of the recession in 1975, three quarters of the unemployed workers were receiving unemployment benefits. By 2001, that number had declined to only 43 percent.[59] States need to modify the rules governing the system to expand coverage to more low-wage workers, those most vulnerable to temporary income losses and most likely to lack savings or wealth to draw on during unemployment.

- **Expanding Health Insurance Coverage and Access to Quality Early Childhood Education and Care**
  Over the last decade, the costs of two critical services, health care and child care, have put tremendous financial burdens on low- and moderate-income families. Both systems have demonstrated market failures in need of much greater intervention by the public sector to control costs and improve quality. The need for corrective action has been widely noted and analyzed in numerous publications, reports and government documents. The need to curb costs and increase quality in both of these sectors is mentioned here because these problems are central to the issue addressed by this report—the growing financial insecurity of low- and middle-income families, and the concomitant growth of credit card debt among these families.

conclusion

The explosion of credit card debt, particularly among low- and moderate-income families, is a troubling indicator of the current well-being and future economic success of many American families. To cope with rising costs, stagnant incomes and a porous safety net, there is evidence that low- and moderate-income families are using an expensive combination of high-interest, short-term loans—credit cards, pawnshop loans and payday advances—to meet their economic needs. Addressing this problem will necessarily entail a multi-pronged approach that includes policies aimed at bolstering family incomes, reducing costs, and expanding access to financial literacy and asset-building programs. In the short term, one thing is certain. As unemployment continues to rise and states grapple with historic budget deficits by cutting funding for essential services such as health care, housing and child care, low-income families will continue to rely on a patchwork of high-cost credit to fill the growing gap between their incomes and their basic needs.

Appendix A

methodology

The data for this study are taken from the 1989, 1992, 1995, 1998, and 2001 Survey of Consumer Finances (SCF), a cross-sectional survey sponsored by the Board of Governors of the Federal Reserve System. For each survey year, the SCF provides detailed information on the income, assets, liabilities, credit experiences, and demographic characteristics of U.S. families.

All dollar figures in this report are adjusted to 2001 dollars.

The measurement of a household's credit card debt is based on answers to the following questions:

- Do you (or anyone in your family living here) have any credit cards or charge cards?
- How many different cards do you (and your family living here) have?
- On your last bill, roughly how much were the new charges made to (this/all these) account(s)?
- After the last payment(s) (was/were) made on (this/these) account(s), roughly what was the balance still owed on (this/all these) account(s)?

This report examines only those families that report some balance remaining after their last payment. This amount is what we refer to as families' "credit card debt." All families without any remaining balances were excluded from our analysis. In addition, all families without credit cards were excluded from the analysis.

unit of analysis

The data collected in the Survey of Consumer Finances by the Federal Reserve Board are intended to represent an economically dominant single individual or couple (married or living as partners) in a household and all other individuals in the household who are financially dependent on that individual or couple. For example, in the case of a household composed of a married couple who own their home, a minor child, a dependent adult child, and a financially independent parent of one of the members of the couple, the Primary Economic Unit would be the couple and the two children. Throughout the report, households and families have been used interchangeably. For further information, please see the Codebook for the Survey of Consumer Finances.

Table A shows the percentage of cardholders reporting outstanding balances.

Table A. Percentage of Cardholders Carrying Credit Card Balances

Year	*Percentage*
1989	57.0%
1992	56.6
1995	59.3
1998	57.8
2001	55.4

Although the trends reported in this report must be viewed with caution—self-reported credit card debt may be underestimated by as much as 50 percent or more—they nevertheless reveal important trends.[60] In addition, the SCF oversamples wealthier families, and weights were used to make the sample more representative of the U.S. population.

underreporting of debt

At the end of 2002, consumers owed $750.9 billion in credit card debt. However, not all of the $750.9 billion owed at year-end 2002 incurred finance charges. About 18.5 percent, or $138.9 billion, of this debt was paid off in January 2003. Approximately 39 percent of American credit cardholders pay off their credit card balance each month, and an additional 38 percent make more than the minimum required payment. Therefore, Americans paid interest on $612 billion worth of debt in 2001. If we multiply the 61 percent of households with a credit card balance by 84 million households (the number of households with credit cards) and then divide $612 billion by this total then the average credit card debt per household becomes $12,000 (see footnote 1).

sample size for major categories

The following tables report the sample sizes, or Ns, for the key groups reported in this paper. These figures are the imputed, weighted Ns.

Table B. Imputed Ns for Cardholders With Debt

	1989	*1992*	*1995*	*1998*	*2001*
Family Income Group					
< $10,000	1,644	1,811	2,145	1,976	1,718
$10,000–$24,999	2,591	3,466	3,718	3,862	3,478
$25,000–$49,999	3,548	4,285	5,062	4,573	4,770
$50,000–$99,999	3,371	3,988	4,503	4,649	4,899
$100,000 or more	4,561	5,980	6,067	6,465	7,345
Age					
55–64	2,845	2,945	3,287	3,427	3,672
65+	3,650	4,515	4,705	4,515	4,540
Race/Ethnicity					
White (non-Hispanic)	12,790	15,738	17,809	17,490	17,902
Black (non-Hispanic)	1,538	1,790	1,899	2,069	2,312
Hispanic	806	1,089	886	1,253	1,393
Other	581	913	901	713	603
Overall	**15,715**	**19,530**	**21,495**	**21,525**	**22,210**

Appendix B

statistics and trends of credit card debt by household income quintile

Average Credit Card Debt of Families by Income Quintile (2001 Dollars)

Family Income Quintile	*1989*	*1992*	*1995*	*1998*	*2001*
Lowest 20 percent	$760	$1,897	$2,620	$2,317	$1,999
Percentage change between years		150%	38%	–12%	–14%
Percentage change 1989–2001					163%
2nd	$1,664	$2,039	$2,553	$3,300	$2,830
Percentage change between years		23%	25%	29%	–14%
Percentage change 1989–2001					70%
3rd (middle 20 percent)	$2,346	$2,444	$3,132	$4,561	$3,665
Percentage change between years		4%	28%	46%	–20%
Percentage change 1989–2001					56%
4th	$2,799	$3,378	$3,198	$4,910	$4,437
Percentage change between years		21%	–5%	54%	–10%
Percentage change 1989–2001					59%
Highest 20 percent	$4,032	$4,396	$5,043	$5,910	$7,053
Percentage change between years		9%	15%	17%	19%
Percentage change 1989–2001					75%

Percentage of Families With Credit Cards

Family Income Quintile	*1989*	*1992*	*1995*	*1998*	*2001*
Lowest 20 percent	30.0%	33.5%	38.2%	34.4%	43.9%
Percentage change between years		12%	14%	–10%	28%
Percentage change 1989–2001					46%
2nd	56.2%	67.1%	66.9%	64.5%	69.7%
Percentage change between years		19%	0%	–4%	8%
Percentage change 1989–2001					24%
3rd (middle 20 percent)	76.9%	75.0%	79.0%	78.1%	82.3%
Percentage change between years		–2%	5%	–1%	5%
Percentage change 1989–2001					7%
4th	88.2%	89.0%	91.5%	88.7%	88.3%
Percentage change between years		1%	3%	–3%	0%
Percentage change 1989–2001					0%
Highest 20 percent	95.3%	94.8%	98.0%	96.7%	97.1%
Percentage change between years		–1%	3%	–1%	0%
Percentage change 1989–2001					2%

Percentage of Cardholding Families With Credit Card Debt

Family Income Quintile	*1989*	*1992*	*1995*	*1998*	*2001*
Lowest 20 percent	50.3%	51.4%	57.0%	63.3%	62.7%
Percentage change between years		2%	11%	11%	–1%
Percentage change 1989–2001					25%
2nd	49.2%	58.5%	58.9%	58.5%	60.1%
Percentage change between years		19%	1%	–1%	3%
Percentage change 1989–2001					22%
3rd (middle 20 percent)	63.5%	65.1%	63.4%	60.7%	62.4%
Percentage change between years		3%	–3%	–4%	3%
Percentage change 1989–2001					–2%
4th	63.6%	60.8%	63.0%	63.3%	57.2%
Percentage change between years		–4%	4%	0%	–10%
Percentage change 1989–2001					–10%
Highest 20 percent	52.7%	46.8%	53.8%	47.9%	41.5%
Percentage change between years		–11%	15%	–11%	–13%
Percentage change 1989–2001					–21%

Appendix C

credit card debt personal stories

The following Personal Stories were collected through interviews with Americans struggling with severe credit card debt. They volunteered to share their experiences. The interviews were conducted from April to July of 2003. Interviewees with asterisks beside their names requested anonymity, either for reasons of embarrassment or workplace concerns. All of the interviewees are willing to field further questions or participate in further interviews. For more information or to request an interview, contact the Dēmos communications department at 212.633.1405 or e-mail ebraune@demos-usa.org.

Julie and Jerry Pickett

On the surface, the Picketts have a everything a middle-class family could want—three healthy kids, a house in suburban Middletown, Ohio, a strong network of friends and family, and two small businesses of their own.

But under that rosy surface, a financial timebomb threatens to wipe them out. The Picketts are being crushed by $40,000 in credit card debt, though they only have a combined yearly salary of about $45,000.

"I wish I could say we have a plan," Julie says, "but at this point we've fallen into a big old state of denial."

Julie and Jerry haven't always been in such financial straits. When they married ten years ago, they both earned modest livings, she in the retail business and he as the owner of a small plumbing and heating company. Though they used their credit cards often, they rarely missed a payment and floated manageable balances. While they were unable to save much on their salaries, Julie says, "I was a young professional, on the ball. I used to balance my checkbook every month and knew that I could settle my debt if I had to."

Age:	**35 and 35**
Family:	**Three young children**
Location:	**Middletown, OH**
Occupation:	**Retailer and plumber**
Annual Income:	**$45,000 combined**
Current Debt:	**$40,000**

At that time, Julie had another good reason to avoid credit card debt. Between 1992 and 1994, she worked as a credit card debt collector for Bank One. Her job, as she puts it, "was to harass customers over the telephone to pay up." Ironically, she never imagined herself on the other end of the line. "I just didn't consider myself one of 'those people' that spent irresponsibly and wouldn't pay what they owed," Julie said. She had the earning potential, she believed, to pay off her credit card debt whenever she wanted to. It was just a matter of when.

Then the Picketts had twins. Without the option of affordable child care, Julie had little choice but to quit her job and stay at home to take care of them. At the same time, her husband's business—always a seasonal endeavor—slowed down. Their cash reserves rapidly dwindled. The credit cards went from occasional tools to lifelines. "I bought everything on them, you know, groceries, clothes for the kids, gas, everything," Julie says.

After a few years of mounting debt, the Picketts had another child, which kept Julie's hands full at home. They struggled to take care of their family on Jerry's mid-range but seasonal salary. Unable to afford private health care, they enrolled in Medicaid.

As soon as the kids started school, Julie went back to work at her own small retail business. Even with the extra income they were unable to support their modest lifestyle. They began missing the minimum monthly payments on their credit card bills. "That's when our debt began to spiral out of control," Julie says. "The situation began to get scarier and scarier."

That fear is compounded by threats from their creditors. Debt collectors—the same people Julie used to work with—call their house constantly. "We don't even answer the phone if the caller ID comes up as a number we don't know," Julie says. "It's always a debt collector, calling to harass us."

The Picketts recently learned they are being sued by Visa, their biggest debtor at $16,000. Julie laments, "I guess we'll have to get a lawyer to deal with that soon; but that costs money, too."

Julie and her husband have talked about enlisting some kind of consolidation firm, but they fear the prospect of a monthly payment plan. The cyclical nature of their businesses often leaves them without any cash in a particular month. If they were locked into a payment plan, they would likely miss at least one monthly payment, which could trigger penalties as bad or worse than the credit card penalties.

At this point, the Picketts feel helpless. They are frustrated that the credit card banks aggressively extend credit to help cover life's unexpected twists—such as the birth of twins—but then become so unforgiving when the bills come due. "I feel like the credit card companies make it so easy to rack up charges," Julie says, "and then when you get in over your head, they say, 'Oh well!'"

"I don't know what we're going to do," Julie admits. "I'm still paying for groceries I bought for my family eight years ago."

Marika Kovach*

On May 16, Marika, age 61, stopped paying her $300 monthly health care premiums. She couldn't afford them anymore after her unemployment benefits ran out in April. She feels healthy, she says, and she takes her vitamins, so she isn't afraid.

Besides, 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, and though employable (she had earned a graduate degree in Yugoslavia) it took her a while to find a job. In the interim, to cover her most basic costs—food, rent, and transportation—she took out 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, she had already accumulated about $16,000 in credit card debt. "The worst part was in the beginning, with the 20 percent interest rates," Marika recalls. "I was paying five or six hundred dollars a month, and only covering my interest charges."

Age:	**61**
Family:	**Single**
Location:	**Long Island City, NY**
Occupation:	**Former secretary**
Annual Income:	**$0**
Current Debt:	**$30,000 (estimate based on monthly payments)**

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's subsequent economic crash. After nearly 10 years at BMG, Marika was unexpectedly downsized from her job in November of 2001. At age 59, her prospects for finding employment were slim. But 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 later, Marika is still unemployed. Given her experience, age, support network and today's economy, she seems unlikely to land one soon. To meet her basic needs, she has again turned to credit card loans. In another stroke of bad luck, her landlady died last year, and the new building owner evicted Marika. The costs of relocating to a tiny apartment in Long Island City went on the cards. Now that her unemployment benefits have ended, everything goes on the cards or is borrowed.

At this point, Marika's credit card debt is so high—likely in the range of $30,000—that she is ashamed to reveal an exact figure. "No, I just can't say how much it is. That is too personal. But trust me, it is a very large number." (The estimate of $30,000 is based on her monthly minimum amounts and her comparisons to her earlier debt levels.)

"I have to be very thrifty," Marika says. "I eat next to nothing. But I must feed myself; I cannot eat grass, can I?"

Despite the enormity of her situation, Marika refuses to see herself as a sob story. "If I get sick, it would be a problem," she says. "But I am very healthy, I am still strong. I feel very young, like my life is still at the beginning. I have always had a strong character."

Neither does she blame the credit card companies for her predicament. "My situation is not the credit card's fault. It is not my fault, either," says Marika. "It is just bad luck. I want to work hard and pay off my debt. But I really need a part time job."

She pauses, and then asks, "Do you have a part time job I could do?"

Rosa Gonzalez*

For most of her working life, Rosa had a healthy relationship with credit cards. She used them infrequently and paid their balances normally. She was making a moderate income of $21.90/hour plus overtime as a TWA ticket agent, and had her health care paid for. She had accumulated savings of about $10,000—a testament to how responsible, hard-working and frugal she has always been.

Age:	**42**
Family:	**Single**
Location:	**Queens, NY**
Occupation:	**Unemployed since October 2001; former airline ticket agent**
Annual Income:	**$0**
Current Debt:	**$40,000**

Rosa and about 6,000 other TWA employees lost their jobs in October of 2001, after the terrorist attacks of 9/11 devastated the airline industry. She went on unemployment and had some financial help from the Red Cross and the Salvation Army, who gave airline employees some emergency relief from their normal bills. TWA (now American Airlines) kept expecting a recovery, and kept meeting with its employees to tell them that they might be rehired. Rosa expected to go back to work soon.

But the work never came. Her unemployment checks didn't cover much, and soon her savings had been spent down to nothing. While she knew it was a bad idea, she was forced into using her credit cards to cover basics: food, medical bills, utility bills and phone bills. But she wasn't too worried, because American was saying that a recovery would come and the ticket agents would go back to work. She thought that even if she racked up some debt, she could pay it off once she went back to work. Besides, where else could she get money?

"We [laid off airline employees] couldn't go to a bank and ask for a loan. No job, no money, no house—why would they give me a loan? I had to use the credit cards. We used to joke about the 'credit card bank,' like, 'Oh, I have to pay my phone bill; back to the credit card bank!'"

Her unemployment benefits ran out in July of 2002. To maintain her health insurance, Rosa was also paying $490 a month to a COBRA plan, "almost as much as my rent," using her credit card. Then her car insurance payments were due—$1,300 a month—and she put that on the credit card. She put a few medical and dental bills on the credit card. Her car's brakes went out, and she bought new ones with her credit card, so that she could get to meetings at the airport with American union officials. She always expected that her job would be just around the corner.

While Rosa tries to pay her monthly minimums, her balance is growing quickly due to high interest rates. And the credit card companies are "tormenting" her.

"Every night, unless I expect a call, I turn off the phone ringer and let the machine get it," she says. "If a credit card collector starts talking, I turn the machine off. Because, you know, I've heard you before! I know what you have to say. You'll say that I have to pay you money. I know! But I don't have any money ... so what am I going to do?!"

Rosa says she is far from alone; many of her friends in the airline industry have turned to their credit cards as their only form of income, and most of them are under constant harassment from the credit card companies.

"I don't know where they get the money to keep sending us these letters, over and over and over, with these threats and notices talking about how no one is ever going to give us credit again," she says. "This mail, it tortures peoples' minds. Most of my friends have pulled their phones out of the wall."

Some of her former co-workers have worse stories than her, she admits. "I know a pilot who has more than $40,000 in debt, because he pays his mortgage with his credit card now. He has no other choice. A lot of the pilots have turned to drinking, they are so depressed." Another friend is working 18 hours a day at three minimum wage jobs to pay down her credit card debt and support her family.

To pay off her own debt, Rosa has been looking hard for another job. Because she was a laid-off airline worker, she got free tuition at Brooklyn College and took a series of secretarial skill courses. She graduated and hoped to find a job as a receptionist—but there were no receptionist jobs to be had. "The only thing out there was telemarketing jobs at $5.25 an hour. No, I said, I can't stoop that low. I have to hold out and wait for my $21.90/hour to come back."

Finally, her wait may be over. American has said that they will soon be re-hiring ticket agents. But she's heard that line before, and she's skeptical. So she'll probably have to take a temporary job with the low-fare airline ATA, which pays only $12 an hour. It isn't enough to meet her basic bills, much less pay off her credit card debt. But she has to do something, now that her credit card limits have been reached.

In the meantime, Rosa has learned to be a real fighter. She constantly argues her bills down, pleading with her utility provider, phone company or car insurer to give her a break, or let her pay over time.

"I owed the IRS $92, and I didn't have the money to pay it," she says. "So they started sending me these threatening notes. I had to call them up, and say to them, 'How can you harass me like this? Please, I'm trying my best, can't you leave me alone for this stupid $92?" She eventually persuaded the IRS to knock $50 off the bill—"tax amnesty, they told me"—and pay the rest in $10 increments over the next four months. "I have to spread my payments out like that for everything."

As for her credit cards, she doesn't have a clear plan, and fears that the interest is getting out of control. "I don't really know how I'll pay them off," she admits, "I'm just hoping things will change, the economy will change, and I will get my old job back."

Michelle Gardner

September of 2001 was a hard month for Michelle. One, 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. Two, 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.

Age:	**38**
Family:	**Married; lives with young son and grandmother; military husband stationed in Watertown, NY**
Location:	**Daly City, CA**
Occupation:	**Unemployed**
Annual Income:	**$36,000**
Current Debt:	**$9,000**

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.

"One of my credit card companies, Cross Country bank, slapped me with a couple extra charges in October and told me that they wouldn't take my payments from CCC anymore," Michelle says. "When I asked why, they said that I was late with a payment to CCC, or CCC was late with their payment to

Cross Country, and either way that gave them [Cross Country] 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. Later, she claims, Cross Country changed their tune. They called her back and blamed the late fees and rate hikes on a "three percent" rule—if she wasn't paying off three 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 the official reason for the fees was that she 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 can't just pop up with an extra $300 a month!"

Michelle's original plan with CCC would have gotten her entirely out of debt in four years. If the Cross Country fees and rate hikes stand, they will add another three years of payments.

"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?" Michelle says. "It's just too much."

Roberto Towler*

As a professional accountant, Roberto knows his way around a balance sheet. He knows that overspending and fiscal irresponsibility can lead to dreadful consequences, for a business, a city or an individual. But when expenses have to be paid and cash is low—the situation he found himself in two years ago—he knows that borrowing is the only way. Unfortunately, his only realistic source of credit was his credit cards.

Age:	39
Family:	Single father of one son
Location:	Bronx, NY
Occupation:	Accountant for the City of New York
Annual Income:	$30,000
Current Debt:	Declared bankruptcy in April 2003; credit card portion $22,000

As a fiscal conservative, Roberto rarely used his credit cards and always budgeted enough to quickly pay off their balances. Until 1999, he worked for a number of private firms as an accounts payable manager. His salaries were relatively high, but the jobs lacked stability and benefits, so he transferred over to a public sector job with great medical benefits.

The shift to the public sector was a lucky decision. 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 the medical expenses, the lost salary sharply drained his savings, and 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."

"Between paying rent and all my other bills," Roberto says, "I started missing [credit card] payments. My rates went up and the late fees started coming." In fact, Roberto's housing costs became such a burden that at one point, he had to take a cash advance—which starts accruing 20-plus percent interest immediately—to pay his rent.

In October of 2002, another medical problem laid Roberto out for a whole month. Again, he lost a month of pay, and this time he had to pay some of the medical bills out of pocket. With no other options before him, he went back to the credit cards, despite the already substantial debt that he had accumulated. His creditors noticed that his payments were coming in late, if at all. The harassment began.

"You know all that nice stuff about payment holidays and low introductory rates that you get when you sign up? All that went out the window," he says. "As soon as they wanted my money, they started getting nasty with me. They would call me on Sunday, nine o'clock at night. They would call me on Saturday at seven o'clock in the morning. They would call 25, 30 times a day. I had to stop answering the phone."

After a few months of struggling with increasingly unsympathetic debt collectors, Roberto made the difficult decision to file for Chapter 11 bankruptcy. At the time of his declaration, in April of 2003, he was $29,000 in debt—$22,000 of credit card debt and $7,000 of medical bills. The process has taught him harsh lessons.

"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."

John and Susan

When purchasing clothes for his son, John doesn't see the point of skimping. "What's the difference between a $10 pair of pants and a $20 pair," he asks, "when it'll be either $40,010 of debt or $40,020 of debt?"

Age:	**29 and 28**
Family:	**Two young children**
Location:	**Cincinnati, OH**
Occupation:	**Architect and part-time professor**
Annual Income:	**$55,000 combined**
Current Debt:	**$40,000**

John first began using credits cards as an undergraduate at Cornell University. He arrived on campus with a $500 credit limit on his first card, which his upper-middle class parents had given him to learn fiscal responsibility. Shortly thereafter, during his freshman year, John remembers an MBNA telemarketer calling his dorm room offering a student card. Looking back, "it was a pretty sleazy marketing tactic," he admits—but it worked.

John began using his new cards for routine purchases as a student. As long as he made his minimum payments, MBNA kept raising his credit limits, which allowed him to float higher balances. During the summers, John would try to pay down his credit card debt with money saved from construction jobs. When he returned to Cornell each September, he would once again begin to accumulate credit card debt. The cycle worked fine—until graduation.

John had accumulated about $5,000 in credit card debt during his senior year. Upon graduating, he moved to Cincinnati to start his first job in an architecture firm. Relocating in a new city cost plenty of money, and those moving costs—along with food, phone bills, utility bills and gas for commuting—went on the credit card. The debt began to steadily grow.

Still, the situation did not seem dire. John figured that he would soon get a bonus from work, or a significant tax refund. Unfortunately, neither happened. Though he paid his minimums, the high interest on his cards pushed his balances ever upward.

When John met Susan, a professor at the local university, she too had accumulated nearly $20,000 in credit card debt. They fell in love and married, hoping that together they could save on costs and pay down their debt. They soon had two children, which forced Susan to scale back her work, and consequently her paycheck.

The young family now has over $40,000 in credit card debt. "It's like I'm staring down into a huge hole," John says. "I know it isn't bottomless, but I sure can't see the bottom. That's why it hardly even matters what I spend. Even if I'm really tight, how can I possibly save up 40 grand?"

To ward off the collectors, John has developed a strategy of transferring balances to lower interest or zero interest cards. "I keep shuffling the money around from one card to the next," he says. His current promotional rates will be ending soon, he knows. Half joking, he admits that he's developed an "addiction" to these cards: "I need another zero percent fix!"

It's unclear how long John and Susan will be able to prolong their situation. Without any savings, John has fears about the future. If he lost his job due to the bad economy, for example, or one of his kids had a medical emergency, he wouldn't know what to do. "That would be the end of it," John sighs.

Laura Parker

Laura has success written all over her. She grew up in an upper-middle class family, graduated from a top school, spent her 20s quickly working her way up the film industry, married her high-earning college sweetheart and was poised to become a leader in her field. A bad economy and credit card debt intervened.

Like all her friends, Laura got her first credit card in college. It came with her father's blessing, and his advice about establishing good credit, never missing payments, always paying the full balance—the basics of financial health. She used the card sparingly and responsibly during her college years and graduated with no debt.

When she moved to New York with her husband-to-be, they quickly racked up about $10,000 in moving expenses. While Laura wasn't making a ton of money in the film industry, her husband landed a job as a computer programmer in the height of the tech boom. His large end-of-year bonuses and inflated salary allowed them to pay off that $10,000 pretty quickly. Their financial situation was rosy.

Age:	32
Family:	Divorced, no children
Location:	Manhattan, NY
Occupation:	Executive Assistant
Annual Income:	$60,000
Current Debt:	$20,000

Unfortunately, their marriage was not. Laura and her husband divorced and moved to separate residences. All of a sudden, her expenses were almost double. Due to her exceptional credit history in the past—especially racking up $10,000 of debt and then paying it off—Laura had very high credit card limits. So she started to rely on her cards to maintain her lifestyle, always assuming that she would be making more money in the future. She racked up about $5,000 a year of debt for a couple of years in a row. "It was the height of the stock market bubble, and it seemed like everyone's income was rising, mine included. I hedged my bets on future income."

For a brief while, it looked like those bets would pay off. Laura was offered the opportunity of a lifetime—to lead an early stage film industry start-up called Axial Entertainment. The dream job came with a large salary and substantial perks. She immediately accepted.

Then, only one month into her tenure, Axial's major financing fell through. The economy bottomed out, and anything stinking of "start-up" fell hard and fast. The company scraped by for the next year or so, with Laura barely making any money, but eventually it became clear that she had to abandon ship. Her debt had ballooned to $20,000. The prospect of "eternal debt suddenly became all too real." So she quit the film industry and found the only decent paying job she could find—an executive assistant to a jewelry wholesaler.

Now, having essentially given up her career, she devotes her attention to getting her financial life back in order. Because of her good credit history, she explains, "I keep getting zero percent card offers. So I bounce around from card to card, keeping my balance in check. I've gotten really good at that."

If she can keep her interest rates at zero percent, Laura calculates, she should be able to pay her debt off in three or four years.

"I'm mad at myself for spending all those times when I should have been saving. But at the time, it would have seemed impossible to save. To work in the film industry, I had to live either in L.A. or New York—both very expensive places to live—and I had to have a professional wardrobe, had to pay the rent, had to pay the bills. I felt like I was being financially responsible, and I was fully aware of my situation, and I still had to go way into debt."

"Essentially, I gave up my career to take control of my financial life. It was a very disheartening decision; a huge identity crisis," Laura says. "I never thought I'd be in this position. But I don't have any choice."

John Miller

Growing up as the son of a banker, John learned the lessons of financial literacy at an early age. He spent most of his adult life as a successful business reporter for major TV networks and information services, and then became the owner of his own video production business. 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.

John grew up in an era when credit cards were first introduced to the public. John remembers the first gas cards, the Sears cards, and eventually the Visa and MasterCards of today. John had cards his whole adult life and used them responsibly, building good credit and never falling behind on his payments. After all, he understood better than most the power of compound interest.

Age:	**63**
Family:	**Divorced**
Location:	**Park City, UT**
Occupation:	**Retired business reporter, financial literacy lecturer**
Annual Income:	**N/A**
Current Debt:	**Declared bankruptcy; credit card portion down to $3,000**

But at age 55, a trio of circumstances forced him into heavy 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 racked up about $10,000 credit card debt, $30,000 of IRS debt, and $7,000 of 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, he had little incentive to pay his credit card debt: he was too late in life to care about preserving his credit, and needed to think about saving up a cash nest egg for retirement. Aside from moral obligations, it made more sense not to pay his credit card debt at the rates he was being charged.

However, the IRS and condo payments combined were enough to force him into bankruptcy. Through that process, he has paid off his debts, and now 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 to not make the same mistakes he made. 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 threw financial discipline to the wind for a brief time, and it came back to bite me hard."

"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."

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Notes

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Dēmos: A Network for Ideas & Action
220 Fifth Avenue
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Phone: 212.633.1405
Fax: 212.633.2105

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