# US consumer debt reaches record levels

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US consumer debt has reached staggering levels after more than doubling over the past 10 years. According to the most recent figures from the Federal Reserve Board, consumer debt hit $1.98 trillion in October 2003, up from $1.5 trillion three years ago. This figure, representing credit card and car loan debt, but excluding mortgages, translates into approximately $18,700 per US household.

Outstanding consumer credit, including mortgage and other debt, reached $9.3 trillion in April 2003, representing an increase from $7 trillion in January 2000. The total credit card debt alone stands at $735 billion, with the household card debt of those who carry balances estimated to average $12,000.

The levels of consumer debt have increased as millions of jobs have been destroyed. Unlike past recessions, consumers continued to borrow during the last downturn, which began in March 2001 and officially ended in November 2001. The prime lending rate set by the Federal Reserve is at an historic low, allowing mortgage rates to drop to their lowest recorded levels. The automobile companies, which have offered zero percent financing for the past two years, have begun doing the same for 2004.

According to *CNNMoney*, consumer spending accounts for some 70 percent of the US gross domestic product. "So the world economy is leveraged to the US consumer. And the US consumer is leveraged to the hilt," states the web site.

Experts warn that the debt bubble potentially dwarfs the US stock market asset bubble that burst in 2000. Consumer credit and mortgage debt represent a higher percentage of disposable income than ever before. Household debt as a percentage of assets reached the historic high of 22.6 percent in the first quarter of 2003. The Federal Reserve revealed that personal savings dropped to a mere 2 percent of after-tax income in the first half of 2003.

"But with debt levels substantially higher now than they were 20 years earlier, the household sector is more vulnerable now than in the past to rising interest rates," according to the Economic Policy Institute, a liberal Washington, D.C., think tank. Americans currently spend a near-record 18.1 percent of their after-tax income to cover all debts, with debt service taking the biggest share of income from the lowest-income families.

"We've never had so many who owed so much," said David Wyss, chief economist with Standard & Poor's.

There are already indications that the debt burden has become unmanageable for many families and individuals.

Conventional mortgage foreclosures in the third quarter of 2003 nearly equaled the record set in the early part of the year. The percentage of mortgage loans in foreclosure is expected to climb to 1.15 percent in 2003, versus 0.87 percent in 2000.

The American Bankers Association recently reported that credit card delinquencies, or missed payments, reached a milestone of 4.09 percent in November, and predicts that the delinquency rate in 2003 will rise to 4.34 percent from 4.08 in 2000. As credit card issuers bump up late fees and over-the-limit fees on card debt and shorten payment grace periods, fee income—the bulk of which comes from penalty fees—accounts for more than 30 percent of card-issuers' profits, according to *Bankrate.com*. For many of the top issuers, it has reached 40 percent!

The research firm *Economy.com* projects that the number of car repossessions in 2003 will rise to 1.3 per month—per 1,000 loans—from 0.84 in 2000.

The people affected "are not only low-income," Jordan Goodman, author of *Everyone's Money Book on Credit* and spokesperson for the Cambridge Consumer Credit Index, told reporters. "More and more middleincome and former higher-income—busted dot-commers, airplane pilots, programmers whose jobs have gone to India—have a lifestyle they can't maintain anymore."

According to experts, the fastest-growing group of indebted consumers are those 65 and older, as more and more people retire, or attempt to retire, relying on grossly inadequate Social Security payments as their only source of retirement income.

"A lot of people are dangerously close to the edge and any minor setback could push them over," Amelia Warren Tyagi, coauthor of *The Two-Income Trap*: *Why Middle-Class Mothers and Fathers Are Going Broke*, told reporters. She also disclosed a fact that graphically demonstrates the dimensions of the crisis: nearly one third of bankruptcy filers owed an entire year's salary on their credit cards.

Consumer bankruptcies have surpassed 1 million a year since 1996, setting a record of 1.54 million in 2002, according to the American Bankruptcy Institute (ABI). Personal bankruptcy filings have nearly doubled in the past decade, rising 7.4 percent to more than 1.6 million in the 12 months ending September 30, 2003. "Total bankruptcy filings remain at historic highs. Non-business bankruptcies now account for 97.8 percent of all bankruptcies filed in federal courts," stated an ABI press release.

A recent poll conducted by the Cambridge Consumer Credit Indexindicates that more than one quarter, or 28 percent, of all Americans say getting out of debt is their top New Year's resolution.

"This is the first time in the history of the Cambridge Consumer Credit Index that more Americans say that reducing debt is a higher priority than losing weight or exercising more. These results provide ample testimony to the increasing heavy burden that debt is perceived to be by American consumers who continued to take on billions of dollars in additional credit in 2003. The large increase in a desire for more secure employment also shows that, despite many signs of economic growth, many Americans still do not feel secure in their jobs," stated Jordan Goodman of the Index.

Courtney Scruggs, in charge of public relations for GreenPath Debt Solutions—a non-profit debt management consultancy firm located in the Detroit suburb of Farmington Hills, Michigan—spoke to this reporter:

"We find that more and more people are coming to us as a last resort before bankruptcy, after they've depleted all their assets. They are so far into debt that they have no other recourse. They have refinanced their homes two, three times or more, trying over and over again to retrieve some extra money. While they can potentially get some money in a refinancing transaction, they end up with less value on their house and generally don't get ahead of their debt.

"We see all income types and age groups, including senior citizens and college students coming in with the same amount of debt as families. Students are using credit cards to pay for their education and other necessities.

"Michigan is an area hit hard by layoffs, and not only in the auto industry. We also see people who have had their wages and hours cut back, who used to be able to count on the overtime dollar, and when that is cut back, can't make their payments. We see senior citizens, widows who have no pension money left, the very, very ill whose money is going to health care.

"There are lots of families and senior citizens getting their utilities cut off. They may be making a credit card payment, but then miss a mortgage payment or a car payment.

"Our goal is to help people keep their homes, keep their utilities on and their cars from being repossessed. I can tell you the situation is not getting better."