Debt delinquency soars in US

Andre Damon
30 July 2014

About one third of adults in the US—some 77 million people—have debt in collections, meaning it is six months past due or more, according to a study published Tuesday by the Urban Institute. The average amount owed by borrowers with debt in collections is $5,178, but the figure ranges from $25 to over $125,000.

In Nevada, which was hit particularly hard by the housing market crash, nearly half, or 46 percent of residents who had credit files, reported having debt in collections. In South Carolina 46.2 of residents, in Texas 44.7 percent, and in Florida 41 percent have debt in collections. Debts included in the figure are credit card debt, car loans, student loans, phone or utility bills, or even medical bills.

These extraordinary high levels of debt delinquency are the result of decades of falling wages and incomes. According to a separate study released by the Russell Sage Foundation, since 2003 the household wealth of the poorest quarter of US households has fallen by more than fifty percent, while the wealth of a typical US household has fallen by more than 36 percent.

The Urban Institute report noted that "a debt that is reported as in collections can remain on a person's credit report until the debt is seven years past due." It adds, "when families are unable to meet their payment obligations on either type of consumer debt, they risk moving... to a vicious debt cycle. Their credit history and scores can be adversely affected, their debt may go into collections, and they may ultimately lose property and future financial opportunities."

It added that, "In addition to creating difficulties today, delinquent debt can lower credit scores and result in serious future consequences. Credit scores are used to determine eligibility for jobs, access to rental housing and mortgages, insurance premiums, and access to (and the price of) credit in general."

The report notes that even these figures, however, may under-represent the degree of financial distress in the US. About nine percent of the population does not have a credit file, and these sections of the population "are more likely to be financially disadvantaged." The analysis also does not include loans from payday loan companies or pawnshops.

The widespread prevalence of loan delinquency has paralleled the growth of low-wage labor. In April, the National Employment Law Project issued a report showing that since the financial crash of 2008, 1.9 million high- and average-paying jobs in the private sector have been eliminated and replaced with some 1.8 million low-wage jobs. Partly as a result, real median household income fell from $55,600 in 2007 to $51,017 in 2012—a decrease of nearly ten percent in just five years.

Household indebtedness has risen steadily in recent years, with the growth of student loan debt being one of the main drivers. The class of 2014 had an average debt load of $33,050, more than triple the level in 1993. At the beginning of 2013 total student loan debt was $1.2 trillion, almost 8 percent of America's Gross Domestic Product. Between 2003 and 2012, the share of 25-year-olds with student debt rose from 25 percent to 43 percent.

Loan delinquency is only one of a growing series of indicators of social distress in the United States. One in six Americans, including one in five children, did not have enough to eat at some point in 2012, according to a report released by Feeding America in April. The percentage of households that are "food insecure" rose from 11.1 percent in 2007 to 16.0 percent in 2012.

Similarly, nearly one in four children in the United States lives in a family below the federal poverty line, according to figures presented in a new report by the Annie E. Casey Foundation. A total of 16.3 million children live in poverty, and 45 percent of children in the US live in households who are below 200 percent of the federal poverty line.

In recent years collectors have turned to even more aggressive methods of collection, often in collusion with politicians of both major parties. In Detroit, Emergency Manager Kevyn Orr is seeking to shut off water for tens of thousands of residents who are unable to pay their water bills.

Earlier this month, the *New York Times* reported that subprime auto loans have reached the largest levels since 2007. The total volume of subprime auto loans increased by 15 percent over the past year. The *Times* noted that, “a growing number of lenders are using new technologies that can remotely disable the ignition of a car within minutes of the borrower missing a payment. Such technologies allow lenders to seize collateral and minimize losses without the cost of chasing down delinquent borrowers.”