

# THE PLASTIC SAFETY NET

DEBT CARD



## The Reality Behind Debt in America

FINDINGS FROM A NATIONAL  
HOUSEHOLD SURVEY OF CREDIT  
CARD DEBT AMONG LOW- AND  
MIDDLE-INCOME HOUSEHOLDS



Debt Matters  
Conference  
July 19, 2006  
Center for American  
Progress

Tamara Draut, Director, Economic Opportunity Program

**Dēmos**

A NETWORK FOR IDEAS & ACTION

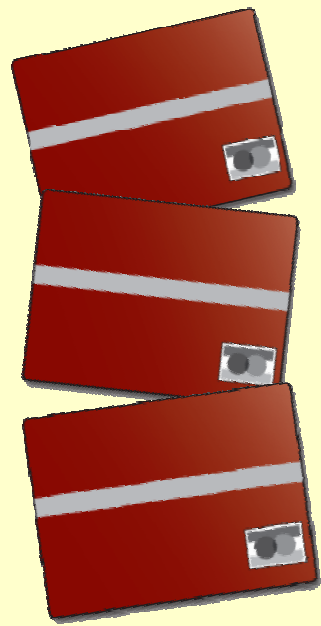


[www.demos.org](http://www.demos.org)



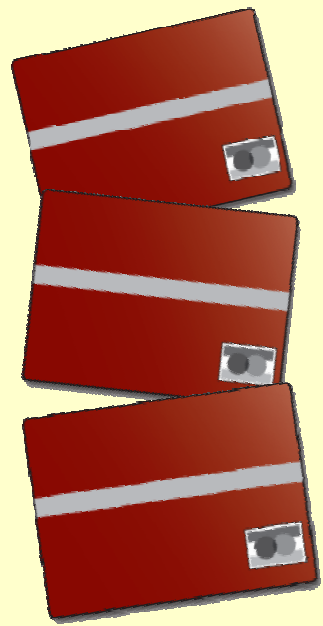
# Methodology

- 1,150 Households Surveyed by Phone
  - Household income between 50% and 120% of Local Median Income
  - Have credit card debt for longer than three months
- One-third of all low- and middle-income households qualified—representing 41 million people in 15 million households
- Margin of error is plus/minus 3 percentage points



# Major Topics Covered

- Amount of Credit Card Debt
- Length of Time in Debt
- Reasons for Being in Debt
- Payment Plans and Practices
- Consequences of Debt



# Amount of Debt

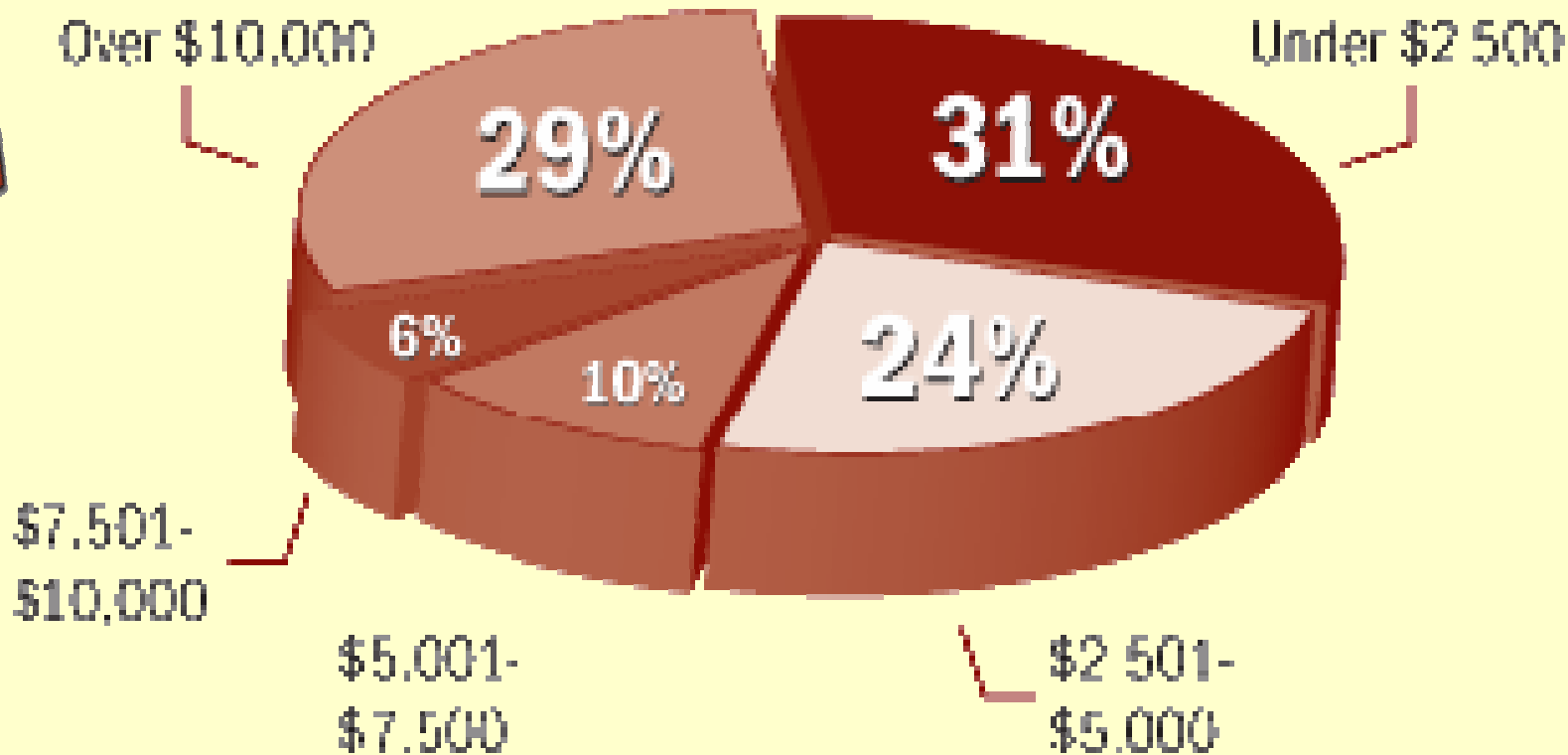
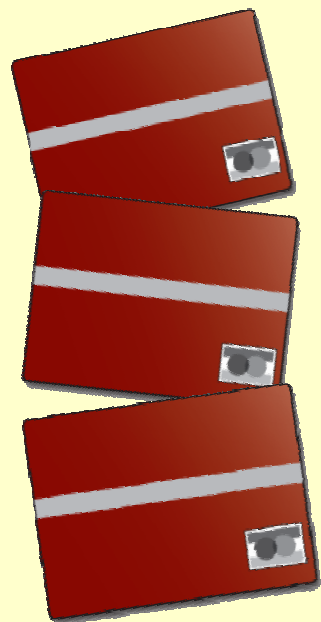
Mean:

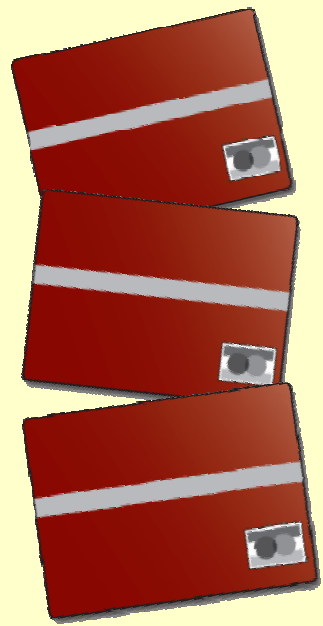
\$8,386

Median:

\$5,000

# Level of Credit Card Debt

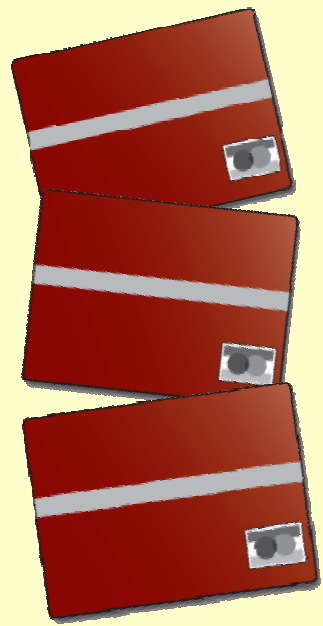




# Compared to 3 years ago... ago...

Compared to 3 years ago, is the total amount of credit card debt less, about the same or more?

- 45% Less
- 12% About the same
- 42% More



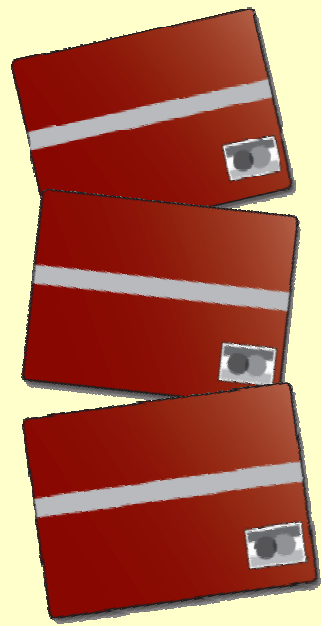
# Length of Time in Debt

Mean:

3 ½ Years (43 months)

Median:

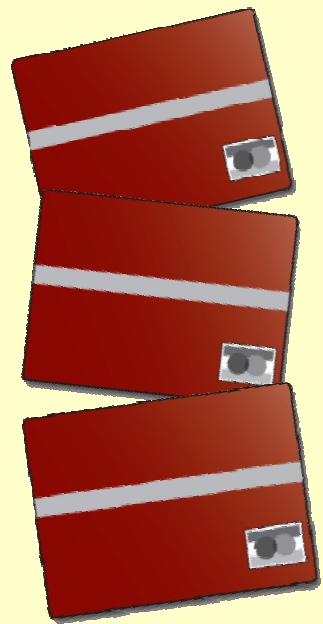
2 ½ Years (30 months)



# Reasons for Debt

- 48% car repairs
- 38% home repairs
- 34% major household appliance
- 29% an illness or medical expense
- 25% a layoff or job loss
- 21% college tuition and expenses



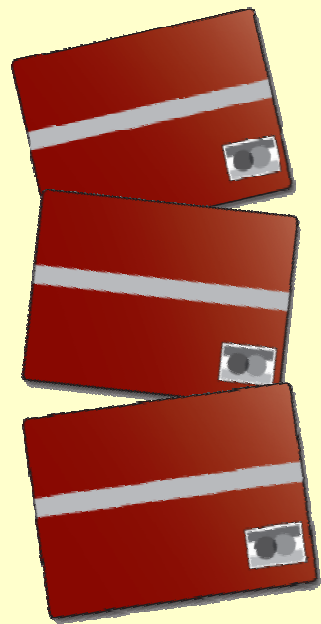


# Borrowing for the Basics

- Over 1/3 of households reported using credit cards in the past year to pay for basic living expenses

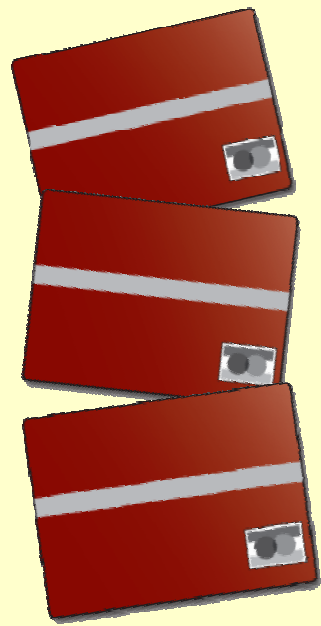
Average number of months: 4

Median number of months: 3



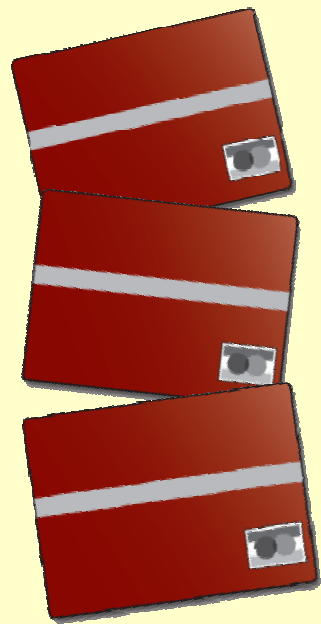
# Predictors of Higher Debt

- Why do some households have higher credit card debt than others?
- Regression results:
  - Households reporting a layoff or major medical expense more likely to have higher relative debt
  - Higher relative debt due to use of credit cards to pay for basics



# Hidden Credit Card Debt

- 40% of homeowners had refinanced their home in the past 3 years
- Over half used the money to pay off credit card debt
- Amount paid off:  
**Mean:** \$12,000                      **Median:** \$10,000
- Amount households still had in credit card debt: \$14,000 on average

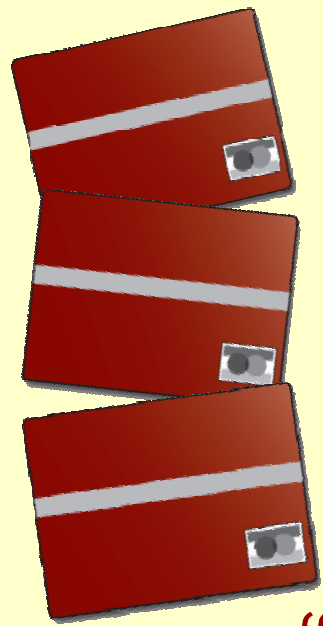


# Stress and Distress

- 47% had been called by bill collectors
- Just under half reported being late or missing a payment at least once in the past year
- 15% had entered into a settlement with credit card company
- 13% had filed bankruptcy

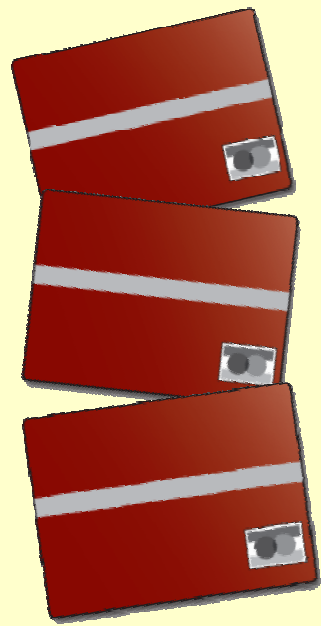
# The Credit Card Industry: Brief Overview

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# Lender's Prerogative

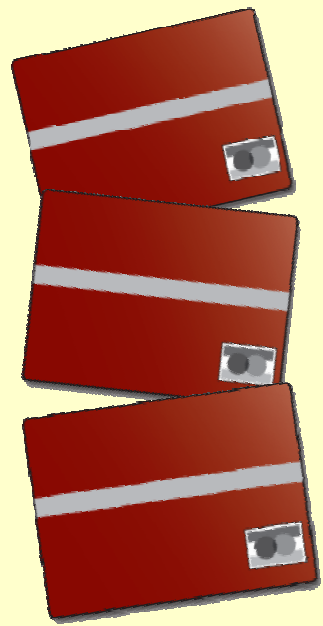
“We reserve the right to change the terms (including APRs) at any time, for any reason”



# Regulatory Background

## *Marquette (1978)*

- Ruled that banks could charge highest rate permitted in the state where bank is located
- Banks move to lender-friendly states like South Dakota and Delaware where there are no usury laws
- States lost ability to regulate interest

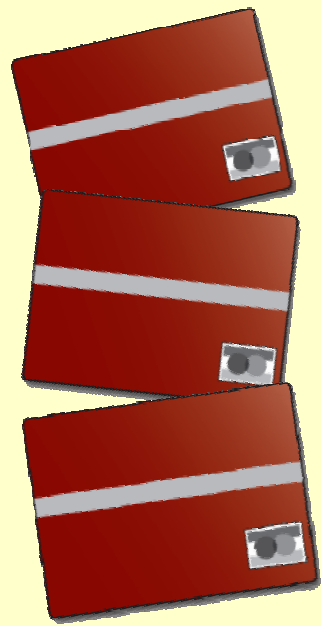


# Regulatory Background, con't

## *Smiley v. Citibank (1996)*

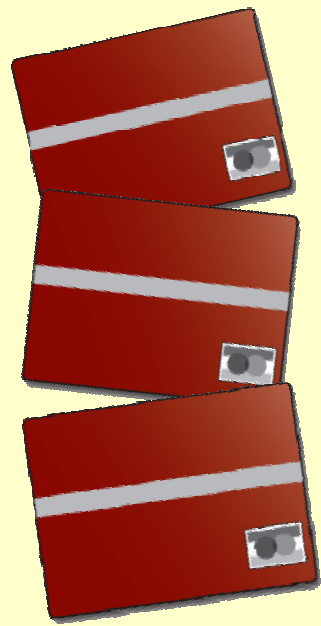
- Established that fees were in essence “interest” and therefore fell under same guidelines as Marquette
- Before Smiley, most states limited late fees to \$10 or \$15.
- Today top ten issuers charge \$35 to \$39





# Current Practices

- Universal Default
- Interest Rate Hikes Applied Retroactively:
  - 12.99% APR → 29.99% APR = 130% increase
  - Resulting additional interest plus \$35 late fee on \$5,000 balance in the first year alone: **\$1,550.**
- Zero Grace Period for Late Payments
- Fees, Fees, Fees—Average \$39



# Conclusion

## Address “Demand” for High Cost Credit

- Enhanced Savings Incentives
- Better Protections Against Income Volatility
- Health Insurance

## Reform the “Supply Side”

- Eliminate Universal Default
- Limit Penalty Rate Increases
- Prohibit Retroactive Rates

FOR MORE INFORMATION:  
[WWW.DEMOS.ORG](http://WWW.DEMOS.ORG)

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