

Ballooning Credit Card Debt

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The Problem

During President Bush's tenure in office, credit card debt has exploded.

- Credit card debt increased by 37.6% between the end of 2000 and the end of 2007. In fact, the amount of outstanding credit card debt increased 7.4% between 2006 and 2007, its fastest annual rate of growth in seven years.¹
- The average credit card debt per household was \$7,652 at the end of 2006,² which represents 15.9% of median income, up from 12.9% of median income in 2000.³

Key economic indicators (below) suggest that the increase in credit card debt reflects Americans' increasing difficulty in paying their bills.

- The unemployment rate has increased from approximately 4.5% at the beginning of 2007 to 5.7% in July 2008.⁴
- Nonfarm payrolls declined by almost half a million jobs (463,000) in the first two quarters of the year.⁵
- Most importantly, consumption growth declined in 2007, a strong suggestion that increased credit card debt is not attributable to increased consumption but to increased economic insecurity.⁶

What has President Bush done?

President Bush signed the 2005 Bankruptcy Bill.

- This bill made it more difficult to file for bankruptcy under Chapter 7, which provides for some level of debt forgiveness, and instead requires more filers to file under Chapter 13, which does not forgive any debt.
- The bill also prioritized the payment of credit card debt over other debts such as alimony and child support.

What has President Bush failed to do?

President Bush failed to support regulations that encourage responsible lending and borrowing. Deregulation of the credit card industry over the past few decades has created an environment with excessive interest rates, high late payment and other fees, and abusive lending practices caused by ambiguous contract terms. Regulatory interventions could potentially ease Americans' credit card debt. Some interventions President Bush could have pursued:

- **Regulate late payment and other penalties:** Late payment penalties are now the fastest growing revenue source for the credit card industry.⁷ The average fee increased from \$13

in 1995 to \$34 in 2005 and most credit card companies have completely eliminated the grace period.⁸ Federal legislation limiting late fees and establishing a universal definition of “late payment” could help to slow the growth of credit card debt.⁹

- **Prohibit the practice of universal default.** Many credit card companies change the lending terms to “default” terms—which can mean a dramatic increase in interest rates—when they find out that the customer has defaulted on a different loan.
- **Prohibit retroactive interest rate increases.** Many credit card companies increase interest rates and apply the new rate to debt incurred at the previous rate. This practice retroactively raises the cost of purchases made under different contract conditions. The Credit Card Bill of Rights (H.R. 5244) would prevent this practice as long as the cardholder is not more than 30 days late on his/her payment.¹⁰
- **Require written cardholder consent for changes to terms.** Under a bill introduced in the Senate (S. 2753), credit card companies would be required to obtain written consent each time they elected to increase interest rates or fees.¹¹

¹ Note: Refers to revolving consumer debt, which is technically broader than consumer credit card debt, but the two concepts are typically used interchangeably. Federal Reserve Statistical Release, “Consumer Credit Outstanding.”

http://www.federalreserve.gov/releases/G19/hist/cc_hist_sa.html

² “American Families and Living Arrangements,” *U.S. Census Bureau*, Table H2

<http://www.census.gov/population/www/socdemo/hh-fam.html>

³ “Median Household Income by State: 1984 to 2007” *U.S. Census Bureau*

<http://www.census.gov/hhes/www/income/histinc/h08.html>

⁴ “Employment Situation Summary,” *Bureau of Labor Statistics*, August 1, 2008

<http://www.bls.gov/news.release/empsit.nr0.htm>

⁵ “Employment Situation Summary” *Bureau of Labor Statistics*, August 1, 2008

<http://www.bls.gov/news.release/empsit.nr0.htm>

⁶ “How Much Have U.S. House Prices Fallen?” *St. Louis Federal Reserve*, August 2008.

<http://research.stlouisfed.org/publications/net/20080801/netpub.pdf>

⁷ Draut and Silva, “Borrowing to Make Ends Meet,” *Demos*, September 2003.

<http://www.demos-usa.org/pub1.cfm>

⁸ “Increased Complexity in Rates and Fees Heightens Need for More Effective Disclosures to Consumers,” *Government Accountability Office*, September 2006

<http://www.gao.gov/new.items/d06929.pdf>

⁹ Draut and Silva, “Borrowing to Make Ends Meet,” *Demos*, September 2003.

<http://www.demos-usa.org/pub1.cfm>

¹⁰ Consumer Federation of America, “House Committee to Consider Landmark Credit Card Legislation,” July 28, 2008

http://www.consumerfed.org/pdfs/Credit_Cards_Maloney_bill_mark_up_release_07-08.pdf

¹¹ “Summary of Credit Card Bills” *Consumers Union*, August 13, 2008

<http://www.consumersunion.org/pdf/CreditCardBills07.pdf>