



Consumer Federation of America

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**CREDIT CARD DEBTS ESCALATE IN 1997, BURDENING MANY XMAS SHOPPERS
-- AGGRESSIVE MARKETING AND CREDIT EXTENSION A KEY REASON**

Washington, D.C. -- A new report issued today at a press conference by the Consumer Federation of America (CFA) concluded that credit card debt increased in 1997 at more than double the inflation rate, that the debt imposed substantial financial burdens on tens of millions of households, and that a significant reason for the debt rise was aggressive marketing and credit extension by issuers.

"Millions of households carry far too much high-cost credit card debt," said Stephen Brobeck, CFA Executive Director and the report's author. "In this Christmas shopping season, they should consider spending only what they can afford to pay off in a month or two. Better yet, they should make purchases by cash, check, or debit card."

Debt Levels and Burdens Continue to Rise

Between 1990 and the end of 1996, aggregate credit card debt more than doubled. In the 10-month period from the end of 1996 to the end of October 1997, this total debt increased by another 6.4% to an estimated \$455 billion.

The estimated 55-60 million households with revolving credit card balances carried an average of more than \$7,000 of card debt per household. This debt cost these "revolving" households an average of more than \$1,000 in interest and fees in the past year.

Lower middle income households were especially burdened by these credit card debts. According to Fed data, their consumer debt to income ratios were far higher than those of other income groups. In fact, according to one study, revolving households with income at 100-150% of poverty carried larger credit card balances than did revolving households with incomes at least 200% above poverty. That helps explain why, according to research by Georgetown's Credit Research Center, Chapter 7 bankrupts studied in 1996 had after-tax incomes averaging \$19,800 and credit card debts averaging \$17,544.

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The financial pressure of meeting credit card debts is acknowledged by many households. In June 5, 1997, the Opinion Research Corporation International asked the following question for the Consumer Federation of America: "How concerned are you about meeting your credit card monthly payments?" In a national probability sample of 1,006 persons surveyed, the percentages who said "very concerned" are listed below:

All households	36%
All cardholders	43
All households, \$15,000-25,000	42
All cardholders, \$15,000-25,000	55

"Credit card debts are crushing millions of households and heavily burdening tens of millions of others," said Brobeck.

Aggressive Marketing and Issuing of Credit Helps Explain Debt Burdens

Recently, despite rising debt losses, credit card issuers have solicited even more aggressively.

- o In the first half of 1997, credit card solicitations were at a record level. The second quarter mailing of 881 million was the highest on record.
- o From 1995 to 1996, credit card telemarketing expenses rose 30% (from 18.6 to 24.1 million hours).
- o From 1995 to 1996, credit card ad expenses rose 14%.

Mainly to try to persuade cardholders to run large balances, issuers have dramatically increased credit lines. From March 1993 to June 1997, unused bank card lines increased 167% to \$1.6 trillion. That is an average of nearly \$20,000 for every cardholding household.

In general, credit card issuers were not very responsible in extending credit. Debt losses were proportionately much higher than in much of the past. The industry-wide charge-off rate (debt losses as a percentage of loans) of more than 5% experienced by banks was far higher than the rate of well under 3% in the 1970s and early 1980s.

Some banks were especially irresponsible in extending too much credit to consumers who could not afford it. According to data supplied by Veribanc to CFA, among the largest banks of the 42 largest credit card issuers, from June 1996 to June 1997, five institutions had net charge-off rates exceeding 8%.

Mellon (Wilmington)	9.0%
Hurley State (Sioux Falls)	9.0
Wells Fargo (Phoenix)	8.6
First Union (Charlotte)	8.4
Advanta (Wilmington)	8.2

By comparison, in the same period four institutions had net charge-off rates of less than 3%: MBNA (Wilmington), 2.1%; Peoples (Bridgeport), 2.4%; Travelers (Newark), 2.7%; and First USA (Wilmington), 2.9%.

"The industry-wide charge-off rate should be well below 4%," said Brobeck. "Banks with a rate exceeding 6% are clearly extending too much credit to too many consumers who cannot afford it."

Effective Strategies for Reducing Debt Burdens

Contrary to widespread belief, bankruptcy reforms that make it more difficult for consumers to discharge credit card debts probably would not reduce debt levels. That is because the incentive for consumers to reduce debt would likely be more than offset by the incentive for creditors to market even more debt. The relative ease with which consumers can discharge virtually all unsecured debts through Chapter 7 bankruptcy today acts as one of the few brakes on the irresponsible issuing of credit card debt by creditors. If this ability were severely restricted, the brake on creditors would be largely released. The likely result would be far more aggressive marketing of credit card debt to low and lower middle income households.

The single most effective strategy for reducing credit card debt burdens, and the level of personal bankruptcies, would be for banks and other creditors to issue credit more responsibly. The first CFA report proposed that creditors voluntarily limit credit lines to 20% of a household's income.

Many consumers, however, must exercise more discipline in their use of credit cards. They should:

- o Carry only one or two major credit cards and limit total credit lines to no more than 20% of annual income;
- o Try hard to pay off all balances in full every month and, above all, avoid paying only the required minimum;
- o Pay by cash, check, or debit card if they have difficulty staying within their household budget; and
- o If in need of help, contact their local non-profit consumer credit counseling service.

CFA is a non-profit association of some 240 pro-consumer groups that was founded in 1968 to advance the consumer interest through advocacy and education.

The report is available free to the press and for a \$10 charge to others.