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FINDINGS FROM THE 2012 NATIONAL SURVEY ON CREDIT CARD DEBT OF LOW- AND MIDDLE-INCOME HOUSEHOLDS

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by: Amy Traub and Catherine Ruetschlin

Dēmos is a non-partisan public policy research and advocacy organization founded in 2000. Headquartered in New York City, Dēmos works with policymakers around the country in pursuit of four overarching goals—a more equitable economy with widely shared prosperity and opportunity; a vibrant and inclusive democracy with high levels of voting and civic engagement; an empowered public sector that works for the common good; and responsible U.S. engagement in an interdependent world.

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ACKNOWLEDGEMENTS

We thank the Ford Foundation for its generous support of Dēmos' the 2012 National Survey on Credit Card Debt of Low- and Middle-Income Households. The authors are grateful to Tamara Draut and Lucy Mayo at Dēmos for their guidance and insight with the survey and writing of this report.

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EXECUTIVE SUMMARY

The conventional wisdom says that American households are deleveraging – after years of living beyond our means, Americans are finally paying down debt and getting our financial house in order. But as Dēmos' 2012 National Survey on Credit Card Debt of Low- and Middle-Income Households reveals, that's only part of the story. In February and March 2012 Dēmos surveyed a nationally representative sample of 997 low- and middle-income American households who carried credit card debt for three months or more. The research builds on our previous surveys in 2005 and 2008, providing a picture of how the recession, its aftermath, and the passage of major new consumer credit card protections have impacted the financial lives of American households.

WE FIND THAT AMONG LOW- AND MIDDLE-INCOME HOUSEHOLDS CARRYING CREDIT CARD DEBT:

- **Average credit card debt has declined, but many households still rely on credit cards to pay basic living expenses.**
  - In 2012, the average credit card debt totaled $7,145, down from $9,887 in our 2008 survey.
  - 40 percent of households used credit cards to pay for basic living expenses such as rent or mortgage bills, groceries, utilities, or insurance, in the past year because they did not have enough money in their checking or savings accounts, a rate comparable to 2008.
- **Since the financial crisis, credit is tighter: half of affected households cut spending as a result.**
  - Over the past three years, 39 percent of households have experienced tighter credit, such as having cards canceled, credit limits reduced, or being denied a card when applying.
  - 48 percent of households with reduced access to credit cut the spending they would otherwise have charged to their credit cards.
- **Unemployment and medical bills were among the leading contributors to credit card debt.**
  - Nearly half of households carried debt from out of pocket medical expenses on their credit cards. The average amount of medical credit card debt was $1,678.
  - 86 percent of households who incurred expenses due to unemployment in the past year took on credit card debt as a result.

- **People of color report worse credit scores. Medical debt is a major contributor to poor credit for all indebted households.**

  - While 62 percent of overall indebted households reported that their credit was "excellent" or "good" only 44 percent of African Americans and 55 percent of Latinos described their credit in such positive terms.

  - Among those who say they have poor credit, 55 percent say unpaid medical bills or medical debts contributed.

- **The 2009 Credit CARD Act is helping households pay down balances faster and avoid fees.**

  - One third of households are responding to new information included on credit card statements by paying their balances down faster.

  - The number of households who report paying late fees on their credit cards has declined dramatically: in our 2008 survey, half of households reported accruing late fees – in 2012, it was just 28 percent.

  - Those who did make late payments were significantly less likely to see their interest rate increase as a result: 24 percent fewer households reported interest rates increasing as a result of a late payment in 2012 than in 2008.

This is the first in a series of reports that will look at aspects of the 2012 National Survey on Credit Card Debt of Low - and Moderate - Income Households in greater depth.

INTRODUCTION

For many Americans, the ability to borrow is the ability to grow. Most people could not get a college education, own a home, or start a business without tapping resources beyond their regular income. Debt is an essential investment tool for households to achieve financial security and acquire assets with predictable future returns. Moreover, debt performs an important service in our economy: it enables people to make investments – from a first home to a college degree – that promote economic mobility and let people achieve their greatest possible productive capacity.

But over the past 30 years, as income growth slowed and the cost of critical necessities like health care climbed, Americans took on debt just to make ends meet. Today, a quarter of adults who are working full-time are not earning enough money to meet their family's basic economic needs.[1] This is a trend that's become worse with the latest recession. But this is also part of a longer term problem: in the thirty years from 1979 to 2009, median hourly wages only grew 10.1% in real dollars even though productivity grew 80% over that time period.[2] At the same time, job security declined, fewer employers provided health coverage, and employers shifted away from offering guaranteed pensions or any retirement plan at all. Safety net policies like unemployment insurance, Medicaid, and Social Security offered some support to help struggling families. But significant gaps in these programs left many households to cope with crises like job loss or medical emergencies or smaller misfortunes like car trouble or a faulty furnace, largely on their own. As Demos uncovered in its 2005 and 2008 surveys of household credit card debt, families without assets to fall back on borrowed against the value of their homes and relied on credit cards as a privatized "plastic safety net" to get through hard times.

As incomes declined over the last decade, the most vulnerable populations experienced the worst effects: young adults, African Americans and Latinos, and those without a college degree saw the largest drops in median household income since 2000 and the highest unemployment rates over the past four years.[3] For many of these households, credit cards took on more importance as buying power waned.

In 2008, the financial crisis changed the way that households relate to credit. During the height of the housing bubble lenders offered deceptive loans in both credit and mortgage markets that proved dangerous to the entire economy. When the system crashed, the symptoms of broad-ranging fallout hit consumers in quick succession: home values declined, people lost their jobs, and credit card lenders started tightening standards, cutting off credit, and cancelling cards.

Our new survey reveals the impact of this collapse on households during the time since the financial crisis, as declining home values caused trillions of dollars in household wealth to disappear and tighter lending practices made it harder to keep borrowing. According to the Federal Reserve Board of Governors, the outstanding revolving debt of American consumers (a figure which primarily includes credit card accounts) fell from a peak of $965.5 billion in 2009 to $798.6 billion in February 2012, around the same time our survey was conducted.[4] Our research sheds light on the ground-level details of this deleveraging among low - and moderate - income households. Families who suddenly realized they were financially over-extended changed their spending habits to adjust to the new realities of the sluggish economy and pay down debt. In order to pay off their credit card debt and deal with unexpected expenses, households dug into their savings – including retirement funds. Many sought second jobs or tried to work more hours, but more than a third could not find the full-time work they wanted. Some households decided they had to forgo medical care.

But while the atmosphere of uncertainty during the recovery made carrying a credit card balance less inviting, it made other aspects of credit card services more appealing. Debt protection products – which suspend payment obligations during times of hardship like unemployment – earned $2.4 billion as the economy sagged in 2009.[5] And with the US Census projecting that Americans will carry $870 billion in credit card debt this year, credit cards remain an important resource for households coping with a fragile economy.[6]

Today consumers coping with credit card debt have a resource that wasn't available before the recession. Three years ago President Obama signed the Credit Card Accountability,

METHODOLOGY

Knowledge Networks conducted a survey of 1,997 households, including 997 households who had carried credit card debt for more than three months and 1,000 households who had credit cards but no credit card debt at the time of the survey. Respondents were randomly sampled using Knowledge Panel – a nationally representative panel that incorporates the views and opinions of all Americans and is not susceptible to the biases of "opt-in" panels. The Knowledge Panel utilizes an online questionnaire, achieving a probability sample based on Random Digital Dial sampling and Address-based sampling, and providing computer and internet access to those households who are not online. For our survey, low- to middle-income is defined as a total household income between 50 percent and 120 percent of the local (county-level) median income. All of our respondents were at least 18 years of age. In order to ensure that the indebted sample captures households who carry credit card debt, as opposed to those carrying a temporary balance, we only included households who reported having a balance for more than three months. The margin of error for the indebted sample is +/- 3.9 percentage points.

The online survey was developed based on Dēmos' 2008 telephone survey on household debt. The majority of the questionnaire remained identical in order to maintain trend information, but some additional questions were added in order to gain further insights on the CARD Act, credit cards and loans, credit scores, and credit reports.

The comparison to data from our 2008 survey on credit card debt was crosssectional - the surveys included different nationally representative samples of households. In order to make the 2008 and 2012 results comparable, a subset of the 2012 sanple was surveyed by telephone to account for the change in the survey medium and allow for calibration.

An additional sample was used to obtain reliable base sizes for African American and Latino populations. The margin of error for the oversample of 152 African American households is +/- 11.3 percentage points. The margin of error for the oversample of 205 Latino households is +/- 9.1 percentage points.

Responsibility, and Disclosure (CARD) Act into law. Known as the credit card holders' Bill of Rights, this new legislation empowered people to take control of their finances by increasing the fairness and transparency of the credit card industry. The Act limits the discretion of credit card companies over billing and fees that previously took card holders by surprise. It created a new standard of clarity in disclosure, including unambiguous breakdowns of costs and fees to appear on monthly statements, and 45-day notice before implementing interest rate hikes.[7] It limited the circumstances under which credit card companies can impose retroactive rate increases and established additional criteria for appropriate, proportional penalties and fees. As this study illustrates, the legislation has proven successful in many ways: a third of the indebted households we surveyed are using the new information to pay their balances down faster, late fees have significantly declined, and overlimit fees which were previously imposed month after month, whether or not the cardholder had signed up for the service, have all but disappeared among the households we surveyed.

The new standards allow Americans to make better use of their credit. But many people remain uninformed about their terms of repayment, vulnerable to abusive lending practices, and burdened by heavy debt. At the same time, debt has become more consequential than ever, as credit information is used for a growing range of critical economic decisions, from the cost of auto insurance to the security deposit for utility services, and a credit report may even make the difference between securing a job and remaining unemployed. In an attempt to better understand these trends and uncover the reasons behind them, Dēmos commissioned a new national survey of credit card holders.

We contracted with Knowledge Networks, a national research firm, to interview 1,997 households between February 7th and March 2nd, 2012, asking about their debt and spending habits since the passage of the CARD Act 3 years ago. Our sample included 997 low- and middle-income households ages 18 and older who have carried credit card balances for at least 3 months and 1,000 households who had credit cards but no credit card debt at the time of the survey. Together these samples represent about 21.3 percent of the U.S. population age 18 and over, or 50.6 million adult Americans. This report focuses on the indebted sample and captures three years of experiences among the population for whom credit is an important part of economic security.

DEBT DEMOGRAPHICS, AMOUNTS OWED AND INTEREST RATES

The conventional wisdom that American households are deleveraging in the wake of the recession has some truth to it: in 2012, the average credit card debt among low and middle-income indebted households totaled $7,145, down from $9,887 in our 2008 survey.[8] But this is not the whole story: we find that many Americans still rely on credit cards to meet their basic living expenses and most people with credit card debt have run up substantial bills. Even with the total debt in decline, households spend a sizable portion of their budgets on credit card payments. When asked how much they paid in the past month toward all of their credit card bills, households reported spending an average of $566. Nearly one third of households carry balances higher than the $7,145 average, with 20 percent reporting over $10,000 in credit card debt. Just 18 percent of debtors manage to keep their balances under $1,000.

Older Americans have the highest average balances of any age group, with those 65 and over holding $9,283 in credit card debt. The financial crisis reduced household savings throughout 2008 and 2009, bringing sudden insecurity to households in or near retirement. With very low balances and rising costs of living, older households may have taken on more debt in order to stretch fixed incomes and cope with an uncertain future.

Young people – ages 18 to 24 – have credit card balances well below the average, owing $2,982. While 25 to 34-year-olds managed to cut their credit card debt in half compared to our 2008 survey, they still average over $5,000 in credit card debt. Older population groups have increasingly high credit card debt, with households in all age ranges 45 and older carrying above average balances.

Fig. 1 | "WHAT IS THE TOTAL AMOUNT OF CREDIT CARD DEBT THAT YOU CURRENTLY HAVE?"

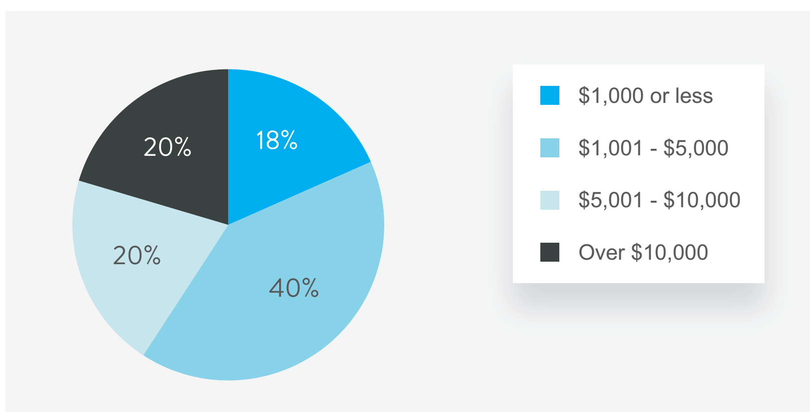


Table 1. | "WHAT IS THE TOTAL AMOUNT OF CREDIT CARD DEBT THAT YOU CURRENTLY HAVE?"

	2008	2012	% change
All	$9,887	$7,145	-27.7%
AGE			
18-24	$3,498	$2,982	-14.7%
25-34	$10,407	$5,156	-50.5%
35-44	$10,141	$6,156	-39.3%
45-54	$10,154	$8,408	-17.2%
55-64	$10,013	$8,228	-17.8%
65 and Older	$9,823	$9,283	-5.5%
RACE/ETHNICITY			
African American	$6,970	$5,784	-17.0%
Latino	$9,049	$6,066	-33.0%
White, Non-Hispanic	$10,358	$7,315	-29.4%
INCOME LEVEL			
Less than $35,000	$7,763	$5,405	-30.4%
$35,000 - $49,000	$10,206	$6,736	-34.0%
$50,000 - $74,999	$11,528	$8,916	-22.7%
$75,000 or More	$11,896	$9,235	-22.4%

Fig. 2 | **AVERAGE HOUSEHOLD CREDIT CARD DEBT BY AGE** "WHAT IS THE TOTAL AMOUNT OF CREDIT CARD DEBT THAT YOU CURRENTLY HAVE?"

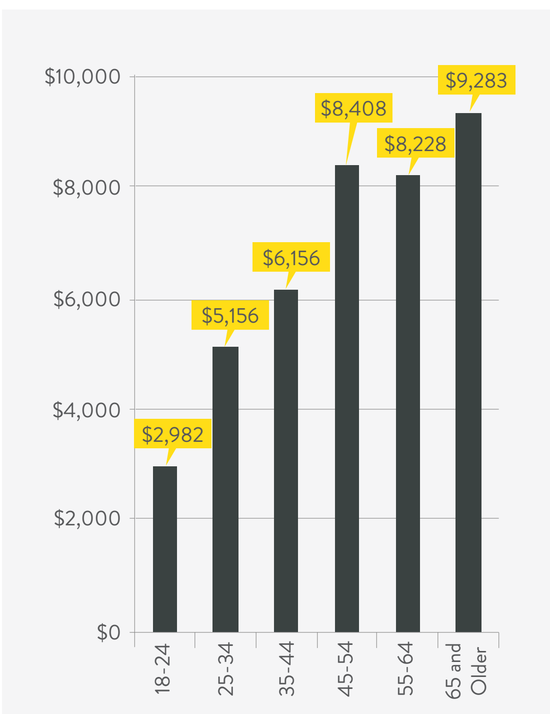
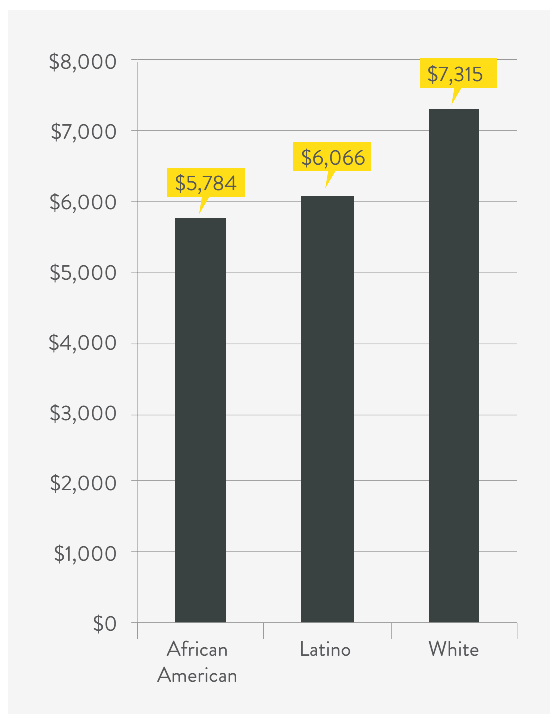


Fig. 3 | **AVERAGE HOUSEHOLD CREDIT CARD DEBT BY RACE/ETHNICITY** "WHAT IS THE TOTAL AMOUNT OF CREDIT CARD DEBT THAT YOU CURRENTLY HAVE?"



While most people have managed to either pay off some debt or hold their ground, 28 percent of people have taken on more credit card debt in the last year and 39 percent have seen their amount of credit card debt increase in the last three years. Households who used credit cards to pay for basic living expenses were the most likely to see debt climb – one half of people in this category have more debt now than they did 3 years ago. Young people ages 18 to 34 have also been more likely to increase their debt, with one half reporting more credit card debt today than they had three years ago.

Table 2. | **"IS THE TOTAL AMOUNT OF CREDIT CARD DEBT THAT YOU HAVE TODAY LESS THAN, ABOUT THE SAME, OR MORE THAN THE TOTAL AMOUNT OF CREDIT CARD DEBT THAT YOU HAD 1 YEAR AGO? THREE YEARS AGO?"**

	Credit Card Debt Today Compared to 3 Years Ago	Credit Card Debt Today Compared to 1 Year Ago
Less	41%	39%
More	39%	28%
About the same	16%	32%
Don't Know/No Answer	4%	1%

All of this borrowing comes at a cost. Households reported that the average Annual Percentage Rate (APR) today on the credit card which holds their highest balance is 16.3 percent – that is higher than it was in 2008. Moreover, more than a quarter of indebted households are paying interest rates above 20 percent. Households of color are significantly more likely to face higher interest rates. While 25 percent of whites report an APR over 20 percent, 33 percent of African Americans and 34 percent of Latinos are paying these higher rates.

Fig. 4 | **APR ON THE CREDIT CARD WITH THE HIGHEST BALANCE** "WHAT DO YOU ESTIMATE IS THE ANNUAL PERCENTAGE RATE THAT YOU PAY ON THE CREDIT CARD WITH THE HIGHEST BALANCE?"

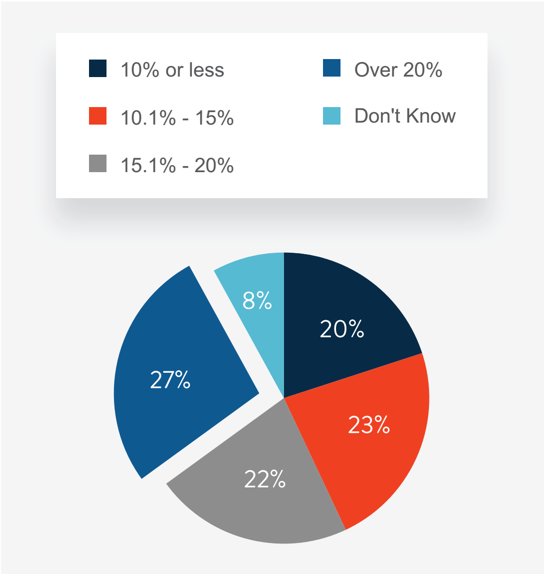
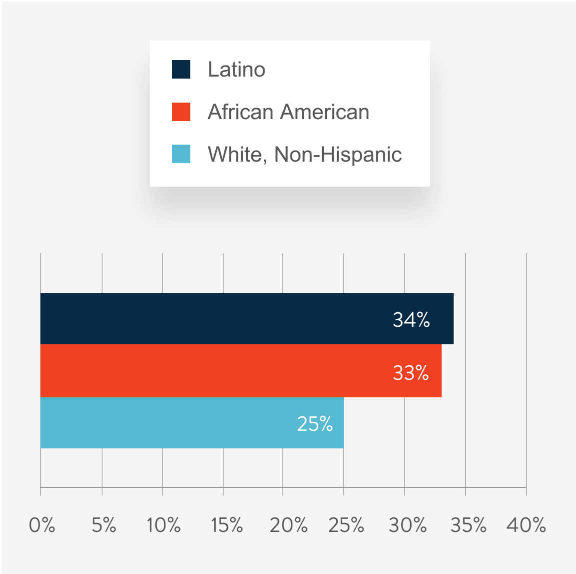


Fig. 5 | **PERCENTAGE OF HOUSEHOLDS WITH AN APR OVER 20%, BY RACE/ETHNICITY** "WHAT DO YOU ESTIMATE IS THE ANNUAL PERCENTAGE RATE THAT YOU PAY ON THE CREDIT CARD WITH THE HIGHEST BALANCE?"



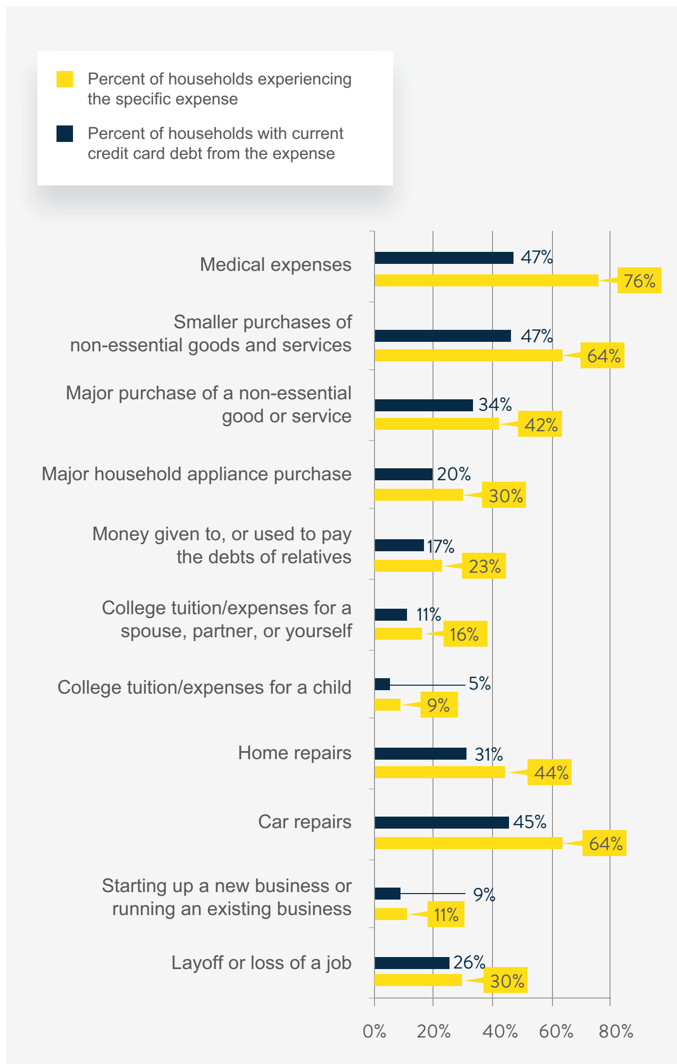
REASONS FOR CREDIT CARD DEBT

In our 2005 and 2008 surveys, Dēmos found that households turn to credit cards as a safeguard against economic instability and stagnant or falling income. To cope with daily expenses, or meet the contingencies of emergency car repairs or unexpected medical bills, households that have little in the way of savings to draw on must instead turn to credit cards as a high-interest "plastic safety net."

Unfortunately, the trend continued in 2012: 40 percent of indebted households used credit cards to pay for basic living expenses such as rent or mortgage payments, groceries, utilities, or insurance, in the past year because they did not have enough money in their checking or savings accounts, a rate comparable to 2008 despite tightening access to credit. Low- and middle-income households struggling to afford high-cost essentials like health care, striving to get an education despite rising college tuition, or straining to live on inadequate unemployment benefits as they cope with job loss also relied on credit cards: 47 percent of all indebted households said out-of-pocket medical expenses contributed to their credit card debt; among those who had experienced job loss, 86 percent said this contributed to their credit card debt; for those pursuing higher education, 71 percent said tuition and other college expenses contributed to their credit card debt.

Nearly half of young adults and 45 percent of households earning less than $50,000 per year used credit cards to pay basic monthly costs like groceries and rent. Fifty-two percent of households with members lacking health insurance paid for necessities with credit cards. And

Fig. 6 | **HOUSEHOLD EXPENSES CONTRIBUTING TO CURRENT CREDIT CARD DEBT**



50 percent of households with children living at home used their credit cards to pay for basic living expenses like rent or a mortgage, utilities, groceries, and insurance because they did not have enough money in the bank.

Across households who carried credit card debt for more than three months, purchases of essential goods and services contributed significantly to current debts. While the greatest single source of credit card debt was non-essential purchases, nearly half of all households cite necessities such as home or car repairs, expenses related to job loss, business expenses, or household appliances, as the greatest contributors to their credit card balances.

Table 3. | **"WHICH EXPENSE DO YOU THINK CONTRIBUTED MOST TO YOUR CURRENT LEVEL OF CREDIT CARD DEBT?"**

	Percent of Households
Cost-of-Living Expenses	**51%**
Layoff or loss of a job	15%
Car repairs	10%
Home repairs	9%
Major household appliance purchase	5%
Money given to, or used to pay the debts of relatives	4%
Starting up a new business or running an existing business	4%
College tuition/expenses for a spouse, partner, or yourself	3%
College tuition/expenses for a child	1%
Non-Essential Expenses	**31%**
Smaller purchases of non-essential goods and services	22%
Major purchase of a non-essential good or service	9%
Don't Know/Offered Individual Response	**18%**

With nearly 13 million Americans out of work and another 10 million either under-employed or marginally attached to the labor force, expenses associated with a job loss were the second-greatest main contributor to households' credit card debt over the past three years. Eighty-six percent of households affected by unemployment expenses in the past year had to take on credit card debt as a result. Households carrying credit card debt were far more likely to have been affected by unemployment or underemployment than those who did not have credit card debt: one third of indebted households report having a household member who was unemployed for at least two months since 2008, compared to just 18 percent of households in our sample who do not have credit card debt. An even larger group of indebted households – 35 percent – report having a member who wanted, but could not find, a full time job. That's twice as high a rate of under-employment as the 16 percent of households without credit card debt.

The pain of unemployment has not been distributed evenly during the Great Recession: declines in employment disproportionately impacted people of color. In our survey, they translated to a heavier debt burden associated with job loss among these households. Thirty-two percent of African American and Latino households cited layoffs or a job loss as a contributor to current debt. Twenty-four percent of white households experienced the same expense.

BEYOND CREDIT CARDS: OTHER WAYS TO GET BY

Half of all indebted households (49 percent) dug into their savings in the past year to pay for unforeseen expenses. While more than one third (36 percent) took on more work to cover household expenditures, another 35 percent who wanted more work but couldn't find it were forced to seek other means to make ends meet. Twenty-seven percent of households with credit card debt borrowed money from family or friends. Fifteen percent cashed in retirement savings and another 13 percent sold valuable possessions like jewelry or a car.

At 17 percent, African Americans were more than three times as likely as whites to turn to non-traditional sources of credit, such as loan sharks, pawnshops, or payday loan facilities in order to deal with unexpected expenses. They were also four times as likely to cash in their life insurance policies.

Table 4. | **"IN THE PAST YEAR, OTHER THAN USING CREDIT CARDS, WHICH OF THE FOLLOWING WAYS HAVE YOU DEALT WITH UNEXPECTED EXPENSES?"**

	All Indebted Households	White	African American	Latino
Savings	49%	53%	41%	43%
Tax refund	47%	47%	51%	53%
Worked extra hours/Got extra job	36%	37%	42%	37%
Money from a family member or friend	27%	26%	37%	28%
Retirement Funds	15%	15%	19%	15%
Sold car or other valuable items such as jewelry	13%	13%	11%	17%
A loan from a bank or credit union	10%	9%	11%	11%
Non-traditional financing such as a pawn shop, payday loan, auto title loan, loan shark	8%	5%	17%	10%
Money from Earned Income Tax Credit	8%	8%	5%	12%
A home equity line of credit	6%	6%	7%	1%
Refinanced or a second mortgage	4%	4%	5%	1%
Stopped going to school	3%	3%	2%	5%
Life Insurance	3%	2%	8%	3%
Money from a savings group such as a ROSCA or a su su	1%	0%	3%	5%

THE IMPACT OF THE RECESSION ON CREDIT CARD DEBT

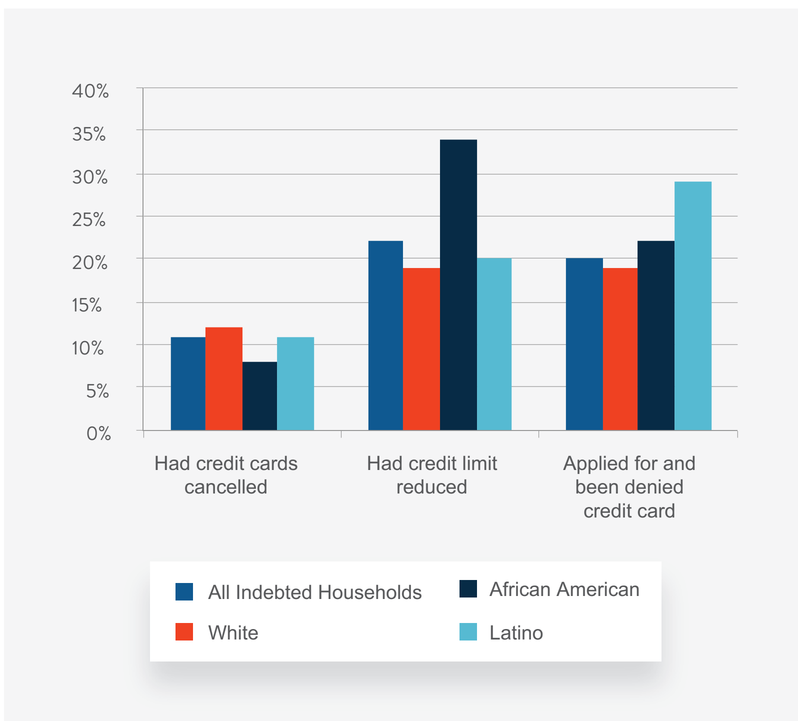
Credit cards provide an important safety mechanism for households facing economic instability, but when financial markets froze in 2008, lenders rolled-back access to funds. With labor markets shedding jobs and credit markets tightening, consumers changed their spending habits to adjust for new uncertainties in the economy.

Thirty-nine percent of low- and middle-income households with debt have experienced tighter credit over the past three years, including 11 percent who have had cards canceled, 22 percent who have had credit limits reduced, and 20 percent who have been denied a card when applying. The numbers are even higher for those households affected by unemployment over the same period, with 48 percent of these households having cards cancelled; credit limits reduced; or applications for a new credit card denied. There are racial disparities as well: Latino households are the most likely to be denied credit, with 29 percent having applications denied in the past three years. African Americans are most likely to have had existing credit lines retracted – just over one third of African American households reported having their credit limits reduced.

Among the households who experienced reductions in credit, nearly half (48 percent) decreased their spending as a result. Households that dealt with unemployment in the last year and encountered reductions in credit were more likely to have to adjust their budgets: 64 percent report decreasing spending as a direct result of the tighter credit markets.

On average, households with debt estimate that it will be more than 2 years before they pay off their credit card debts entirely. This estimate is much lower than the average of 3.3 years reported in 2008. But while most households today believe they will be out of credit card

Fig. 7 | "OVER THE PAST SEVERAL YEARS, CREDIT CARD COMPANIES HAVE REDUCED THE AMOUNT OF CREDIT AVAILABLE TO CONSUMERS. IN THE LAST THREE YEARS HAVE YOU…"



debt in less than 1 year, 22 percent estimate more than 3 years before their balances are fully paid off.

Many households are not getting any closer to that zero balance under their current budgets. Thirty percent of households report paying only the minimum due on their credit cards always or most of the time. In households that rely on credit cards to pay for basic living expenses it is more common to get by with the lowest payment possible, with 38 percent of this group reporting that they always or usually pay just the minimum amount.

Half of indebted households rely on their tax refund checks to pay down credit card balances. Thirty-eight percent are using their savings to reduce their balances. For those who can find it, taking on extra work provides an additional avenue to debt reduction, with 35 percent of indebted households working extra hours or an extra job in order to pay off credit cards. Nearly one in ten households has even taken out a loan from a bank or credit union for the purpose of repaying their credit card debt.

Households that use credit cards to pay for basic necessities turn to sources outside their regular income to deal with credit card debt more often than those who do not. Forty-five percent of households who used credit cards to pay for rent, mortgage payments, groceries, utilities, or insurance when checking and savings accounts would not cover the bills worked extra hours or got another job to pay off their debts.

Fig. 8 | "HOW LONG DO YOU THINK IT WILL TAKE BEFORE YOU ARE COMPLETELY OUT OF CREDIT CARD DEBT?"

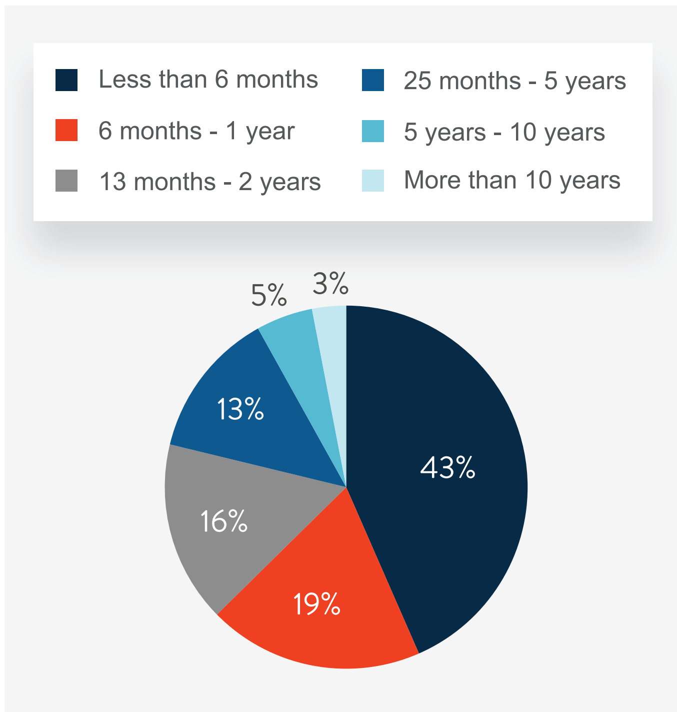


Table 5. | **HOUSEHOLD STRATEGIES FOR PAYING DOWN DEBT IN THE PAST YEAR**

"IN THE PAST YEAR, WHICH OF THE FOLLOWING HAVE YOU USED TO PAY DOWN YOUR CREDIT CARD DEBT?"	Percentage of All Indebted Households	Percentage of Households that Used Credit Cards to Pay for Basic Living Expenses
Tax refund	50%	61%
Savings	38%	43%
Worked extra hours/Got extra job	35%	45%
Money from a family member or friend	17%	24%
Retirement Funds	15%	17%
Sold car or other valuable items such as jewelry	14%	20%
Money from Earned Income Tax Credit	10%	11%
A loan from a bank or credit union	9%	15%
Refinanced or a second mortgage	6%	8%
A home equity line of credit	6%	8%
Non-traditional financing such as a pawn shop, payday loan, auto title loan, loan shark	6%	11%
Stopped going to school	4%	5%
Life Insurance	4%	7%
Other	4%	3%
Money from a savings group such as a ROSCA or a su su	1%	2%

Despite these economic challenges, only 43 percent of indebted households manage regular saving. Of those who aren't saving, 72 percent report that they have no money left over after paying the bills. Households who have experienced unemployment and those with children living at home report more difficulty saving, with only about one third of each group who can save money on a monthly basis.

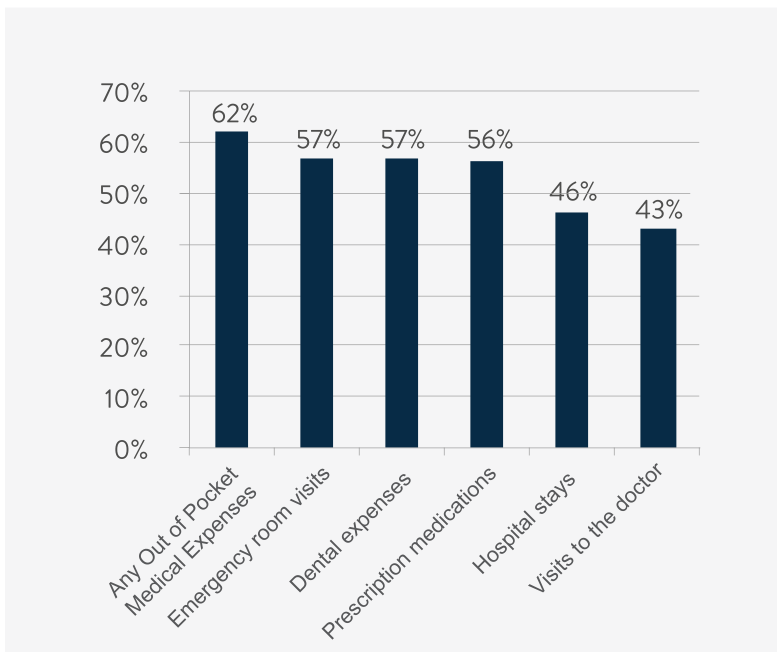
For most households with credit card debt, saving has gotten harder over the past 3 years. Sixty-five percent of all indebted households report more difficulty saving money. Households that have experienced unemployment overwhelmingly agree, with 75 percent of households reporting that saving is harder today. Even in households that have managed to pay down some of their credit card debts over the past three years, the majority report that saving is harder now than it was three years ago.

THE IMPACT OF MEDICAL EXPENSES

About 50 million Americans lack health insurance, and even for those with insurance plans the gap between coverage and affordability can be expansive.[9] Meanwhile, the growing cost of health care puts pressure on household budgets as families struggle to keep up with rising premiums, co-payments, and deductibles, or to find economical options if they are uninsured. Persistently high unemployment rates add to this stress, since workers who are out of a job cannot rely on employer-provided health insurance. When medical expenses arise they are often unplanned and unavoidable, forcing households to take on debt to cover the cost.

Medical expenses are common. More than three quarters of indebted households incurred some out of pocket medical expense in the last 3 years. Among these households, 62 percent said of out of pocket medical spending contributed to their current credit card debt. Nearly half of all indebted households (47 percent) carried medical debt on their credit cards.

Fig. 9 | **HOUSEHOLDS CITING SPECIFIC OUT-OF-POCKET MEDICAL EXPENSES CONTRIBUTING TO CURRENT DEBT**



Out-of-pocket costs for hospital stays, emergency room visits, and dental expenses were the most likely to contribute to contribute to credit card debt. Prescription medications and visits to doctors contributed to the credit card debt of many households as well, with 46 percent of those who incurred out-of-pocket prescription costs and 43 percent of those who incurred out-of-pocket costs at a doctor's office identifying these costs as contributing to their credit card debt.

The typical household putting medical bills on their credit card accumulated $800 in credit card debt. In addition to credit card debt, 30 percent of indebted households held medical debt that is not on their credit card. Most households with outstanding debt that was not on their credit cards carried less than

$1,000 of additional medical debt, with a median amount of $800.

Medical debt caused one half of households with debt to skip treatment, not fill a prescription, or not see a doctor when necessary. Households with lower incomes, with children living at home, and those affected by unemployment were disproportionately likely to use one of these tactics to avoid further expense.

Table 6. | **THE IMPACT OF MEDICAL EXPENSES ON DEBT**

	All Indebted Households
Percentage of Households with Medical Expenses on Their Credit Card	47%
Average Amount of Credit Card Debt Due to Medical Expenses	$1,678
Median Amount of Credit Card Debt Due to Medical Expenses	$800
Percentage of Households with Medical Debt Not on Credit Card	30%
Average Outstanding Medical Debt not on Credit Card	$6,476
Median Outstanding Medical Debt Not on Credit Card	$800

Table 7. | **"IN THE PAST YEAR, HAVE YOU OR A MEMBER OF YOUR HOUSEHOLD TRIED TO REDUCE MEDICAL EXPENSES BY DOING ANY OF THE FOLLOWING?"**

	All Indebted Households
Did not fill a prescription or postponed filling a prescription	33%
Did not go see doctor or visit a clinic when you had a medical problem	39%
Skipped medical test, treatment or follow up	36%
Any of the Above	51%

CREDIT HISTORY "MISSION CREEP" DAMAGES DEBTORS

Relying on the plastic safety net has costs that extend beyond high interest rates and mounting fees. We find that paying credit card bills late and maxing out lines of credit are major contributors to poor credit scores for households with credit card debt. In turn, the growing use of credit history by insurance companies, landlords, employers and utilities means that when debt gets out of control, other areas of people's economic lives are increasingly impacted. Having poor credit can mean a consumer will end up paying a higher interest rate for a loan or a higher premium for car or homeowners' insurance;[10] have their application for a loan or insurance denied; pay more for gas or water; be turned down for a job; or even terminated from their current one.[11] By raising costs and reducing employment opportunities, the "mission creep" of credit information beyond the realm of lending can make it harder for households to ever work their way out of debt.

Even as credit histories infiltrate nearly every aspect of economic life, only 40 percent of households with credit card debt know their credit score. Of those who knew their scores, 37 percent described their credit score as fair or poor. But even if they do not have all the information, people are worried about their credit. Forty percent of indebted households worry about their credit scores, including the fears that they will

Table 8. | **"WHICH OF THE FOLLOWING CONTRIBUTED TO YOUR POOR CREDIT SCORE?"**

	Percentage of All Indebted Households Reporting Poor Credit
I've been late paying my credit card bills	61%
I have an unpaid medical bill or medical debt	55%
I've used nearly all or all of my existing credit lines	38%
I've been late paying other bills such as cable or phone	38%
I've been late with mortgage payments	33%
I've been late paying my utilities	30%
I've been late on my student loan payments	18%
I declared bankruptcy sometime in the last 7 years	16%
I have errors on my credit report	12%
I've been late with my rent payments	12%
I've been foreclosed on in the last 7 years	8%
Don't Know	4%

pay more for services or be denied a loan. Twenty-five percent of households with debt say their score has declined in the past 3 years.

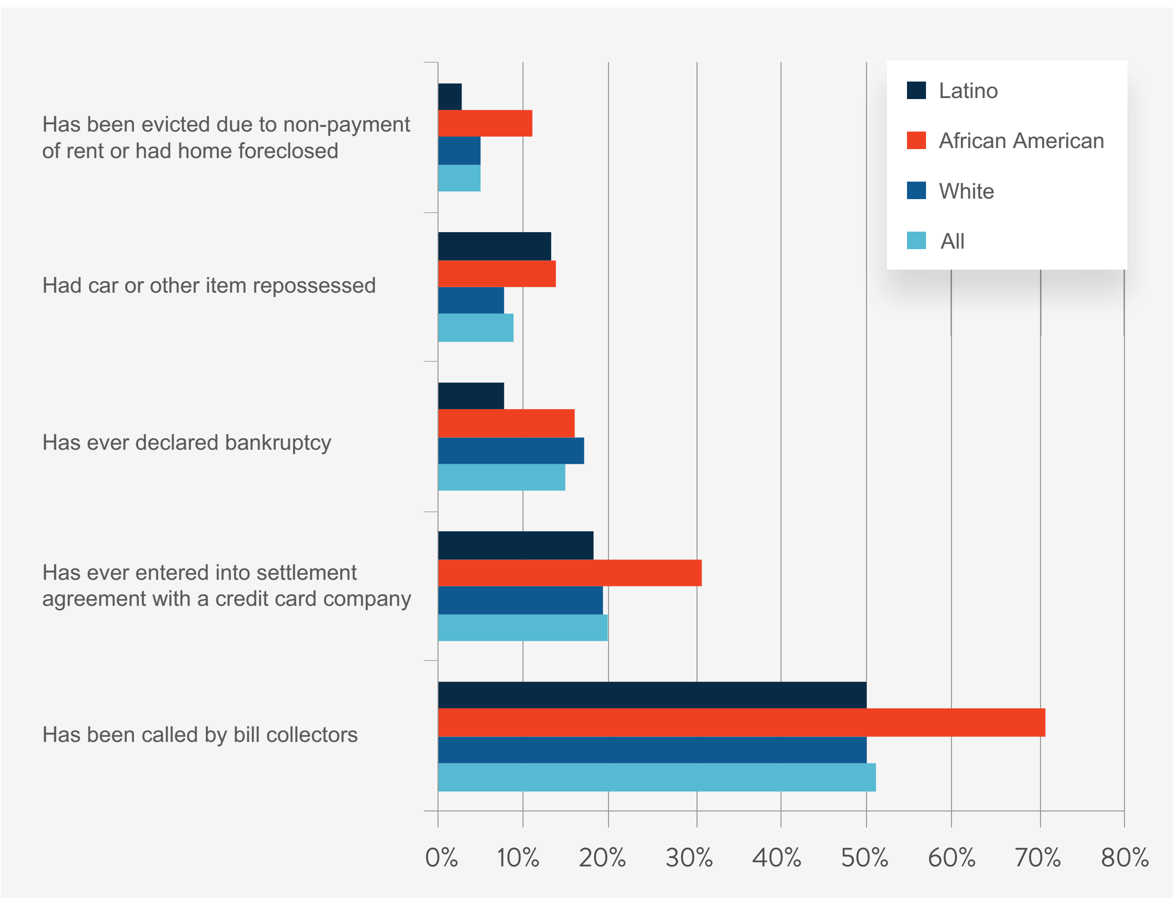
We find that credit scores correlate with a range of borrower attributes. For example, our findings mirror those of other studies that find African Americans have lower average credit scores than non-Hispanic whites,[12] a result that has been linked to parallel the higher rates of unemployment, lower rates of health insurance coverage, and lower amount of household wealth, as well as a legacy of discrimination, including lending industry practices.[13] People with children in their home were significantly more likely to say their credit score had declined a lot in the past three years than those without. We also find that medical debt is a decisive factor for poor credit: 55 percent of indebted households reporting poor credit cite medical bills as a contributor to their low credit scores. Moreover, the 12 percent of households with poor credit who cite errors on credit reports may in fact be fully creditworthy and denied credit due to mistakes outside of their control.

OTHER CONSEQUENCES OF DEBT

Fifteen percent of all indebted households have declared bankruptcy and 20 percent have entered into a settlement agreement with a credit card company. More than half of households carrying credit card debt have been called by debt collectors.

These outcomes appear to have little to do with the amount of credit card debt held by the household, since the experiences are distributed equally across all levels of debt. African Americans, however, are most likely to have had negative experiences such as calls from bill collectors, settlements with credit card companies, evictions, and foreclosures.

Fig. 10 | **OTHER CONSEQUENCES OF DEBT**



THE IMPACT OF THE CARD ACT

President Obama signed the CARD Act into law on May 22nd, 2009, offering new protections to consumers through increased transparency and accountability. The law changed how credit card companies do business, eliminating arbitrary fees and interest rate changes and imposing fair standards for lending. Now credit card bills must include more information about the status of borrowing, companies must provide adequate time between billing the consumer and imposing a late fee, and they cannot retroactively apply higher interest rates to an existing balance. Each of these provisions is already making a difference on the debt burdens of consumers.

Our survey shows that 90 percent of people with credit card debt have noticed the change. While it did not lead to a change in behavior for all people, one third of households are responding to the new information included on credit card statements by paying their balances down faster, while just two percent pay less toward their balance in a typical month. People with high amounts of debt – between $5,000 and $10,000 – are even more likely to be making larger payments than they were before the law went into effect.

In addition to encouraging debtors to pay down high balances, the CARD Act offered consumers a reprieve from the assorted charges and fees that accompanied many accounts. In 2012, just 28 percent of households reported paying late fees – a significant decline from the one half of indebted households that accrued these fees in 2008. Of those who experienced late fees only 29 percent saw interest rates go up on that card as a result, down from 53 percent in 2008, and only 14 percent experienced interest rate increases on other cards.

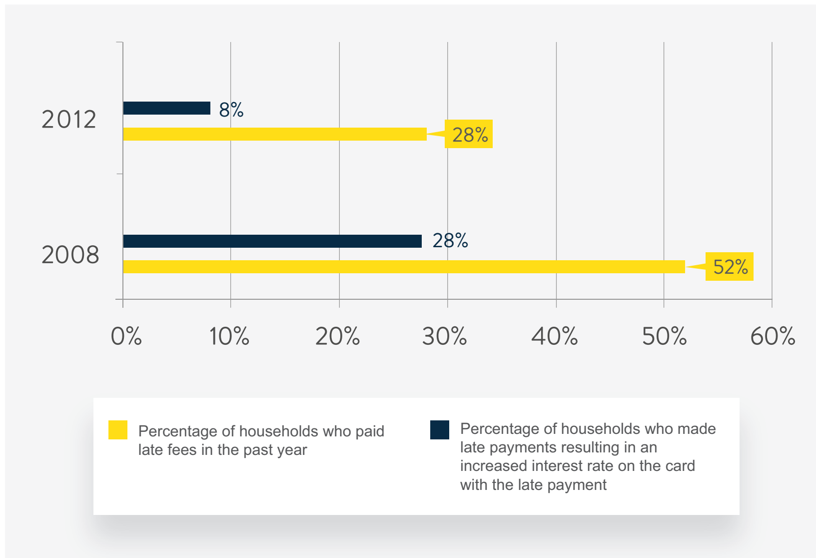
Table 9. | **IMPACT OF THE CARD ACT ON HOUSEHOLDS IN THE PAST TWO YEARS**

	Percentage of All Indebted Households
Pay more towards credit card balances in the typical month	33%
Charged late fees less often	26%
Charged over-the-limit fees less often	22%

The CARD Act scored another major success with the near elimination of overlimit fees. Just 2 percent of households paid more overlimit fees in the past two years. The policy was especially effective for those with the highest levels of debt, with 30 percent of those debtors with balances greater than $7,500 paying fewer fees.

African Americans and Latinos report benefits from the new rule that are even higher than average. Thirty-two percent of African Americans and 36 percent of Latinos experienced fewer overlimit fees since the CARD Act took effect.

Fig. 11 | **"IN THE LAST YEAR HAVE YOU HAD YOUR INTEREST RATE INCREASED BECAUSE OF A LATE PAYMENT?"**



Lower fees and fair lending practices are helping households avoid high balances and spiraling bills. Because they have a greater chance of making the requisite payments, consumers can evade fees that add to high balances and make debt mount quickly. It shows that when given the right information and a fair contract, consumers will seize the opportunity to take control of their finances. And most importantly, it shows that when we use well-designed public policy to address the inequities in our markets it is possible to have a real impact on people's lives.

Table 9. | **CHANGE IN OVER-THE-LIMIT FEES IN THE PAST TWO YEARS**

"IN THE LAST TWO YEARS HAVE YOU..."	Percentage of All Indebted Households	White	African American	Latino
Been charged over-the-limit fees less often	22%	19%	32%	36%
Been charged over-the-limit fees the same	22%	25%	16%	14%
Been charged over-the-limit fees more often	2%	2%	3%	2%
Don't know, has not paid attention to over-the-limit fees	49%	51%	45%	43%
Don't know/no answer	5%	4%	5%	5%

POLICY RECOMMENDATIONS

The financial crisis damaged household stability, but our survey shows that the trends pushing households into debt started long before the recession and they continue as the economy returns to normal rates of growth. The loss of vital public services and support for the programs that allow low- and middle-income families to prosper – like low cost educational opportunities, affordable health care services, and labor policies that provide a decent standard of living – made it increasingly difficult for families to get by without taking on debt.

Americans should not have to rely on credit cards to supplement low pay and replace social support. Policies that give households the ability to survive without depending on debt are the primary means to put families back on stable ground. Our survey shows that 86 percent of households affected by unemployment expenses in the past year had to take on credit card debt as a result. As the economy continues a slow crawl toward previous employment levels, reducing barriers that keep laid-off workers from qualifying for unemployment insurance and extending eligibility for unemployment insurance to include more low-wage and part-time workers when they're laid off can prevent hardship. At the same time, those who have jobs would benefit from the kind of workplace protections that promote living wages, affordable health and retirement benefits, and secure employment. Policies that ensure that all American jobs meet basic standards of decent employment would give low- and middle-income households the boost they need to make ends meet without reliance on credit. Raising the minimum wage, protecting the right to collective bargaining, and enforcing current labor standards more effectively all contribute to the ability of households to support themselves without taking on credit card debt.

In addition to shared investments that put our country on the right track for workers and their families, our survey points to three areas where policy can make a difference in household budgets: medical debt, financial regulation, and credit reporting.

MEDICAL DEBT

- **MEDICAL DEBT PROTECTION** We found that out-of-pocket medical expenditures were a major factor contributing to credit card debt. The consequences of a broken and expensive health care system amount to an average of $1,679 in credit card debt falling on those households who turn to credit cards to pay medical bills. The Patient Protection and Affordable Care Act (ACA) will provide some relief to low- and middle-income households as its provisions go into effect through 2014. But even with the improvements borne by the ACA, it will be necessary to monitor the quality and cost of health insurance available in order to ensure adequate coverage for households to avoid medical debt. When debts do arise, medical debt collection practices must be fair. Some out-of-pocket medical costs will continue to occur even after the ACA is fully implemented, and current collection processes can increase the debt vulnerability of the inadequately insured. Hospitals should not be able to uncover the amount of credit available to their patients, nor should they be permitted to offer their own revolving credit schemes. Such practices warp the patient/provider relationship into one of creditor/debtor and replace the healing alliance with the profit motive. The Consumer Financial Protection Bureau (CFPB) should be enlisted to examine the financial services used by health care facilities to collect debts. Finally, medical debt, which is often indispensable and unplanned, should be excluded from credit score calculations.

FINANCIAL REGULATION

- **BORROWER SECURITY** Fair and responsible lending practices are fundamental to our economic health as households turn to debt to meet their basic needs or invest for their futures. The CARD Act is an excellent step toward reasonable standards and accountability for lenders, but it has limitations that could be addressed through further policy initiatives. In order to address these limitations, Dēmos crafted the **Borrower Security Act**. The Borrower Security Act would enact a set of national usury limits that are indexed to a federal rate and end unjustifiably high rates of interest on credit cards and other credit products. The rates would be tiered based on the lending device, such as student loans, payday loans, and credit cards. In addition, the Borrower Security Act would impose a $15 limit on late fees imposed on borrowers who fail to make a payment on or before the due date for payments. Forty percent of low- and middle-income households use credit cards to meet basic needs, while 8 percent turn to alternatives like loan sharks and pawn shops when unexpected expenses arise. Americans need fair rules to ensure that lenders – from credit card companies to mortgage lenders to vendors of payday loans – do not impose excessive interest rates, fees, and penalties that make it easier for American to get into serious debt and harder for them to get out.

- **FAIRNESS IN BANKRUPTCY** As Americans struggle to pay back debt, they have less to spend and invest, creating a drag on economic recovery. Staggering debt levels are compounded by bankruptcy rules that direct the flow of money toward banks and other mortgage lenders rather than American households. Bankruptcy is the traditional last resort for Americans overwhelmed by debt they cannot pay. The ability to discharge debts in an orderly way was seen as such a critical part of the nation's economy from its founding days that the U.S. Constitution explicitly grants Congress the power to establish national laws on bankruptcy. A variety of bills to address burdensome and counterproductive bankruptcy rules have been considered by congress in the past 3 years, including the Helping Families Save Their Homes in Bankruptcy Act and the Fairness for Struggling Students Act. Dēmos has built on the best aspects of this legislation to devise the **Fairness in Bankruptcy Act**, a policy to allow bankruptcy judges to reduce the mortgage principal on a primary residence and to discharge student loan debt. Among low- and middle-income households with poor credit, one third report low credit scores due to late mortgage payments. Eighteen percent have been late paying the bill for student loans. By enabling bankruptcy judges to write down mortgages to the current value of the home, the Fairness in Bankruptcy Act would make it more affordable for Americans to stay in their homes, reducing foreclosures at no cost to taxpayers and powerfully stabilizing the housing market. Knowing that homeowners have the option to reduce their principal in bankruptcy would also give lenders a greater incentive to mortgage reductions long before a borrower even considers bankruptcy. Finally, by allowing Americans to discharge student loan debt in bankruptcy, the policy will give young Americans battered by the recession a chance at a fresh start.

- **CREDIT CARD REGULATION** The transparency, accountability, and fairness afforded by the CARD Act changed the way that borrowers and lenders approach the business of credit cards. According to our survey, families are paying more toward their principal and less toward onerous fees. Yet significant gains must be made before the households who depend on credit cards to meet their needs are getting a decent deal. This regulation would make it possible for households to fully understand the terms of borrowing before engaging with a lender. Research on lending practices from the Pew Health Group reveals that there are other areas where the CARD Act comes up short. While the Act requires lenders to apply payments in excess of the minimum payment to the balances with the highest interest rates, according to Pew: "the law continues to allow issuers to credit the entire minimum payment amount to low-rate balances. This rule may give issuers an incentive to increase the size of the minimum payment due."[14] The practice also prolongs the accumulation of interest in consumers' highest balances. Instead, new standards should require that all payments are applied to the balance with the highest interest rate first.

CREDIT SCORES

- **FAIR AND ACCURATE CREDIT SCORES** Borrowing is critical to the growth – and in many cases subsistence – of American households. With terms of credit determined by credit scores it is a fundamental aspect of economic security that the credit reporting system be transparent, accurate, and fair. Our survey found that 12 percent of households with poor credit believe there are errors their credit reports that damaged their score. In our recent report, Discrediting America, Dēmos found that the credit rating industry falls short on basic standards of fairness and accuracy, and we detailed a number of recommendations to correct the problems. The CFBP must play a greater role in monitoring and enforcing the accuracy and accessibility of credit reports, so that consumers have access to the information that employers, lenders, and landlords use to judge creditworthiness and to ensure that the information provided is correct. In addition, reporting of adverse information should be regulated to reduce inconsistencies and duplication, with medical debt, disputed accounts, and credit products deemed unsafe excluded from reports and scores.

- **BAN EMPLOYMENT CREDIT CHECKS** In the midst of the worst economic downturn in decades, millions of Americans are out of work and struggling to keep up with bills for even the most basic expenses. What they need more than anything is a job. But for too many people, access to employment is blocked by the growing practice of employment credit checks. Employers in the public and private sectors now routinely check the credit histories of prospective employees and may use the information to deny them jobs. Credit checks exclude qualified applicants — including people whose credit was damaged as a result of medical debt, divorce, layoffs, predatory lending, identity theft, or other events beyond their control — from the employment they desperately need. Credit checks also discriminate against low-income people and people of color, who have been disproportionately impacted by the economic downturn. Credit reports are marketed to employers as a means to gauge an applicant's character or likelihood to commit theft or fraud. Yet no empirical evidence has demonstrated a correlation between personal credit reports and propensity to commit a crime. In fact, one study recently featured in the New York Times found no such correlation.[15] A spokesperson for TransUnion, one of the major credit reporting companies, even admitted: "we don't have any research to show any statistical correlation between what's in somebody's credit report… and their likelihood to commit fraud."[16] Credit reports can be a good indicator of the tremendous economic stresses that are facing households, including whether they have had to incur debts to pay for basic expenses or medical care, but they are not a crystal ball revealing who will be a reliable employee. The United States should enact the Equal Employment for All Act, following on the growing number of states that have taken action to restrict the use of credit checks in employment.

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