Rising Credit Card Debt

Those of us who tracked changes in personal finance behaviors following the 2008 Great Recession noted a few trends: Credit card debt decreased drastically, credit cards and home loans were more difficult to obtain because of banks protecting against risk, and personal savings increased. Home prices plummeted. Huge chunks of household wealth and retirement savings seemed to vanish into thin air. Over the coming years we began to hear new terms including "The Lost Generation" describing working adults in their mid 30s to late 40s who lost valuable time in building investments and experienced substantial losses in their home equity.

We thought – or hoped – that the consumer culture would take on some new skills and habits involving debt. We looked back in time at the financial thrift that our ancestors who lived through the Great Depression carried into the future and we hoped, perhaps, our own thriftiness might be the side effect of going through such a hard experience.

In the past five years, we saw student debt begin to climb, overtaking all consumer debt balances outside of mortgage debt, and seeming to replace credit card debt. As the issue of student debt rose to prominence, we also saw auto debt picking up in numbers as one of the fast growing types of debt. Then, in 2016, we began to see the unthinkable. Credit card debt has begun to rise again, consumer savings is decreasing, and sadly, it appears our culture may be falling into some old habits.

"I had every reason to give myself a pass on learning to manage my spending and my choices. Things were hard. We watched every single penny. I finally realized that me getting my finances and my credit report in good shape was an investment I wanted to make in myself. It was a lot of work, but I did it. I even had my mom open a savings account in another state which I saved into. I told her if I ever called her asking for money, no matter what I said, that she should never give it to me! That money is still there, and growing. I still call my mom from time to time for a balance check in on it."

Julie, CCCSOK.org graduate

Americans are spending more and creating more personal debt than ever before. This is happening along with more access to their credit reports and better credit scores. According to the latest analysis from the Fair Isaac Corp., the national average FICO score is now 695 – the highest it's been for at least a decade.

Yet, major misunderstandings about credit cards persist. Bankrate.com conducted a survey that found that 77 percent of Americans don't know that accounts with high outstanding balances hurt their credit scores, even if they pay the bills on time, and 55 percent said that carrying a balance can improve their credit scores.

Rewards credit cards have an average annual fee of $58 per year, and consumers have an average of 2.3 rewards cards. Almost a third — 31 percent — of U.S. adults who have rewards cards with an annual fee don't know how much their fees cost them each year.

The group that has been impacted the most by their lack of credit card knowledge is millennials, people age 18 to 34. While the average score is up overall, more than half of millennials reported FICO scores below 670 according to a recent NerdWallet analysis.

Millennials with low FICO scores — between 300 and 579 — actively seek new credit cards more often than other millennials, but are approved less frequently. This outcome suggests that millennials are seeking credit in all the wrong places, and this knowledge gap is perpetuating a vicious cycle that can lead to damaged credit.

When a consumer applies for a new credit card, his or her credit score will suffer a small ding called a "hard" credit inquiry. The more inquiries the consumer has, the riskier he appears to be to lenders and the lower his credit score will likely be. The inquiries can be even more damaging if the consumer has no credit or a short credit history. As consumers apply for the wrong cards and are rejected, they'll continue collecting hard inquiries, which will ultimately negatively affect their credit scores and in turn hurt their chances of being approved for a card.

American Credit Card Debt Statistics & Key Findings - Updated May 2016

- Average American Household Debt: **$5,700**. Average for balance-carrying households: **$16,048**
- Total Outstanding U.S. Consumer Debt: **$3.4 trillion.** Total revolving debt: **$929 billion**
- **38.1% of all households** carry some sort of credit card debt.
- Households with the lowest net worth (zero or negative) hold an average of **$10,308** in credit card debt
- **Average Oklahoman Household Debt: $5728**

CCCSOK.org can help Oklahomans gain control over their credit card debt and improve their credit score. We will provide focused content so that participants feel that the program content is relevant and immediately applicable to their particular situation. Our ultimate goal is to provide participants with the skills needed to effectively tackle credit card debt and make positive financial choices.

Many individuals, particularly young adults, lack the knowledge necessary to make sound financial choices, as evidenced by falling savings rates, mounting consumer debt, and a growing dependence on credit cards to pay for every day household expenses. These indicators suggest that access to financial literacy programs is a pressing need in our community.

> *"I wanted to talk to thank you for helping my wife and I through one of the toughest times in our lives. We have grown as people because of your program. At the time in our lives when we started the program I was afraid our marriage might not survive. The calls would not stop and things seemed to be snowballing out of control.*
>
> *Your debt management plan changes thinking and lives we know that you can't just simply throw money at the problem and get it to go away, you truly have to change the way you think. We will not use credit in the future except for a home and vehicles. We have found that we can always wait for those little things that we want in life and that they mean very little compared to being debt free!"*
>
> *Debt Management Plan Graduate who repaid $67,000 in credit card debt*

If there are no programs in place to address the problem of growing credit card debt, the personal effect can be devastating:

- Inability to handle financial emergencies such as natural disasters, death, or loss of a job
- Increased stress which can lead to serious physical and psychological problems
- Fear and panic – afraid to answer the phone, open the mail, or answer the door. Paranoia can affect relationships with family, friends, and co-workers
- Anger – at one's self, creditors, and family. This can lead to impulsive behavior, violence, and illegal activities
- Depression

Debt beyond the means of repayment is ranked #5 on the Society of Occupational Medicine's "Life Events Inventory," which ranks the psychosocial stress of 100 life events.

CCCSOK.org can help give Oklahomans relief by teaching them how to identify the financial reasons for their debt through getting help with debt management and by giving them guidance in repayment and budgeting. In addition, we can help these people develop a long term plan to manage their household finances and debt.

We want to see people succeed. People who work hard to steadily pay off debt through a number of years and personal sacrifice tend to keep their debt down. They've worked too hard to get out of debt to go back into debt.

https://www.nerdwallet.com/blog/credit-card-data/Consumer-Credit-Card-Trends-Study/

http://www.valuepenguin.com/average-credit-card-debt