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U.S. Consumer Debt Grows at Alarming Rate

Debt Burden Will Intensify When Interest Rates Rise

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Feeling besieged by all those post-holiday credit card bills? Struggling to dig out from an avalanche of debt?

You are not alone.

According to the latest figures from the Federal Reserve, America's consumer debt has topped $2 trillion for the first time, continuing what debt experts view as an alarming surge in recent years.

To some, the nation's consumer debt, which dwarfs that of any other country, represents the kind of "bubble" that the stock market grew into during the 1990s.

"It's a huge problem," warns Howard S. Dvorkin, president and founder of Consolidated Credit Counseling Services Inc., a nonprofit debt-management organization. "You cannot be the wealthiest country in the world and have all your countrymen be up to their neck in debt."

Robert D. Manning, a leading expert on the credit card industry, sees families as likely to come under even greater stress as interest rates -- currently near historic lows -- inevitably rise.

"That's one of the trends that's really going to kill the American consumer in the next downturn," he says. "It's just impossible to keep these interest rates this low for much longer."

Tied to the record consumer debt levels has been a surge in personal bankruptcies, which reached an all-time high of 1.6 million households in 2003.

In its latest statistical release on consumer credit, the Federal Reserve reported Thursday that consumer debt reached $2.004 trillion on a non-seasonally adjusted basis in November, the latest reporting period.

The figure covers most short- and intermediate-term credit extended to individuals, including car loans. It excludes loans secured by real estate, such as home mortgages. When mortgages are taken into account, the nation's households owe close to $9 trillion, Manning says.

The $2 trillion figure represents a doubling of America's consumer debt in less than 10 years. According to the Federal Reserve, the debt topped the $1 trillion mark for the first time in December 1994.

Of the total, commercial banks are owed the largest share, nearly $624 billion. More than $740 billion of the total is revolving credit, while $1.264 trillion is nonrevolving.

On a seasonally adjusted basis, the consumer debt reached nearly $1.995 trillion in November, also a record. The only good news in the Federal Reserve figures, debt experts said, was that the seasonally adjusted debt grew at an annual rate of 2.4 percent for the month, down from 5 percent in October and 6.9 percent in September.

But the overall problem may be worse than the latest record debt level indicates, said Manning, author of the book, "Credit Card Nation: The Consequences of America's Addiction to Credit." He traces the problem to a credit economy in which credit cards have become "yuppie food stamps," akin to a "social-class entitlement" rather than an earned privilege. Now, government figures show that three out of five U.S. families have credit card debt.

"What's alarming is that [the consumer debt figure] doesn't accurately reflect the true distress on various segments of the American population," he said. Not included in the Federal Reserve figures are "new kinds of hybrid financial institutions and new loan products," such as those offered at rent-to-own stores. There, interest rates typically work out to more than 200 percent a year, and sometimes more, Manning said. In one such store catering to middle-class African Americans, he said, the annual interest rate came to 800 percent.

Overall, Manning said, "the cost of borrowing on credit has tripled in real terms since the early 1980s." While many credit card companies offer zero percent introductory interest rates to customers with good credit, he said, the rates typically jump after the introductory period, and many Americans do not qualify for the low rates in the first place.

Although the credit card industry says average household consumer debt comes to $9,000, Manning said, it is actually closer to $13,000 when the roughly 40 percent of households that pay their balances each month are taken out of the equation.

"In the old days, the best customer was someone who could pay off their loan," said Manning, a professor at the Rochester Institute of Technology in Rochester, N.Y. "Today the best client of the banking industry is someone who will never pay off their loan," because then the client is more likely to incur fees. In 2002, the average household consumer debt translated into $1,700 a year in finance charges and fees, he said.

In the long term, Manning said, the burgeoning debt "means our standard of living has to go down."

Dvorkin agrees. "It's going to result in people having to work longer," he said. "Effectively, if this continues, the average American will not have enough to retire on and will not be able to retire."

The record consumer debt also dovetails with other social problems, Dvorkin said. More than half of all marriages end in divorce, and "the number one cause of divorce is financial pressures," he pointed out.

After reaching a new record last year, personal bankruptcies "will continue to grow," Dvorkin said. "It's very scary."