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Credit Card Debt a \$915 Billion Disaster-in-Waiting for Banks

Tuesday, November 6, 2007 8:14 PM

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By: Newsmax Staff

Think the estimated subprime debt load carried by the big international banks is big, at \$1 trillion?

How about this: Americans now owe nearly as much – a record \$915 billion – on their credit cards alone.

And defaults and delinquencies in the credit card sector are piling up – which means big banks are on the hook, again. More sand in the gears for the global economy.

Credit card companies wrote off 4.58 percent in payments between January and May, almost a third more than in the same period in 2006, according to Moody's Investors Service. As a result, lenders such as Citigroup, Bank of America, and



Fears are now rising that U.S. consumer credit card problems could ripple out into the global credit market, starting in Europe.

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American Express, among others already reeling from the subprime mortgage disaster, are being further weakened.

Not to mention the staggering U.S. economy, which is so dependent on a vigorous consumer credit sector to keep it healthy. Seventy-two percent of the U.S. economy rides on consumption alone.

Third quarter numbers for banks were the worst since 2001. First Citigroup took a 57 percent hit in earnings. The decline was attributed, in large part, to consumer-credit problems. Anticipating additional defaults, they stashed away \$2.24 billion in loan-loss reserves.

Other major banks also took a beating and are also preparing for the expected credit card delinquencies and defaults.

American Express added 44 percent to its U.S. card division loss reserves. Bank of America, Capital One and Washington Mutual are all expecting at least another 20 percent in credit card losses over the next two to four quarters.

An increase in credit card balances and first-time cash advances were cited by Citi Chief Financial Officer Gary Crittenden as indicators of possible trouble to come. The change in loan losses was "inherent in the [Citigroup] portfolio but not yet visible in delinquencies," Crittenden told Fortune magazine.

An increase in bankruptcies is a major contributor to credit card defaults, according to Jay Eisbruck, managing director of Moody's Asset-Backed Finance Group.

Falling home prices and rising gasoline costs also add to bankruptcy woes. U.S. home prices fell 3.2 percent in the second quarter, the sharpest decline since 1987, according to Standard & Poor's.

As home prices fall, homeowners have a harder time getting cash by refinancing high-rate mortgages. The high cost of gas, often purchased with credit cards, doesn't help either.

On Monday, the national average price for a gallon of regular gasoline was \$2.971, according to the U.S. Energy Department, up 10 cents from last week, and the highest since the peak summer travel period of August. A three-buck a gallon average is inevitable, say analysts.

Low- and middle-income workers who must drive to work have been hardest hit by the increases, further boosting delinquencies and defaults.



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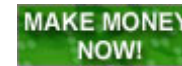
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Fears are now rising that U.S. consumer credit card problems could ripple out into the global credit market, starting in Europe. Deutsche Bank, for example, is now "...in a heightened state of alert to monitor a potential domino effect," says the bank's U.S. analyst, Michael Mayo.

In the U.K., homeowners are reportedly using their credit cards for mortgage payments. Credit card interest typically runs much higher than mortgage rates, so reducing one debt by increasing another at a higher rate can be the first step on the road to default and eventual bankruptcy.

The U.K, usually 18 months ahead of the U.S. in its credit cycle, is perhaps a harbinger of things to come in the U.S. credit picture.

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