Credit card debt continues to increase in US

Consumer Watch
Bill Moak
Columnist

Americans are amassing a staggering amount of credit card debt. According to a report issued this week by Nerdwallet, U.S. cardholders have a cumulative total of about $944 billion on their credit cards, with about half of that amount carried month to month (known as revolving credit).

While rising credit-card expenditures are not always considered an economic negative (they indicate strong spending and a robust economy), the amount of interest-producing debt that consumers carry month to month can hobble consumer choices and strangle what should be an increasing amount of savings. And, with economic forecasters pointing to the prospect of an interest-rate increase soon, the problem could get worse for many people. The report found that the average U.S. household with credit card debt owed nearly $7,000 in revolving balances, often with high interest rates that make them more difficult to pay off. For cash-strapped consumers whose paychecks haven't kept pace with increasing prices of household goods and little or no savings in the bank, it's like trying to claw your way out of quicksand. It also holds down your credit score, keeping you from getting better deals and even hurting your chances of getting a better job.

"Credit card debt is the stain on millions of Americans' finances that doesn't scrub off easily, if ever," noted NerdWallet credit card expert Kimberly Palmer. "High interest rates combined with expenses that continue to outweigh income mean that some households are unable to fully rid themselves of debt and, in fact, continue to take on more." While previous estimates of the median household debt have been higher in previous years, the lower figure reported this year is the result of a "sharper focus" on revolving debt. Since about half of credit-card debt is paid off every month by consumers using their credit cards as regular payment vehicles to take advantage of credit-card program perks such as airline miles, that spending doesn't indicate economic problems. Revolving debt, though, is another matter.

"...The increase in total revolving credit card debt is more likely to indicate potential problems — for example, consumers charging purchases that they can't afford, whether those are necessities that their income doesn't cover or nonessentials that they decide to take on debt to acquire," Nerdwallet noted.

The report did point out some good news from recent financial data: As the economy improves, household income is finally beginning to outpace costs for many living expenses. Medical costs and eating out are exceptions to that positive trend, though.

There is a potential sleeping giant in the numbers, which could wreck a great many budgets — student loan forbearance. As consumers try to pay off student loans and experience financial hardships, they can "pause" payments for a time, but interest continues to accrue. The report found that the average student loan holder (there are currently about 42 million of them, according to the U.S. Department of Education) owes about $43,538. A year of forbearance for that typical consumer would add about $2,199 to their balance. Once the forbearance period ends, the consumer resumes paying the loan, including the additional debt accrued during the pause.

Nerdwallet student-loan expert Teddy Nykiel cautions that forbearance shouldn't be used lightly. "Forbearance is almost as bad as a student loan repayment strategy that skips payments altogether," noted Nykiel. "Balances grow, borrowers feel overwhelmed, and it doesn't make loans more affordable in the long run." While not without its bright spots, the report is largely gloomy. But there are solutions to eliminating that debt. You can go with Dave Ramsey's "rice and beans, beans and rice" approach (meaning that you drastically cut every available expenditure and find creative ways to stretch dollars), or you can shop around for credit cards that offer better rates or even zero-interest options to eliminate your debt faster.

As for motivation, perhaps there is no bigger reward than just knowing you're delivering a knockout punch to your debt. Nerdwallet's study asked consumers to name the thing that would most motivate them to get serious about removing credit-card debt, asking them to choose from various motivators such as having support from others or promising yourself a reward. The top answer: "Seeing credit card balances go down." It seems that success is its own reward.

Contact Bill Moak at moakconsumer@gmail.com.