Building Strong Families

Money Matters

Updated Research and Trends
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Many national studies show that financial management difficulties can affect families of all types and at all levels of income. In fact, consumers spend almost 19 percent of their disposable income on debt payments (e.g., housing and consumer debt, automobile leases, homeowners’ insurance, property taxes). Furthermore, families who rent spend more of their disposable income on debt than do families who own their own homes (26 percent compared to 18 percent).

In 2008, the average American with a credit file held $16,635 in debt (excluding mortgage debt). About half of U.S. households have credit cards with balances and average household credit card debt was $10,679 at the end of 2008. Although lower-income families are no more likely than higher-income families to be in debt;

- The number of low-income families experiencing debt hardship (total family debt greater than 40 percent of total family income) has roughly doubled during the last 20 years and;
- Low-income families have experienced little increase in their income, yet have accumulated debt faster than any other income group.

Although the global financial crisis has decreased credit opportunities for families (which has slowed still-rising consumer debt rates), it has also resulted in families having lower household wealth/net worth. Declines in household wealth, along with rising interest rates and employment instability, have caused more families to face debt hardship.

This high level of debt threatens households’ well-being and creates a tremendous amount of stress for families. Consumers either paying late on their loans or not paying their loans (i.e., loans at least 30 days past due) has increased during the last few years, with delinquency rates currently about 5 percent for credit card loans and 3 percent for other consumer loans. Bankruptcies have also risen during the last couple of years, with more than 1 million families and individuals filing for relief of their debts in 2008. Bankruptcy is not limited to any one socioeconomic group and, in fact, is more extensive among upper-income families.

2008 Missouri statistics

- The number of households that filed for bankruptcy is 24,720, which is an 18.4 percent increase from 2007.
- One household went bankrupt every 21 minutes.

Bankruptcy alternatives

There are several possible alternatives to bankruptcy for those in financial trouble. Many companies offer these services and will negotiate with creditors on a client’s behalf or provide lending services. It is important that the household considers a reputable professional to handle the situation and makes sure nothing is done to make the situation worse. Not all alternatives are the same and some may still have a negative affect on one’s credit rating, so it is important to investigate all options wisely.

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Debt counseling service
A first step could be to contact a reputable counseling service to discuss your options. These organizations typically provide financial education, help with repayment plans and budgets, or provide assistance with some of the options below. Good places to start include:
  - The National Foundation for Credit Counseling provides services, counseling, lists of approved counselors nationwide and guidelines for selecting legitimate counseling services. Go online to http://www.nfcc.org or call 1-800-388-2227.

Debt management plan
Generally an option for those with more severe debt, these plans (facilitated through not-for-profit credit counselors) consolidate monthly payments and obtain payment or interest reductions on unsecured debts.

Debt consolidation loans
These typically involve borrowing against home equity in order to pay down credit card debt. Although borrowers may be able to pay off higher interest rate loans with one low interest rate loan, a borrower could lose his or her home if unable to pay the loan. Given that home prices in many areas have decreased significantly due to the economic crisis, at this time debt consolidation loans may not be the best option, as they may be neither affordable nor something families may qualify for until the economy bounces back.

References


