

# A CULTURE OF DEBT

BY THERESA D. SIMS

**O**ur culture has produced a nation filled with people who cannot wait for personal satisfaction. We want pleasure and our passions fulfilled and we want it done now. Many people believe that they are entitled to certain things and are not cognizant of the fact that you must ultimately pay for everything you get. This mindset has resulted in financial devastation for many Americans.

Everywhere we look we see things that will make us “happier.” The consumer marketing industry has most of us convinced that “bigger” is indeed “better” and that our success is tied to our possessions. So, we work hard to amass more and more. What does our culture tell us are the signs of success? A single home in the suburbs, a luxury car, designer clothing, and fine jewelry. Does it matter if we cannot afford it? No, the consumer credit industry is more than happy to help us obtain our “American dream.”

## LET'S VISIT WITH SUZIE

Suzie is 30 years old and makes \$30,000 annually and brings home \$1,800 a month. Her philosophy is “why work if you don't enjoy the fruits of your labor”. She decided to make a wise investment and instead of renting she purchased a \$100,000 home at the age of 25. She thought she could afford it. At the time she purchased her home, she was taking public transportation. She lost her job and her new job is not accessible by public transportation. So, she did the logical thing – she purchased a car. She was convinced by the salesperson that she could afford a new Lexus. Well, she decided that she hasn't purchased clothing in a number of years and fashions have changed significantly since then. So, she opened up a consumer credit account at her local department store. It has been 5 years. Today, Suzie has more than \$300,000 worth of debt, 33% of which is related to her home and 15% of which is related to her car. The rest of her debt was amassed through purchases on her credit cards. Did we mention that her lowest interest rate is 19% and her highest is 26%?

## THE STATS

Not everyone who has accumulated debt in this nation has done it like Suzie. However, the truth is that Americans are up to their ears in debt. The average American family has 8 credit cards with a total balance of \$8,000. At the end of 2003, there were 1.3 billion credit cards in circulation. Only 38% of those who hold credit cards pay their monthly bills in full and 33% pay the minimum balance. In my lifetime, credit card debt has increased 6,000%. Since 1968 credit card debt has increased six thousand percent from less than \$10 billion to \$600 billion in 2004.

## HOW DID WE GET HERE?

Well the answer isn't simple, but here are a few reasons.

### **Income Growth - Income Plummet**

The average American income reached record highs in the 1980's and 1990's. We then began to adopt the attitude the more you make the more you spend. Not only did individual income increase, but we saw a significant shift from one income homes to two income homes. The growth in income and spending was then followed by massive layoffs in the 1990's and continued layoffs over the last five years. Unfortunately, many of the individuals who have found new jobs have done so at a loss of income.

### **Ability to Pay Debt**

Credit card companies were quick to supply Americans with new credit without evaluating their ability to pay off current debt. That meant that many Americans whose finances were pushed to the limit were able to obtain new lines of credit, making a bad situation worse.

### **Changing Times**

According to Elizabeth Warren and Amelia Warren Tyagi, the co-authors of *The Two Income Trap: Why Middle-Class Mothers and Fathers Are Going Broke*, "just at the time when parents got caught in a vicious bidding war for middle-class housing, just as the cost of college tuition and health insurance shot into the stratosphere, just as layoffs increased and the divorce rate jumped, a new player appeared on the scene. A newly deregulated lending industry emerged, eager to lend a few bucks whenever the family came up short."

Today, when a two income family loses one of their incomes, they are strapped. In the past, if a husband lost his job then the wife could step in and help close financial gaps. For many families that just is not the case. As a result, many people are relying on

creditors to extend them additional credit in order to close the gap between what they have and what they need to pay. Unfortunately, creditors are willing to oblige many of these families.

### **Uneducated Consumers**

At the end of the day, consumers are simply not educated on the impact and responsibility of carrying debt. No matter how many credit card applications I receive in the mail and how tempting a television ad might be, ultimately, I am responsible for my financial solvency or lack thereof. I know that I am stepping on toes at this point. The fact is that Americans would not be in the predicament that they are in if they made different choices.

However, we also know that knowledge is power. When I have an understanding of the banking industry and a healthy respect for money, then I will (hopefully) make different decisions. We live in a country where we teach our children how to read, write and do arithmetic. We teach our children (hopefully) how to be godly moral agents. However, many families do not pass on financial wisdom. As a result, we leave it up to our children in their adulthood to negotiate the sometimes murky waters of finances.

## **WHAT YOU SHOULD KNOW**

- **Be a “deadbeat.”**  
*Contrary to many of our popular beliefs, we are not the federal government and should not spend more than we can afford to pay back. We should strive to be a “deadbeat,” which is the credit card industry’s label for people who pay their balances off in full every month. The credit card industry considers those who carry balances their best customers.*
- **Count the cost.**  
*The \$500 shopping spree you just went on may cost you a great deal more if you charge it. If you have a \$500 balance on a credit card with 18% annual interest and you pay the minimum amount due, it could take you 2 years and 8 months to pay off the debt. Your \$500 purchase will cost you almost \$650.*
- **Pay your debts.**  
*As Christians, we are told that we must pay off our debts (Psalms 37:21). If it took you five years to accumulate debt then you will most likely not get out of debt over the next three months barring a financial windfall. Some creditors will work with you as you work to pay off your debts.*

- **Missing payments may cost you.**  
*A credit card company can raise your interest rates with them if you are late on a payment with one of your other creditors. In addition, your interest rates can be raised if you go over your limit or receive additional lines of credit with other creditors.*
  
- **There is no limit on the late charge amount a credit card company can charge a cardholder.**  
*Late is defined by the creditor. If your payment is due at 12:00 noon and you pay it at 12:01 pm then the creditor can legally charge you a late fee. Late fees can be larger than the minimum monthly balanced owed.*
  
- **There is no federal limit on the interest rate a credit card company can charge.**  
*As a result of two Supreme Court rulings, banks can charge as much interest as the market will bear unless there are state usury laws where the creditor is incorporated. That is why most creditors are located in South Dakota and Delaware which have the most lenient usury laws in the nation. The top credit card interest rates are between 25 and 30%.*
  
- **Negotiate.**  
*After you have paid your credit card debt consistently for six months, contact your creditor and negotiate a lower interest rate.*

Know that it is never too late to get a handle on your debt. It may mean that you will have to cut up your credit cards, seek credit counseling with a reputable company, move into a more affordable house or trade your car for one that is more affordable, and/or seek additional employment to relieve some of your debt. The most important thing you can do right now is to stop spending.

The holiday season is upon us and you will be tempted to purchase gifts that you do not have money to pay for. Covenant with yourself that if you cannot pay cash for an item then you will not purchase it. It will be difficult for many of you, but it is doable. Your long term financial, physical and spiritual health depends on your ability to get from under the load of debt you are carrying. †