Credit-Card Debt Continues to Fall, Reaching $790.1B

William H. Wells
In September 2008, credit-card debt reached a whopping $975.7 billion. By April 2011, that total had fallen by $185.6 billion to $790.1 billion. Remarkably, the decline in credit card debt continues while total consumer debt is increasing.

In the first quarter of 2011, total consumer credit rose 2.4 percent while credit-card debt fell 4.8 percent. The reduction in credit-card debt may be attributed to a single goal, achieved through two pathways. Consumers may reduce debt by paying down balances or walking away from their obligations.

In the later case, banks are forced to charge off delinquent balances. The result is the same — lower debt. The study reports that in the third quarter of 2010, 7.4 percent of consumers were current on their credit-card debt but delinquent on mortgages. For the same time period, 3.03 percent of borrowers were current on their mortgages and delinquent on credit cards.

The long-held belief that home ownership is a sacred investment, providing stability, defense against inflation and a retirement nest egg has been shattered. Employment and inflation uncertainties have led many owners to reevaluate their priorities. Credit cards provide security in the form of ready purchasing power for essentials. Mortgage obligations become less important in the face of continuing declines in property values.

Today’s credit card offers differ noticeably from offers of the past. Long periods of 0 percent are fairly standard. Almost all offer balance transfer options but almost always charge a fee ranging from 3–4 percent of the transferred amount. Opportunities exist for you to reduce your credit-card payments and, or, more quickly pay down your debt by transferring balances and taking advantage of 0 percent offers. But be wary. Banks charge a transfer fee (prepaid interest), and standard interest rates may be higher than your current rate. If you fail to pay down your credit-card debt, you may end up paying more interest, not less.

William H. Wells is the associate dean and an associate professor of finance for the College of Business Administration for Georgia Southern University. You can contact him at wwells@GeorgiaSouthern.edu or at 912-478-5432.