

## Study Shows the Hazards of Credit Card Indebtedness

After the financial crash in 2008, credit cardholders cut back on their credit card usage and issuers cut back on their lending. As a result, credit card balances fell for 27 straight months and revolving credit declined \$178 billion from its peak.

But there is still a large group of Americans who are indebted to their credit card.

A new study released by Demos, "Understanding the Debt Difference," examines credit card usage among low- and middle-income families and shows the effects of credit card indebtedness. It compares the difference between households who had credit card debt (defined as households with revolving balances on their credit card for three months or more) to a non-indebted group that did not carry a balance on their credit cards.

According to the study, indebted families use credit cards to pay for basic expenses and make up for their lack of assets. However, this reliance on a credit card increases a fam-

ily's economic vulnerability and increases the reliance on credit cards in the future. The families with credit card debt are more likely to have experienced unemployment, an unexpected medical expense, or a loss of

**It becomes an unending cycle of increasing debt and swelling interest payments**

health insurance.

"This study is a reminder that credit card debt has harsh consequences for the households which have no other options," says Bill Hardekopf, CEO of LowCards.com and author of The Credit Card Guidebook.

"If you don't have assets, a credit card may be the only way to pay for essentials. But once you are caught in this trap, it is

difficult to save and build up the resources that will help you get through the next crisis. It becomes an unending cycle of increasing debt and swelling interest payments."

Among the low- and middle-income households that carry credit card debt, the average card debt was \$9,799. Over half (52%) have had the same or more debt than three years ago. 54% of these households have been late or missed a credit card payment.

37% of families are still paying off a credit card they cancelled.

Here are additional results of the study:

- \* 41% of indebted families did not have enough money in their checking or savings accounts—and as a result, have used a credit card—to pay for basic living expenses such as rent, mortgages, groceries, utilities or insurance. Only 18% of non-indebted households used credit cards to pay for these basic living expenses.

- \* Indebted households are less likely to be homeowners than households without

debt. If they do have a home with equity, indebted households have 54% less home equity (an average equity of \$93,564) than households without credit card debt (an average of equity of \$166,997)

- \* 39% of indebted households had at least one member of the household lack health insurance in the last three years versus 25% for non-indebted households.

- \* Working-age families with credit card debt were more likely to be unemployed for at least two months in the last three years. 37% of working-age families with credit card debt experienced this level of unemployment compared to 22% of households without credit card debt.

- \* One startling note: indebted households were more likely to hold savings or checking accounts, but the value of these accounts was lower. 82% of households with credit card debts held these liquid assets; the average value was \$4,348. 79% of households without credit card debt held liquid assets, but the average value was more than double—\$9,845.

### Dollars & Sense

## Your Financial Records' Chaos

Are your file cabinets overflowing? Are you awash in a sea of old checks, bank statements and pay stubs? Get organized with a plan that purges the unnecessary and ensures you've saved what you need to keep the IRS happy should they come calling.

While it's tempting to hang onto every piece of paper in case you need it, there are documents you can go ahead and get rid of say financial planning experts at the Oregon Society of CPAs. Reducing that burden will help you be more organized with the documents you do need to keep.

### Why Am I Keeping this Stuff Anyway?

There are many reasons to keep records. In addition to tax issues, you may need to keep records for insurance purposes or for getting a loan. Good records will help you identify sources of income, keep track of expenses, prepare your taxes, support your tax return, and keep track of the "basis" of your property (the actual cost of your home and any improvements).

### What to Keep, How Long to Keep it

IRS Publication 552: Recordkeeping for Individuals is available on the IRS website and describes basic records you should keep to prove your income and expenses. You can use it along with the suggestions in this article to create your own "Record Retention Plan." It can be a simple document—a checklist—of all the different kinds of paperwork you have and your decision about how long to keep each type.

Copies of tax returns. Keep these as part of your tax records. They can help you prepare future returns, and you will need them if you file an amended return. Keep copies of your tax returns for six years.

Year-end mutual fund and brokerage statements. Keep the year-end versions for at least three years after the due date of your tax return. If you are self-employed and, when you prepared your tax returns you owed the IRS money, you should keep all your records at least six years. That's how long the IRS has to come back to conduct an audit. Some financial planning experts advise self-employed workers to keep all financial records for at least six years.



the "I can't believe it's mine" home



the "make room for more" home



the "you and me at last" home

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