THE Skanner

Challenging People to Shape a Better Future Now

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Opinion

New CFPB Report: Nation's Credit Card Debt Passes $1 Trillion

Charlene Crowell
Guest Columnist

For the first time since the Consumer Financial Protection Bureau (CFPB) began collecting credit card data, the nation's related debt reached an all-time high of $1 trillion in 2022. New research released in late October examines how and why this debt grew, but also how emerging trends in card usage affect the day-to-day lives of consumers.

While companies charged consumers more than $105 billion in interest and more than $25 billion in fees, average credit card balances per cardholder returned to about $5,300, about the same as before the pandemic. At the same time, more cardholders are being charged late fees, falling behind on payments, and facing higher costs on growing debt.

Today nearly one in 10 consumers is caught in what CFPB terms 'persistent debt', charged more in interest and fees than they pay toward the principal owed, a pattern that makes each passing month's charges increasingly harder to avoid. Average credit card minimum payments on revolving credit accounts now reach over $100 per month and are also a contributing factor to rising late fees and overall debt.

"With credit card debt crossing the trillion- dollar mark, we will be working to prevent bait-and-switch tactics when it comes to rewards and to increase refinancing activity so consumers can get lower rates," said CFPB Director Rohit Chopra.

Increased indebtedness also translated into record industry profits, now higher than those reached in pre-pandemic years. Two key factors, according to the report, significantly contributed to industry profitability: an average APR margin of 15.4 percentage points above the prime rate in 2022, and only 10 credit card companies dominating the marketplace.

Although the nation has nearly 4,000 credit card issuers, four-fifths – 80 percent – of the card activity was with one of the firms in the top10.

The highest credit card APRs are, as with other consumer financial products, among consumers who carry high credit card balances, missed payment(s), or delinquent accounts, and have subprime credit ratings, scores of less than 670 in a range of 300-850. Consumers who have filed bankruptcies can also expect that action to affect their credit scores for seven years thereafter.

A 2019 report by Experian, one of the nation's three credit card bureaus, found that more than a third of consumers – 34.8 percent – were classified as subprime. Millennials comprised the largest number of subprime borrowers.

> "Today nearly one in 10 consumers is caught in what CFPB terms 'persistent debt'

According to Experian, "Prime consumers tend to have more mortgages and credit card accounts, while subprime consumers have more student loans and personal loans…Subprime consumers have twice as many personal loan accounts as prime consumers on average. That said, their average balance is less than half of prime consumers' average balance."

CFPB's new credit card report found that many cardholders with subprime scores paid 30 to 40 cents in interest and fees per dollar borrowed each year. Further, consumers using reward cards that earn bonus points for frequent usage, earned just 27 percent of rewards at major credit card companies, but paid 94 percent of total interest and fees for carrying debt from month to month.

Last year, and for the first time since 2015, CFPB found a spike in over-limit transactions. According to the report, "Recent changes in incidence are also driven by accounts with subprime scores. Over-limit transactions tend to be more common among lower-score cardholders since these cardholders typically have lower credit limits and higher credit utilization than higher-score cardholders, making it more likely that even a modest purchase might exceed their credit limit."

Along with high profits, CFPB's new report documents a growing consumer shift toward digital communications, websites and mobile apps now used by nearly 80 percent of cardholders to manage card usage and make payments. Among consumers ages 25 and younger, 95 percent used mobile apps for card transactions.

Read the rest of this commentary at
TheSkanner.com

Close Encounters Require US-China Military Talks

Mel Gurtov
Guest Columnist

US officials have announced that the President will meet Xi Jinping in San Francisco later this month, the first such meeting in a year. No issue is more urgent to discuss than resuming meetings of the two countries' top military brass. The reason is simple: The US and China have had dangerously close encounters in the air and at sea, all occurring in the South China Sea (SCS) area at the same time that Chinese military aircraft are almost daily flying close to Taiwan.

The Pentagon lists more than 180 times in the past two years during which US and Chinese jets have narrowly avoided collisions, all due—the Pentagon says—to "coercive and risky" maneuvering by the Chinese. Whether or not the fault lies entirely with China, as was the case in 2001 when a US navy intelligence aircraft collided with a Chinese jet, precipitating a crisis in relations, the danger is evident.

So is the underlying problem: the lack of military-to-military communications between the US and China—a situation that has existed ever since former House Speaker Nancy Pelosi's ill-advised trip to Taiwan a year and a half ago. The Chinese have consistently rejected every US proposal to restart talks.

> "None of those channels is open now, creating a communications gap

In the past, the US and China have had three channels for military discussions: annual talks between senior officials, the Military Maritime Consultative Agreement on aerial issues, and the defense policy coordination talks on crisis management. None of those channels is open now, creating a communications gap that is also relevant to another situation in the South China Sea (SCS) that could involve the US: the dangerous encounters between Philippines and Chinese ships in waters claimed by both countries, but which seem indisputably to belong to the Philippines.

The Dangerous Philippines-China Confrontations

The Chinese have amassed quite an armada of heavily armed coast guard vessels and other ships to block Filipino ships from supplying a sunken vessel on one shoal that symbolizes their claim. Now two minor collisions have occurred.

The US has no territorial claim in the SCS area, but it is a security partner of the Philippines and is engaged in joint air and sea patrols there. For a third time in recent weeks, the US has indicated that it will come to the aid of the Philippines if it or its forces are attacked, most recently when the President, on Oct. 25, invoked the 1951 security treaty with the Philippines and said the US commitment to its defense was "ironclad."

A Chinese foreign ministry spokesperson said the US "no right to get involved in a problem between China and the Philippines." The Philippines leader, Ferdinand Marcos Jr., calls China a bully. He has just shown how far relations with China have fallen by withdrawing the Philippines from involvement in the Belt and Road Initiative.

Restoring Military Talks

Given US involvement in the Middle East and Ukraine, a confrontation with China in the SCS is the last thing the Biden administration needs. Military-to-military talks are essential for mutual security. Without them, a violent incident is almost certain to happen.

The prospects for such talks have improved with Foreign Minister Wang Yi's visit to Washington last week. Biden said the two countries "need to manage competition in the relationship responsibly and maintain open lines of communication."

Wang Yi, preparing the way for Xi's visit, said his goal was to "stabilize China-US relations," but also said that won't be easy. Yet both countries have good reason to avoid a miscalculation in the SCS, not to mention in the Taiwan Strait.