Credit card crunch

by The San Diego Union-Tribune

For Americans who use credit wisely, life can be more productive and enjoyable. Used unwisely, credit can plunge families and individuals into disaster. With the focus on subprime mortgages and their effect on the broader economy, those who purchased homes they could not afford - either knowingly or under pressure from unscrupulous lenders - face the reality of losing their homes and likely their ability to borrow for some time. Foreclosures also cause banks and other lending institutions to tighten lending practices, making it harder even for borrowers with good histories to obtain credit.

Beyond the housing market, consumers also are falling behind in other types of credit. Home equity credit is tightening. Some consumers also are facing problems with auto loans that sometimes run 72 or 84 months and, like some homes, leave borrowers owing more than their cars are worth at trade-in time.

But despite all the news about consumer problems with mortgages, equity lines of credit and auto loans, credit card problems also have come to affect a growing number of Americans.

With bankruptcies going up, the banking industry in 2005 pushed legislation through Congress that made it much more difficult for consumers to discharge their personal debts. New hurdles in the law, however, have not stopped some consumers from spending more than they could afford.

According to information released by the office of Sen. Dianne Feinstein, D-Calif., the average American has roughly $9,500 in credit card debt. That's twice the average level of debt households carried 10 years earlier.

One of the things that consumers who overextend themselves tend to do is make minimum monthly payments. Using the example just cited and assuming an interest rate of 13.75 percent, a typical household making the minimum payment on $9,500 would take 35 years to pay off that debt. In doing so, the household would pay $12,000 in interest.

Feinstein has introduced legislation that might help educate consumers on minimum credit card payments, hopefully keeping many out of financial trouble. Most important, her proposal would require credit card companies to warn consumers who make minimum payments in plain language how long it will take them to pay off their debts and how much it will cost them. Specifically, Feinstein's proposal would amend the federal Truth in Lending Act, which pre-empted a 2001 California law that would have required the same warning.

The credit card industry says providing consumers with this information would be expensive. But considering how much is being made off consumers in higher interest rates, late and over-the-limit fees, it's difficult to imagine the industry's bottom line being threatened by educating customers.

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