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Credit-card debt continues to fall, reaching \$790.1B

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 credit-card debt.

While it is impossible to definitively determine the impact from either cause, recent signs suggest con-

sumers are taking the high road and paying down their credit-card balances.

TransUnion recently reported that credit-card delinquency rates have fallen to the lowest levels in nearly 15 years. This decline is attributed to a growing consumer desire to reduce debt and lenders' tight credit policies.

However, some evidence indicates many consumers are choosing to pay their credit-card balances over other debt obligations. In an earlier report, TransUnion announced that borrowers are, increasingly, electing to make credit-card payments while falling behind on mortgage payments.

Sean Reardon, author of the TransUnion study, states, "The latest data from our study show that the new payment hierarchy has persisted for longer than many industry experts initially believed, and provides evidence that consumers continue to adjust their payment behavior in response to their economic and personal financial environment."



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.

These factors are affecting credit-card markets.

You have probably noticed a recent increase in the volume of mail delivered to your home. Witness the resurgence of the ubiquitous credit-card offer. Banks are,

once again, aggressively courting qualified borrowers. Earlier this week, The Wall Street Journal reported: "U.S. credit-card companies mailed 1.4 billion offers for new credit cards in the first quarter of 2011, a 69% jump from 826 million a year earlier."

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.

Most significantly, interest rates are increasing. Even though credit card companies target individuals with higher credit scores, the cost of credit card debt is high.

What does this mean for consumers, today?

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.

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