Generation Broke

BRIEFING PAPER

The Growth of Debt Among Young Americans

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Over the 1990s, credit card debt among young Americans rose dramatically—leaving many young adults over-extended and vulnerable to financial collapse. This briefing paper documents the rise in credit card and student loan debt between 1992 and 2001 and examines the factors contributing to young adults' increased reliance on credit cards. Rising costs combined with slow real wage growth and skyrocketing college debt have eroded the economic security of today's young adults. Generation Broke is the second in a series of Borrowing to Make Ends Meet Briefing Papers documenting trends in debt among sub-groups of the population.

Key Findings

YOUNG ADULTS (25–34 YEARS OLD)

- Average credit card debt among indebted young adults increased by 55 percent between 1992 and 2001, to $4,088 (2001 dollars).
- The average credit card indebted young adult household now spends nearly 24 percent of its income on debt payments, four percentage points more, on average, than young adults did in 1992.
- Among young adult households with incomes below $50,000 (2/3 of young households), nearly one in five with credit card debt is in debt hardship—spending over 40 percent of their income servicing debt, including mortgages and student loans.
- Young Americans now have the second highest rate of bankruptcy, just after those aged 35 to 44. The rate among 25-34 year olds increased between 1991 and 2001, indicating that Gen Xers were more likely to file bankruptcy as young adults than were young Boomers at the same age.[1]

THE YOUNGEST ADULTS (18–24 YEARS OLD)

- The youngest adults saw a sharper rise in credit card debt—104 percent—to an average of $2,985 (2001 dollars).
- The average credit card indebted household in this age group spends nearly 30 percent of its income on debt payments, double the percentage spent on average in 1992.
- Among the youngest adult households with incomes below $50,000 (2/3 of younger households), nearly one in seven with credit card debt is in debt hardship.

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Introduction

The average credit card debt of Americans aged 25 to 34 years old increased by 55 percent between 1992 and 2001, to a self-reported household average of $4,088. Estimates of card debt based on aggregate data put the dollar amount as much as three times higher.[2] This age group's bankruptcy rate grew by 19 percent over the same period—so that by 2001 nearly 12 out of every 1,000 young adults were filing for bankruptcy.[3] Young adults now have the second highest rate of bankruptcy, just after those aged 35 to 44. Their rate of bankruptcy is higher than it was for young Boomers who were 25-34 years old in 1991.

Compared to the population as a whole, young adults are more likely to be in debt.

Why are today's young adults going into debt and going broke? During the boom of the 1990s, the popular media showered attention on the rising fortunes of Generation X, who appeared to be riding the tech boom to great heights. However, in 2001 adults aged 25 to 34 were showing signs that the path to adulthood had become more financially perilous than it was for the previous generation of late Baby Boomers in 1992. The major adult costs that begin to mount between the ages of 25 and 34—housing, child care, and health care—have all increased dramatically over the past decade. And the rising unemployment, slow real wage growth, and skyrocketing tuition and resulting student loan debts have combined to erode the economic security of today's young adults. Additionally, just at this time the newly-deregulated credit industry began aggressively marketing to young people on college campuses. Deregulation also brought higher rates and fees, making it increasingly difficult for young Americans to get out of debt.

Table 1. Defining Baby Boomers and Generation X in the 1992 and 2001 Data

	1992 *Aged 25-34* *(born 1958-1967)*	**2001** *Aged 25-34* *(born 1967-1976)*
Baby Boomers (born 1946-1964)	*X*	
Generation X (born 1965-1976)		*X*

Methodology. The credit card data analyzed in this brief are drawn from the Survey of Consumer Finances (SCF), a triennial Federal Reserve survey of the assets and liabilities of American families. The survey years 1992 and 2001 (the most recent data available) were chosen to allow analysis of change in debt trends during the 1990s. The survey years were also selected to allow comparison between the Baby Boomers in 1992 and Generation X in 2001. In 1992, those aged 25 to 34 were mostly late Baby Boomers, while in 2001, those aged 25 to 34 were mostly Generation Xers (See Table 1). **All debt amounts are inflation-adjusted, in 2001 dollars.**

Demos' Findings on Credit Card Debt Among Younger Americans, 1992—2001

Prevalence of Credit Cards and Indebtedness. Nearly 7 out of 10 young Americans aged 25 to 34 have one or more credit cards, a level basically unchanged since 1992. Compared to the population as a whole, however, young adult cardholders are much more likely to be in debt: 71 percent of young adult cardholders revolve their balances, compared to 55 percent of all cardholders.

Higher balances. Credit card debt among young adults has increased significantly since 1992, outpacing the rise among the population as a whole. (Table 2) The average credit card debt among indebted 25 to 34 year olds increased by 55 percent, to $4,088.

Table 2. Average Credit Card Debt Among Young Households with Credit Card Debt (2001 dollars)

	1992	*2001*	*% change 1992-2001*
All households	$2,991	$4,126	38%
Aged 25-34	$2,640	$4,088	55%

Source: Dēmos' Calculations from the 1992 and 2001 Survey of Consumer Finances

Debt by Income Level. All but the lowest-income young households experienced dramatic increases in credit card debt over the decade. Middle-income young adults experienced the fastest growth of any income group. Credit card debt rose 37 percent among moderate-income young adults earning between $10,000 and $24,999. (Figure 1A) Middle-income young adults—those with incomes between $25,000 and $49,999—experienced a 65 percent increase in credit card debt. Upper middle-income young adults with incomes between $50,000 and $74,999 experienced a 55 percent increase in debt. (Figure 1B)

Figure 1A. Average Credit Card Debt Among Low- and Moderate-Income Adults Aged 25 to 34 (in 2001 dollars)

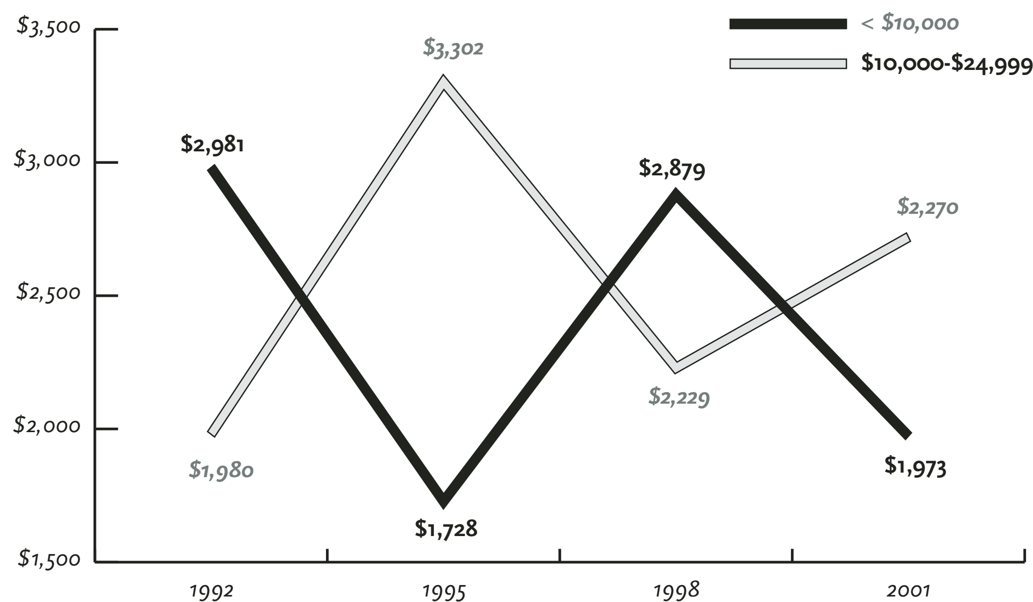
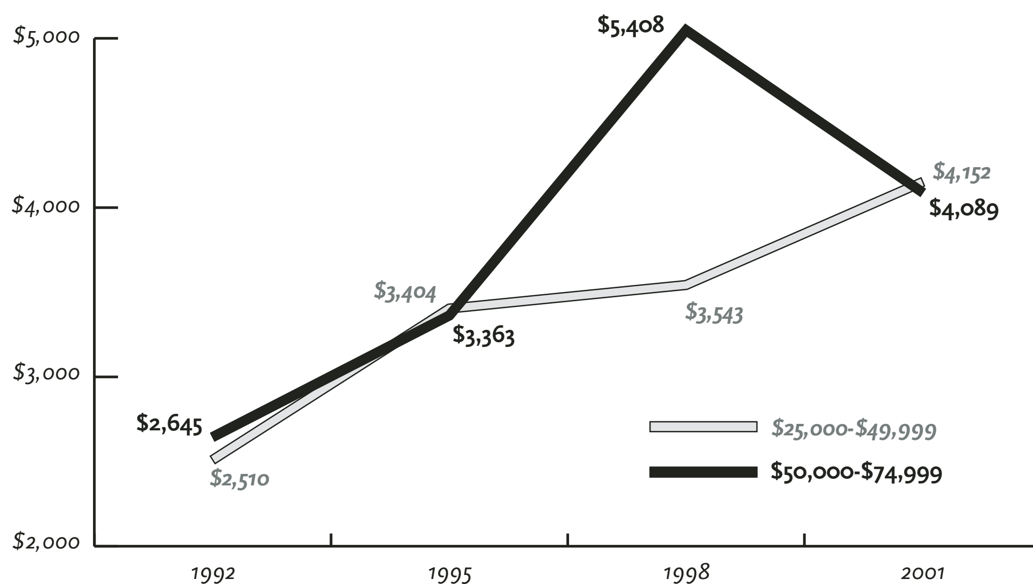


Figure 1B. Average Credit Card Debt Among Middle- and Upper-Middle-Income Adults Aged 25 to 34



The average indebted young adult spends nearly 25 cents of every dollar of income on debt payments.

Debt Service-to-Income Ratio. The true financial impact of debt is best understood by examining the percentage of income young adults must devote to debt payments, which is typically called the debt service-to-income ratio. Debt service-to-income ratios have been steadily rising for young Americans since 1992, when the average ratio for indebted young adults was 19. By 2001, the average debt service-to-income ratio for 25 to 34 year olds had risen to 24 percent—meaning that the average indebted young American spends nearly a quarter of every dollar earned servicing debt. However, the debt service-to-income ratio severely underestimates the financial burdens facing young Americans in several ways. First, the ratio only measures outstanding mortgage and consumer debt, such as credit cards and auto loans—excluding what is often a young household's largest expense: rent. Second, since the figure doesn't include auto lease payments, the cost of a car may not be reflected in the ratio. Finally, the ratio significantly underestimates credit card debt burden because it can only measure the minimum payment burden—which is typically 2 1/2 percent of the total outstanding balance. That means that a credit card debt of $10,000 is counted as $250 in debt service. But the key to paying off credit card debt is making more than the minimum payment. If a young American were to only pay the minimum on a $10,000 balance with a 15% APR, it would take them more than 39 years and cost them over $16,000 in interest charges.

Debt Hardship. A family spending more than 40 percent of their income on debt payments, including mortgages and student loan debt, is traditionally considered in a state of *debt hardship*. Overall, 13 percent of indebted young Americans experience debt hardship—nearly double the percentage in 1992. Lowest income households are the most likely to be in debt hardship, but middle-income young adults are also experiencing higher levels of debt hardship. About 13 percent of indebted young adults with incomes between $10,000 and $75,000 are in debt hardship. (See Table 3). Young adults are having a harder time making payments, too. Nearly 1 out of 5 of reported being late or missing payments within the last year on any loan, up from 1 out of every 6 in 1992.

Table 3. Percent of Credit Card Indebted Young Americans Aged 25 to 34 in Debt Hardship (Debt Payment to Income Ratio > 40%)

Income Group (25-34)	*1992*	*2001*
Overall	7.9%	13.3%
Income Group		
Under $10,000	37.1%	57.6%
$10,000-$24,999	8.4	22.3
$25,000-$49,999	6.7	13.4
$50,000-$74,999	7.8	5.2

Source: Dēmos' Calculations from the 1992 and 2001 Survey of Consumer Finances

What Is Driving Debt?

Several factors may be driving the rise in credit card debt among young adults. In many ways, young families are just like other households—often their paychecks are just enough to cover the rent, groceries and car payment, so that any additional or unexpected expense is financed through credit. But there are unique economic circumstances that may contribute to young adults' greater reliance on credit cards to make ends meet. Young adults are often still servicing student loan debt, have higher unemployment rates and earn lower, entry-level wages. Likewise, today's young adults have come of financial age during an era of banking deregulation that has dramatically increased the availability and cost of credit.

Earnings of young adults have not kept up with inflation or the costs of basic necessities.

Slow Real Wage Growth. The earnings of 25 to 34 year olds have not kept up with inflation or the costs of basic necessities including housing, healthcare and student loan repayment obligations. Between 1992 and 2001, the median annual earnings of all male workers grew by 5 percent in real terms (See Table 4). Female workers made greater gains in their annual earnings, which rose by 6.7 percent in real terms. Both male and female workers with bachelor's degrees made greater gains than their non-degree holding counterparts. However, given the higher amounts of debt borrowed by those attending college in the 1990s, much of the annual earnings advantage by young college workers is diminished by debt service.

Table 4. Median Annual Earnings of All Wage and Salary Workers Age 25 to 34 (in 2002 dollars)

	Males			*Females*		
	All Males	*Some College*	*Bachelor's Degree or Higher*	*All Females*	*Some College*	*Bachelor's Degree or Higher*
1992	$34,051	$34,024	$ 45,756	$ 27,834	$ 27,134	$ 36,177
2001	35,778	35,598	48,782	29,723	26,769	38,331
2002	35,487	35,552	48,955	30,093	26,828	40,021

Source: National Center for Education Statistics, based on data from US Department of Commerce, Bureau of the Census. March Current Population Surveys, 1972-2003.

In 2001, the average starting salary for college grads was about $36,000, with wide variations among different fields.[4] Salaries in marketing started at $34,000; advertising jobs started at $28,000, and education majors got on average $39,000 out of the gate. It would be valuable to break down the budget for a typical college grad in 2001 (See Figure 2).

The sample budget below is for an average college graduate earning about $36,000. The budget makes conservative estimates and does not include expenses for entertainment, clothing, furniture or even household cleaning supplies or toiletries. At the end of the month, our average college grad has just $34 unaccounted for by monthly bills. That money must cover any additional expenses, such as car repairs, new work clothes or even a movie.

Under- and Un-Employment. Today's young adults are entering a labor market radically different from that of their parents. Many young adults are part of the new contingent labor force, working in temporary jobs that pay less than full-time permanent positions and don't offer health or pension benefits. In 1999, one out of four contingent workers* was between the ages of 25 and 34, a higher percentage than any other age group.[6] College graduates make up the largest percentage of contingent workers, with nearly 38 percent holding bachelor's degrees or higher. Young adults under 24 tend to prefer their contingent arrange-

* *The findings presented here are based on the Bureau of Labor Statistics definition of contingent worker: individuals who hold jobs that are temporary and not expected to continue.*

Figure 2. Sample Budget for Recent College Graduate

$2,058 Monthly Take Home Pay
($36,000 a year, average starting salary of college grads in 2001, minus taxes and a monthly health care contribution of $42[5])

Absolute Expenses

$182 Student Loan Monthly Payment
(average monthly student loan payment reported by undergraduate borrowers)

$797 Rent and Utilities
(median monthly rent for single, college educated adults in 2000)

$456 Food and Groceries
(average monthly amount spent on food by 25-34 year olds, 2001)

$464 Transportation
(average monthly amount for car, auto repairs, insurance and gas)

$125 Credit Card Minimum Payment
(average credit card debt of 25-34 year olds; $4,008 balance at 16% APR)

= $1,933 Total Monthly Expenses

Money Left Over for Everything Else

$34 For child care, entertainment, clothing, furniture, Internet access, etc.

(For sources, see page 13.)

ment to a full-time job, usually because they're balancing work and school. But the large majority of contingent workers over age 25 would prefer a full-time job.[7]

Not only are young adults frequently *under*-employed, they are also more likely to be unemployed, because young workers have less job tenure. The recent recession has been particularly bad for younger workers, as their unemployment rate rose faster than that of older workers. Almost one in ten young workers were unemployed in mid-2003.[8] Young adults of color face particularly dim prospects in the job market. In 2003, the unemployment rate was 17.9 percent for young African Americans; 9.6 percent for young Latinos and 7.6 percent for young whites.[9] Even during the boom year of 2000, young African Americans unemployment rate was more than double that of young whites.

Workers with college degrees—who are typically more secure in jobs than those without—have been hit hard since the 2001 recession. In March 2004, the number of unemployed college graduates reached 1.17 million, higher than the number of unemployed high school dropouts. While statistics indicate that college education pays-off over the long term, over the short-term many young college grads are finding it difficult to secure jobs.

Student Loan Debt. This generation is also the first to shoulder the costs of their college primarily through interest-bearing loans rather than grants. Most of the 25 to 34 year olds in the 2001 sample went to college in the 1990s—when college costs increased by an average of 38 percent, borrowing became more common among students, and the amount borrowed grew rapidly.[10] For example, in the 1992-1993 school year, 42 percent of students borrowed money for college. By the end of the decade, almost two-thirds of students had borrowed.[11] A survey of college borrowers conducted by Nellie Mae found that the average college senior graduated with $18,900 in student loans in 2002—taking a big $182 monthly bite out of their paychecks each month.[12] That's more than double the just over $9,000 average loan amount carried by young adults in the previous generation in 1992.[13] For young adults who pursued graduate degrees, the student loan burdens are even higher: the average combined student loan debt for grad school students is $45,900.[14] Young adults who went to grad school pay an average of $388 per month for student loans, amounting to nearly 13.5 percent of their income.

This generation is the first to shoulder the costs of college primarily through loans rather than grants.

The average undergraduate student loan debt represents about 9 percent of young adults' income today.[15] The commonly accepted rule, used by credit counselors and lenders, is that total monthly debt payments should not exceed 36 percent of gross income. The debt included would be the rent or mortgage, credit cards, student loans, car leases and any other revolving type of loan. With student loan debt taking up 9 percent of young adults' income on average, that leaves just 27 percent of their paychecks to allocate to rent or a car loan without risking financial hardship—not to mention a damaged credit rating. With one out of every five young adults reporting that they have been late on or missed a loan payment in the past year, it is clear that servicing debt has become increasingly risky, and at a time when credit scores are growing more relevant for employment, housing, and even cell phones.

Aggressive Marketing to College Students. While many younger Americans are going into debt to make ends meet, aggressive marketing tactics by the credit card industry have helped fuel the use of credit cards. Across college and university campuses at the beginning of each semester, credit card companies engage in "tabling" offering free t-shirts, mugs, pizza, and other incentives for students to fill out credit card applications. These tactics work exceedingly well—a recent study found that 96 percent of college seniors had a credit card. With little or no financial literacy training, many students fall victim to the aggressive marketing tactics offered by credit card companies.

Ninety-six percent of college seniors have credit cards.

Rising Housing and Transportation Costs. During the last decade, both home prices and rents have grown faster than inflation. In 2001, 3.2 million households earning between $17,500 and $50,000—which includes the median earnings of today's 25 to 34 year olds—spent more than half their incomes on housing.[16] Compared to the late Boomers in 1992, Generation Xers were spending considerably more on average for rent and transportation, according to Consumer Expenditure Survey data.[17] On average, Gen X renters spent $6,815 annually on rent, about 10 percent more than Boomers of the same age spent in 1992. Young adult households are also spending more on getting around: $8,423 on average for transportation in 2002 compared to $6,820 in 1992 (inflation adjusted dollars).

The Cost of Being Uninsured. Young adults are much more likely to be uninsured than older workers, putting many young adults at both physical and financial risk. Contrary to popular perception, young adults are not uninsured because they decline coverage from their employer. Only 3 percent of uninsured young workers were offered but declined insurance coverage.[18]

Young adults are more likely to work in jobs that don't offer health care benefits. Nearly half of full-time workers aged 19 to 29 lack job-based health benefits, compared to less than one-third percent of all workers under 65.[19] As a result, young adults are more likely to be uninsured than the population as a whole: approximately 1 in 3 young adults lacks health insurance compared to 1 in 6 Americans overall.[20] Not having health insurance exerts a physical and financial cost on young adults. About half of young adults aged 19 to 29 without health insurance reported having problems paying medical bills.[21]

Child Care Costs. The ages of 25 to 34 are the prime years when young adults begin to start families. Today, the average woman will have her first child around the age of 25.[22] But unlike three decades ago, today's young families are more likely to have two parents working full-time. Today, mothers with infants are more likely to be working full-time than part-time—adding the expense of child care to the family budget.[23] According to the U.S. Census Bureau, 59 percent of mothers with a child under age 1, and 64 percent of mothers with a child under age 6, are in the workforce. Nationwide, about half of all working families with children under age 13 pay for child care, spending an average of $303 per month, or 9 percent of their earnings.[24] With full-day care ranging from $4,000 to $10,000 a year per child, the cost of child care is a major strain on young families' already tight budgets.

The Youngest Adults: Indebted from the Start

Today's 18 to 24 year olds are experiencing the pinnacle of two trends fueling the rise in debt: dramatic increases in the cost of college and aggressive marketing of credit cards on college campuses. In this section, we take a closer look at the debt among the youngest adults, those aged 18 to 24.

Credit card debt among 18 to 24 year olds rose sharply over the decade, by 104 percent, to an average of $2,985 in 2001 (See Table 5). Although the Survey of Consumer Finances does not survey current students, it is clear that the youngest adults' increased debt loads are to some extent a result of rising credit card debt among college students. On-campus credit card marketing exploded during the 1990s, as creditors sought to saturate the youth

market for the first time.[25] The co-branded college cards and student-conscious advertising and rewards programs were successful: in 2001, fully 83 percent of all undergraduates had at least one credit card. By their senior year, 96 percent of all students have credit cards, carrying an average of six cards. Balances among college students have risen sharply over the last decade. Between 1990 and 1995, one survey found credit debt had shot up 134 percent, from $900 to $2,100.[26] In 2001, college seniors graduated with an average of $3,262 in credit card debt.[27]

Table 5. Average Credit Card Debt Among Young Households with Credit Card Debt (2001 dollars)

	1992	*2001*	*% change 1992-2001*
Aged 18-24	$1,461	$2,985	104%

Source: Dēmos' Calculations from the 1992 and 2001 Survey of Consumer Finances

According to Demos' findings:

- The youngest adults saw a sharp rise in credit card debt—104 percent—to an average of $2,985.
- The youngest adults are the age group most likely to be indebted: nearly three out of four carry balances on their cards.
- The average credit card indebted household in this age group spends nearly 30 percent of its income on debt payments, double the percentage spent on average in 1992.
- Among the youngest adult households with incomes below $50,000 (2/3 of younger households), nearly one in seven with credit card debt is in debt hardship.
- Nearly one out of five households in this age group reported being late or missing payments within the last year on a loan, a 27 percent increase since 1992.

Nearly one out of five 18 to 24 year olds reported being late or missing payments within the last year on a loan.

Policy Recommendations

Young adults are servicing higher amounts of debt than they were at the start of the 1990s. The trends fueling the growth in debt among this age group include slow or stagnant wage growth, rising tuition costs and declining grant aid, as well as growing costs of transportation, child care and housing. For younger Americans struggling to make ends meet, the promise of a better future than the previous generation seems uncertain, if not unlikely. The following policy recommendations are aimed at providing more economic stability for today's young adults—those who should be entering the most productive years of their lives but are now constrained by mounting debts and slow economic growth.

ADDRESSING ECONOMIC INSECURITY

The following policy changes would help ensure younger Americans the opportunity to get ahead and build strong, financially secure futures for themselves and their families. Enacting just one of these reforms would help reduce the need for younger Americans to borrow to make ends meet—both before and after they complete their education.

Expand Health Insurance Coverage. The growing number of younger Americans without health insurance is cause for concern about the state of the nation's health insurance system. Young adults have a very high stake in the nation addressing the problem of uninsurance among all age groups in the nation. Any policy change that moves the United States toward some system of universal coverage would benefit young adults as well. In the meantime, there are several discrete policy changes that could specifically address the drop-off in insurance coverage that happens after young adults turn 19. The first would be to require private insurers and employers to provide dependent coverage through age 23. And for the 2.7 million uninsured young adults living in poverty, Congress could require that eligibility for Medicaid and CHIP coverage be extended to age 23.[28] Finally, states could require all colleges to provide health insurance to both full-time and part-time students—which would help cover the 2 million students who currently are uninsured.

Our nation must return to grant-based federal financial aid for college.

Expand Grants for Higher Education. The cost of post-secondary education has risen steadily over the last decade, rising faster than inflation and family income. The rise in student loan debt over the 1990s can be attributed to rising tuition costs and changes in federal financial aid. Over the last 20 years, federal financial aid has steadily shifted away from grant-based aid to a predominantly loan-based system. In 1980, grants comprised 52 percent of federal aid while loans totaled 45 percent of aid. By 2000, grant aid made up only 41 percent of federal aid and loans had increased to 58 percent. As a result, borrowing has become the most common way for students to finance their education. Today, students with bachelor's degrees graduate on average with over $18,000 in loans and graduate students accumulate a combined debt of $45,900.[29] And more than 1 in 4 students report using credit cards to help finance their education.[30] Many students leave college in debt, but without a degree—one-third of students who left school without completing a degree

The Contract for College

Based on the average annual cost of attendance at 4-year public colleges (approx. $12,000)

Household Income below $25,000	
Grant to cover 75% of costs	$9,000
Work-study	1,500
Subsidized loan	1,500
Household Income $25,000-49,999	
Grant to cover 65% of costs	$7,800
Work-study	1,500
Subsidized loan	2,700
Household Income $50,000-$74,999	
Grant to cover 55% of costs	$6,600
Work-study	1,500
Subsidized loan	3,900
Household Income $75,000-$99,000	
Grant to cover 40% of costs	$4,800
Work-study	1,500
Subsidized loan	2,350
Unsubsidized loan	2,350
Household Income above $100,000	
Unsubsidized loan	$10,000

had borrowed between $10,000 and $20,000.[31] The student loan burden is taking a toll on young adults: almost 1 in 5 significantly changed their career plans because of student loans; nearly 40 percent delayed buying a home and just over 20 percent reported their debt burden caused them to postpone having children.[32] Finally, many qualified students fail to enroll or complete degrees because they can't afford the costs of college.[33]

Our nation must dramatically rethink its federal aid policies. Demos has proposed a new "Contract for College" that would reorient federal aid to a grant-based system and better align aid with the real cost of college. The Contract also would provide early and up-front knowledge to high school students about the amount of aid available. Students would be guaranteed a combination of grants and loans, with grants making up the bulk of aid to students from low- and moderate-income households. Table 3 below offers an example of how the Contract for College would vary for different income levels (the real plan would include more gradual phase-outs for each subsequent income level). For more details on the "Contract for College," see Demos policy brief on higher education, *Leveling the Playing Field* at www.demos-usa.org/opportunity.

Help Young Adults Build Savings by Extending Deferment of Student Loans. As young people leave college to start their newly independent lives, the presence of high student loan debt as well as college credit card debt leaves very little slack in the household budget. To help young adults gain their financial footing after college, extended deferment periods on student loans should be considered. Currently, students are required to begin paying back federal loans six months after graduation. Allowing students to defer payment for 12 or 18 months would provide more time for new graduates to stabilize their financial situations, as well as divert what would have been student loan payments into savings or high-interest credit card debt reduction. The organization 18to35.org proposes a policy to require students who choose extended deferments to contribute to a tax-deferred savings account (see www.18to35.org for more details.)

Increase the Minimum Wage. In the United States today, a quarter of all workers make $8 or less an hour. In 2003, 10.5 percent of workers aged 25 to 34 earned at or below $8 per hour. The minimum wage, instituted in 1938, has failed to keep pace with inflation and doesn't protect against poverty. It has lost 24 percent of its purchasing power since 1979. The minimum wage should be increased gradually to $8.40 an hour by 2010—a level that would help increase the wages of young adults who currently earn between $5.15 and $8 an hour. The new minimum wage should also be indexed to inflation, so that it retains its purchasing power.

The minimum wage should be increased gradually to $8.40 an hour by 2010.

ADDRESSING INDUSTRY PRACTICES

While the long-term goals of increased economic security and opportunity for young adults will help future generations avoid the pitfalls of debt, certain policy changes at the federal level could help today's young adults pay down their debt at reasonable rates, over reasonable amounts of time.

Enact a Borrower's Security Act. Today there are no legal bounds to the amount of fees and interest credit card companies can charge borrowers. In addition, credit card companies, unlike other lenders, are allowed to change the terms on the card at any time, for any reason. As a result, cardholders routinely borrow money under one set of conditions and end up paying it back under a different set of conditions. Legal limits on interest rates and fees

have traditionally been established by the states. But because card companies can export interest rates from the state in which they're based, consumers are left unprotected from excessive rates, fees and capricious changes in account terms. Congress needs to pass new legislation that provides borrowers with the security of knowing the upper limit on the interest rates and fees they can be charged and that the terms of their original agreement can not altered at any time, for any reason. The Borrower's Security Act would ideally prohibit a range of existing exploitative and unfair practices:

- Require card companies to provide a late-payment grace period of at least 5 days before fees or interest rate hikes can be assessed; limit penalty rates to an amount no higher than 50 percent of the original rate (e.g., if the original APR is 9 percent, the penalty rate cannot be above 13.5 percent).
- Require disclosure of the full costs of only paying the minimum payments, including the number of years and total dollars it will take to pay off the debt. Raise the minimum payment requirement to 5 percent of the total balance for new cardholders to curtail excessive debt loads and interest payments.
- Require credit cards issued to individuals under 21 to have a co-signer, unless they can prove they have independent means of support.
- Prohibit card companies from raising a cardholder's interest rate based on payments to other creditors.
- Limit any rate increase to future activity on the card only.

Maintain Existing Bankruptcy Laws For Individuals In Severe Economic Distress. Over half a million adults under the age of 34 filed for bankruptcy in 2001.[34] Congress has considered legislation that would make it more difficult for individuals to recover from financial collapse. The growing presence of younger Americans in the bankruptcy courts should warn policymakers of the importance of safeguarding this difficult last resort for consumers.

Conclusion

Rising student loan and credit card debt remains a growing concern for the future economic success of today's young adults. To cope with entry-level wages that haven't kept up with rising costs, young adults are turning to credit cards to meet their monthly expenses. Addressing this problem will necessarily entail a multi-pronged approach that includes policies aimed at bolstering incomes, reducing costs, and expanding access to financial literacy and asset-building programs. As this generation struggles to begin their lives with high levels of debt, there are consequences for both these individuals and for our national economy. The ability for young adults to build wealth and accumulate assets is greatly undermined by debt burdens that stymie their economic advancement now and well into their adult lives.

[PERSONAL STORY]

Randy Carter, Communications Professional, Age 28

Randy Carter got his first credit card from a mail solicitation at age 18. He didn't have to prove any source of income for the $800 credit line, just that he was a student at the University of Wisconsin in Madison. A combination of student loans and a part-time job at a hardware store weren't enough to meet the cost of going to school full-time, so the new Citibank credit card helped make up the difference. After six months of small, steady charges for things like books and meals, Citibank more than doubled Randy's limit to $2,000. Randy then took a new job more in line with his career ambitions that required him to drive around the state. Unfortunately, the non-profit employer didn't reimburse gasoline expenses, so he filled up his tank regularly on the card. "It was clear to the bank that I'd use just about as much credit as they gave me, and that I would make the minimum payments," he realizes now. So Citibank doubled his limit again, to $4,000. More offers poured in the mail, and by his senior year, Randy had four cards and was $7,500 in debt. The minimum payments grew to be more than he could handle, so he began using the cash advance checks MBNA sent him to pay Citibank, and vice-versa. These checks carried immediate interest charges in the high twenty percent range, and the result was rapidly rising balances, even when he slowed his purchases. When Randy's older brother learned how deep in debt he was, he took out a low-interest personal loan and paid off most of his debt. "I sent the cards back to be cut up, except for the Citibank card, with a couple thousand dollars on it, because I wanted to take some responsibility for some of my debt," Randy explains.

His first job out of school was with a public television station that could only pay him $9 an hour for 20 hours of work a week, although he put in more than 50 hours a week. "I was committed to the job, and was hoping to translate my effort into a full-time job, which happened, finally, after two years of making under $15,000 a year." Credit continued to fill the gap between his salary and his living expenses, which were low by most standards. His rent in the college town was only $300, but his student loan payments were over $400. He eventually had to put his college loans in forbearance. When Randy finally got his full-time position, the salary was $27,000—lower than expected and with no raise in sight due to a Wisconsin state budget salary freeze.

In September of 2001, Randy decided he needed to take control of his career and his finances and follow a job lead in New York. Taking stock of $18,000 in credit card debt, he paid a $778 establishment fee for a debt settlement company to take $389 a month with the promise of using the savings to settle his debts in three years. Randy's new job at a New York dot-com documentary company paid him $650 a week with no benefits, but he was able to live on his brother's couch rent-free. But the city's economy was in a tailspin, and he was laid off four months later. Randy cashed out his retirement savings, taking a substantial tax penalty to access only a few thousand dollars. He needed the money and couldn't get unemployment benefits for nearly two months because he'd worked in two different states. "I started to have to pay rent, which was a bargain in New York at $500, but with the $389 debt payment, I was left with less than $100 a month to live on. I applied for over 300 jobs and got nothing." When his unemployment ran out, he cobbled together a work week of odd jobs—babysitting, filing, light construction—until finally a temp agency took him on. "By this time, I was severely depressed. I had gone to college and worked hard and had so little to show for it."

> "I'M 28 YEARS OLD, AND I'M WORSE THAN BROKE."

After almost a year, he finally got a full-time job in his field, and is now doing better. "It still doesn't pay a fair or sustainable wage for New York, but it is stable and has advanced my career." Randy's bad credit has made getting an apartment of his own nearly impossible. "I've been told to pay the full year's rent up front. If I could do that, would I be so deep in debt?" He's also been told that he would have been better off filing for bankruptcy. "I always thought it would be better for me to pay, to honor my debts even when I was unemployed and underemployed. But I've spent over $14,000 in the past 3 years, servicing my debt instead of going to the doctor. I'm 28 years old, and I'm worse than broke."

Notes

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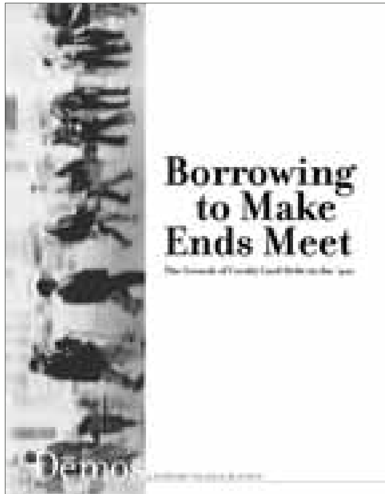

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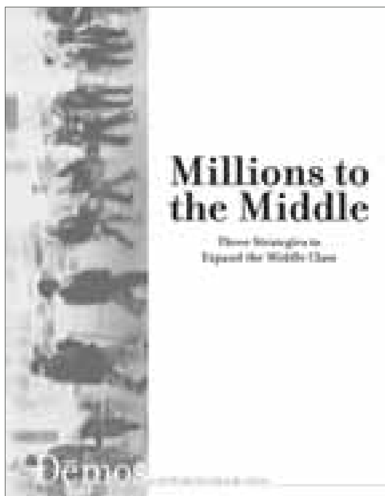

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