2019

American Household

CREDIT CARD DEBT STUDY

American households are carrying more credit card debt from month to month than they did last year. With interest rates rising, now's a good time to banish those balances for good.

By Claire Tsosie and Erin El Issa
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Credit card balances carried from month to month continue to inch up, reaching $420.22 billion in late 2018, according to NerdWallet's annual analysis of U.S. household debt. That's an increase of about 5% over last year. And for Americans carrying that debt, the impact is significant.

The average U.S. household with credit card debt has an estimated $6,9291 in revolving balances, or balances carried from one month to the next, the analysis found. This pernicious type of debt, which often comes with high interest rates that make it a challenge to pay off, can feel inescapable. About 1 in 11 (9%) Americans who have credit card debt say they don't think they will ever be completely free of credit card debt, according to a NerdWallet survey conducted by The Harris Poll.2

"Credit card debt is the stain on millions of Americans' finances that doesn't scrub off easily, if ever," says NerdWallet credit card expert Kimberly Palmer. "High interest rates combined with expenses that continue to outweigh income mean that some households are unable to fully rid themselves of debt and, in fact, continue to take on more."

In many cases, credit card balances represent only a fraction of a household's debt. U.S. households with any kind of debt held an average of $135,7683 in outstanding debt, which can include mortgages and both transacting and revolving credit card balances.

For previous editions of our annual household debt study, as well as other credit card research, see our Credit Card Data page.

And certain obstacles — for example, the rising cost of living, the high cost of student loan forbearance (pausing payments while interest is still accruing) and steep credit card interest rates — can make it incredibly difficult to pay off. As revolving credit card debt climbs, outstanding credit card balances are also increasing, reaching $944 billion in late 2018, an increase of about 4% over last year.

Here's what the average U.S. household owes as of late 2018, according to NerdWallet's new analysis:

Type of debt	Total owed by an average U.S. household with this debt	Total owed in the U.S.
Any type of debt*	$135,768	$13.51 trillion
Credit cards (revolving)**	$6,929	$420.22 billion
Mortgages	$184,417	$9.14 trillion
Auto loans	$28,033	$1.27 trillion
Student loans	$47,671	$1.44 trillion

* This debt can include mortgages, home equity lines of credit, auto loans, credit cards, student loans and other household debt, according to the Federal Reserve Bank of New York.

**The credit card debt figures in this chart represent revolving credit card balances — those that are carried from month to month — rather than all credit card balances. Total U.S. credit card outstanding debt stands at $944 billion, which includes both revolving and transacting balances.

To arrive at the $944 billion figure, NerdWallet used data from the Federal Reserve Bank of New York, which measures consumer debt using credit reporting data from Equifax, which tracks lender-reported balances on bank credit cards. Then, we adjusted that number to include retail credit card balances. The number represents a snapshot of consumer balances at a point in time, including those that will be paid in full at the end of the billing cycle and those that won't. NerdWallet used data from the credit bureau Experian, the U.S. Census Bureau and the Federal Reserve's Survey of Consumer Finances to calculate the average revolving balance on credit cards among U.S. households carrying credit card debt.

" Credit card debt is the stain on millions of Americans' finances that doesn't scrub off easily, if ever. "

KIMBERLY PALMER, NERDWALLET'S CREDIT CARD EXPERT

Key findings

Incomes are growing, but some costs are growing faster. Median income growth is outpacing inflation, which is good news for consumers. However, some costs — namely medical costs and food purchased away from home — have outpaced median income growth.

Student loan forbearance is adding to debt. In the third quarter of 2018, 2.6 million student loan recipients had federally managed student loans in forbearance, with an average balance of $43,538. Forbearance allows borrowers to pause repayment of their loans, although interest continues to accrue. If all student loan recipients with federally managed loans in forbearance kept their loans in forbearance for 12 months without making interest payments, assuming an interest rate of 5.05%, they would add a collective $5.72 billion to their balances. (To estimate the cost of putting payments on hold, jump ahead to our forbearance calculator.)

Credit card interest is costly. Households with revolving credit card debt will pay an average of $1,141 in interest this year.

An important change in this year's report

Terms to know

Revolving credit card debt: Balances that are carried from month to month on credit cards.

Transacting credit card balances: Balances that are paid off in full each billing cycle on credit cards.

The $6,929 figure for average credit card debt is substantially lower than the figure highlighted in previous versions of this annual study because of the sharper focus on revolving debt — the balances that hang over consumers' heads month after month. Because millions of households pay off their credit card balances in full every billing cycle, an increase in total outstanding balances at a given time doesn't necessarily signal financial hardship; it might show, for example, that consumers have more money to spend and are charging more to their cards without adding to their long-term debt.

But the increase in total revolving credit card debt is more likely to indicate potential problems — for example, consumers charging purchases that they can't afford, whether those are necessities that their income doesn't cover or nonessentials that they decide to take on debt to acquire.

For the estimated 48% of households that do carry credit card debt, the balances can be a heavy burden. Under the method used for previous versions of this study, the average credit card debt among households with credit card debt in 2018 would have been $15,561.

Incomes are growing, but some costs are growing faster

After remaining flat for a time, incomes have outpaced growth in the cost of living for the past four years. Since 2008, U.S. median income has grown 22%; meanwhile, the cost of living has increased about 17%.6 For those getting a significant raise — especially when paying down debt — this is good news. However, it's worth noting that income isn't keeping up with expenses for everyone. The highest incomes are growing at a much faster pace than the lowest incomes, on average, according to Census data.

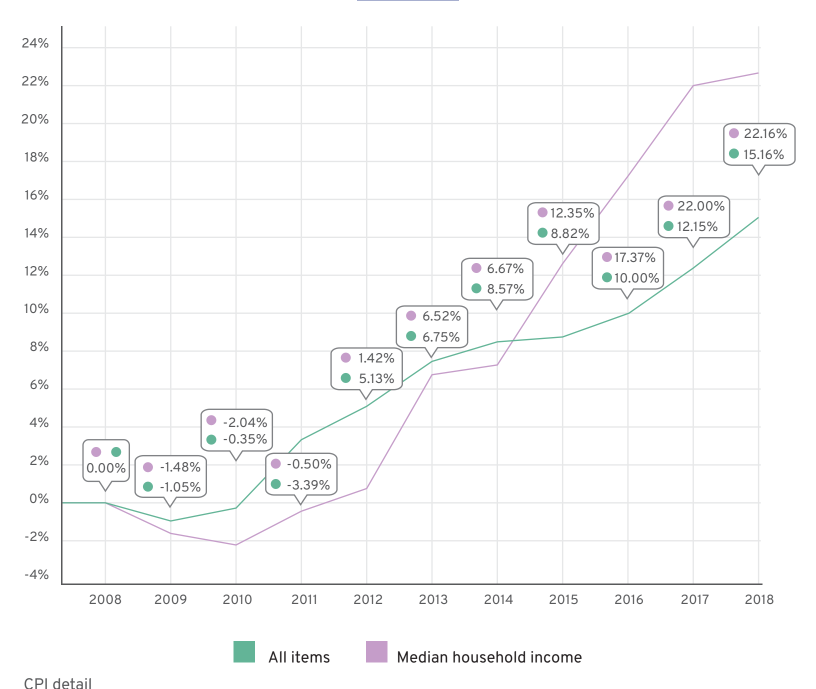
And a few expenses are growing fast, too. The most notable: medical costs, which since 2008 have increased 33%, a significantly faster pace than the rise of the nation's median income in each of those years. These rising expenses are particularly troubling, since paying for medical procedures and care is sometimes a matter of life or death. Even for people who have health insurance, medical costs can mean thousands of dollars of debt.

akeout meals and restaurant visits are getting pricier, too. The cost of buying food away from home has gone up 27% since 2008, outpacing the growth of the U.S. median income. While dining out isn't a necessity for most households — unlike medical care — such an increase can still nibble away at paychecks.

Income vs. cost of living, 2008-2018

Here's a look at the percentage change in the cost of living and median annual household income since 2008.

CPI vs. income



CPI detail

2008: 0.00%

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Apparel	0.42%	-0.65%	-3.19%	4.67%	6.41%	6.37%	5.31%	5.43%	4.77%	3.30%
Education and communication	2.73%	4.71%	5.58%	7.54%	9.26%	10.94%	11.10%	11.97%	9.08%	10.41%
Food and beverage	0.56%	1.55%	6.03%	8.12%	9.64%	12.49%	14.20%	14.31%	15.60%	17.24%
Food at home	-1.69%	0.96%	5.08%	6.62%	7.65%	10.74%	11.67%	9.54%	9.89%	10.44%
Food away from home	3.05%	4.31%	7.12%	10.13%	12.32%	15.08%	18.14%	21.46%	24.17%	27.45%
Housing	-0.61%	-0.83%	0.80%	2.28%	4.52%	7.28%	9.46%	12.30%	15.57%	18.91%
Medical	3.32%	6.60%	9.98%	14.41%	17.04%	19.45%	22.38%	28.35%	30.68%	30.69%
Other goods and services	7.37%	10.39%	11.27%	13.85%	15.64%	17.53%	19.46%	21.93%	24.60%	27.36%
Recreation	0.83%	-0.22%	-0.15%	0.97%	1.36%	1.34%	2.02%	2.95%	4.49%	4.58%
Transportation	-10.75%	-6.59%	4.28%	5.70%	5.86%	5.40%	-1.64%	-5.48%	-2.77%	3.33%
Median household income	-1.05%	-2.04%	-0.50%	1.42%	6.52%	6.67%	12.35%	17.37%	22.00%	22.16%

When certain costs are increasing much faster than income, it can make it harder to pay down debt. It can also mean consumers will borrow more than they had planned to.

It's possible to borrow too much of any kind of consumer debt. But with credit cards, overborrowing is especially common. In fact, among Americans who have had credit card debt, 42% say they took on more debt than planned, according to NerdWallet's survey. Additionally, almost 2 in 5 Americans (38%) who have had student loan debt also reported borrowing more in student loans than they planned.

	Took on the exact amount of debt that I planned to	Took on more debt than I planned	Took on less debt than I planned
Mortage	64%	20%	15%
Auto loan	63%	22%	15%
Credit card	41%	42%	17%
Student loan	45%	38%	18%

CONSUMER TIP: TO PAY OFF DEBT, TRIM LARGE EXPENSES FIRST

A few minor nips and tucks in spending — say, canceling a streaming-service subscription or skipping daily trips to the coffee shop — won't catapult anyone out of serious debt overnight. But if you're able to minimize the costs that eat up most of your paycheck, such as rent or mortgage payment and food costs, you could bring down those balances faster.

"Ordering takeout might sound like a convenient option, but many consumers don't realize the cost of this convenience is burning a hole in their wallet," Palmer says. "Eating at home more and taking lunch to work are simple ways to free up cash to put toward paying off debt. In the longer run, cutting your housing costs by taking on a roommate or moving to a smaller place can also help."

Student loan forbearance adds to debt

More than 42 million7 people had federal student loans in the third quarter of 2018, according to the U.S. Department of Education.

For struggling student loan borrowers, the option to pause payments due to hardship seems like a Hail Mary solution for tough times. But beware: Using student loan forbearance to stop payments for several months can be incredibly expensive, and it usually isn't your best option.

In 2018's third quarter, 2.6 million student loan recipients had federally managed student loans in forbearance, with an average balance of $43,538.8

It's important to note that the Department of Education doesn't make data on repayment paths public; federal data doesn't show how long loans stay in forbearance, or why they wind up there, which would be helpful to understand the scope of this problem. But there are ways to estimate how costly it might be for borrowers. Keeping a loan with the average balance of $43,538 for 12 months without making interest payments, for example, assuming an interest rate of 5.05%,10 would add $2,1991 to the balance.

When a loan goes into forbearance, it can add thousands of dollars in extra debt to the existing student loan balance without the borrower realizing it. According to NerdWallet's survey, two-thirds of Americans (66%) don't know that interest accrues at the regular rate when federal student loans are in forbearance. (Student loan deferment can also be similarly expensive. But unlike with forbearance, interest is waived on subsidized federal loans in deferment.)

"Forbearance is almost as bad as a student loan repayment strategy that skips payments altogether," says Teddy Nykiel, NerdWallet's student loans expert. "Balances grow, borrowers feel overwhelmed, and it doesn't make loans more affordable in the long run."

If all student loan recipients with federally managed loans in forbearance kept their loans there for 12 months without making interest payments, assuming an interest rate of 5.05%, they would add a collective $5.72 billion12 to their balances, according to NerdWallet's analysis. Almost 70% of borrowers who began repaying their loans in 2013 had loans in forbearance for some portion of the first three years, according to a 2018 U.S. Government Accountability Office report, citing Department of Education data.

Student loan deferment: Another way to postpone student loan payments temporarily. Unlike with forbearance, interest on subsidized federal student loans is waived during deferment. Interest isn't waived on unsubsidized loans.

If forbearance is so costly, why do so many turn to it? One possibility: Student loan servicers might be steering some borrowers toward that option. For example, Navient Corp., a major student loan servicer, faces six lawsuits alleging harm to student loan borrowers during the repayment process. The Consumer Financial Protection Bureau, one of the parties suing, alleges that Navient has added $4 billion in interest to student borrowers' loans through the overuse of forbearance.

When Department of Education auditors listened in on randomly selected Navient calls from 2014 to 2017, they found that in almost 1 out of 10 calls examined,13 Navient representatives didn't mention options besides forbearance, according to a report by The Associated Press, which obtained a copy of the 2017 audit. Navient disputed these allegations in a statement,14 saying that its use of forbearance is "in line with or lower than other major servicers."

In other cases, struggling borrowers might be encouraged to go into forbearance by the colleges they attended. That's because schools that receive federal aid are expected to maintain a low "cohort default rate," the percentage of the school's borrowers who default on certain federal student loans within a three-year period after starting repayment. In this case, "defaulting" means falling more than 360 days behind on payments.

To keep these cohort default rates low, some schools hired "default management consultants" to encourage borrowers with past-due student loans to pause payments through forbearance, even in cases where better options were available, the GAO report found.

For these consultants, encouraging loan recipients to try forbearance to avoid default makes sense, in part, because it's quick. In a letter to borrowers, one consultant said a verbal request for forbearance takes about five minutes to process, according to the GAO report. (Enrolling in an income-driven repayment plan is typically a better option, but it takes up to 15 business days to process the paperwork, according to the Department of Education.) Borrowers can also generally stay in forbearance for up to three years, at which point they can default without it being considered a "default" according to cohort default rate. The GAO report found that some schools had offered gift cards to borrowers as an incentive to put loans into forbearance.

CONSUMER TIP: TRY THESE ALTERNATIVES INSTEAD OF STRUGGLING WITH PAYMENTS

Before turning to forbearance, assess the options. Find out if you're eligible for deferment. If you have subsidized federal student loans, interest won't accrue on these in deferment. (If you defer unsubsidized federal student loans, you're generally responsible for paying interest that accrues on these loans during the deferment period.)

Alternatively, you could lower monthly payments with an income-driven repayment plan, which sets loan payments based on how much money you make. While some income-driven plans come with eligibility requirements, you can sign up for the Revised Pay As You Earn plan (REPAYE) regardless of income.

"Income-driven plans give you the flexibility to cover other bills and save money, plus you could get forgiveness on the balance left after 20 or 25 years of payments," Nykiel says. Once you're in a better place financially, you can opt to make larger-than-minimum payments while remaining on the income-driven plan. You also have the option of going back to the standard repayment plan, but unpaid interest may capitalize when you switch plans.

Credit card interest is costly

Paying down credit card debt can feel like plodding along on a treadmill: It's a good habit, but progress can be slow — especially when you're dealing with credit card interest charges. As of August 2018, credit card accounts on which interest was assessed charged an average annual percentage rate of 16.46%, according to the Federal Reserve Bank of St. Louis.

That means a household with the average revolving credit card debt of $6,929 would owe about $1,14115 in interest over the course of a year. And rising rates could drive up those costs even further.

Some households will pay more in interest than others, too. For example, according to the 2016 Survey of Consumer Finances, about 51% of couples with children carry credit card debt, while 42% of couples with no children do so. Those couples with children carrying credit card debt will pay an average of $1,35616 in interest charges per year — about 16% more than the average U.S. household carrying credit card debt.

For those with good or excellent credit, moving high-interest credit card debt to a card with an introductory 0% APR period on balance transfers could help save on interest — and it might even accelerate repayment efforts. About 8 in 10 Americans (78%) say that seeing their credit card had a low interest rate would motivate them to pay down credit card debt faster, according to NerdWallet's survey.

The best balance transfer cards will have:

1. No annual fee.
2. A long introductory 0% APR period on balance transfers (15 months or longer).
3. No balance transfer fee, or a low balance transfer fee. Generally, you don't want to pay a fee of more than 3% of the amount transferred.

Just remember, after the introductory 0% APR periods on these cards expire, interest will start accruing at the regular rate.

"As long as you know you can pay off your debt before the end of the 0% APR introductory offer, then a balance transfer card can be a great option," Palmer says. She notes that if you need more time, a personal loan with an interest rate lower than your credit card's interest rate may be a better alternative.

No matter which method you choose, keep in mind that what someone else finds motivating when it comes to paying down debt faster might not work for you. For example, while 51% of Americans say that having a friend or family member who checks on their progress regularly would motivate them to pay off credit card debt faster, 49% say it wouldn't, according to NerdWallet's survey. Similarly, 71% of Americans say that promising themselves a small reward after they finished paying off debt would motivate them to pay down credit card debt faster; 29% say it wouldn't. Before following someone else's debt payoff advice, think about whether it's a good fit for you — and if it isn't, try a different approach.

Motivation and paying down credit card debt

"How motivated would you be by each of the following to pay off credit card debt faster?"

	Very motivated	Somewhat motivated	Not very motivated	Not at all motivated
Seeing your credit card balance(s) go down.	48%	33%	11%	7%
Seeing you have a low credit card balance.	45%	36%	12%	8%
Seeing your credit card has a low interest rate.	41%	37%	14%	8%
Promising yourself a small reward after you finish paying off your debt.	32%	39%	18%	11%
Having a visua; representation of your balance(s) that you can view daily).	30%	44%	16%	9%
Seeing a friend or family member successfully pay off credit card debt.	30%	42%	15%	13%
Seeing your credit card balance(s) go up.	29%	28%	20%	23%
Reading stories about other people successfully payung off credit card debt.	26%	39%	21%	15%
Having a friend or family member who check in on your progress regulary.	17%	34%	25%	24%

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