Debt

Part 2

"Neither a borrower, nor a lender be"

— William Shakespeare, Hamlet

In my January ***Rant***, I expounded upon the bad side of government debt and promised one or more future ***Rants*** on the subjects of personal and corporate debt. Well, here is Part 2 of my debt series.

Personal Debt

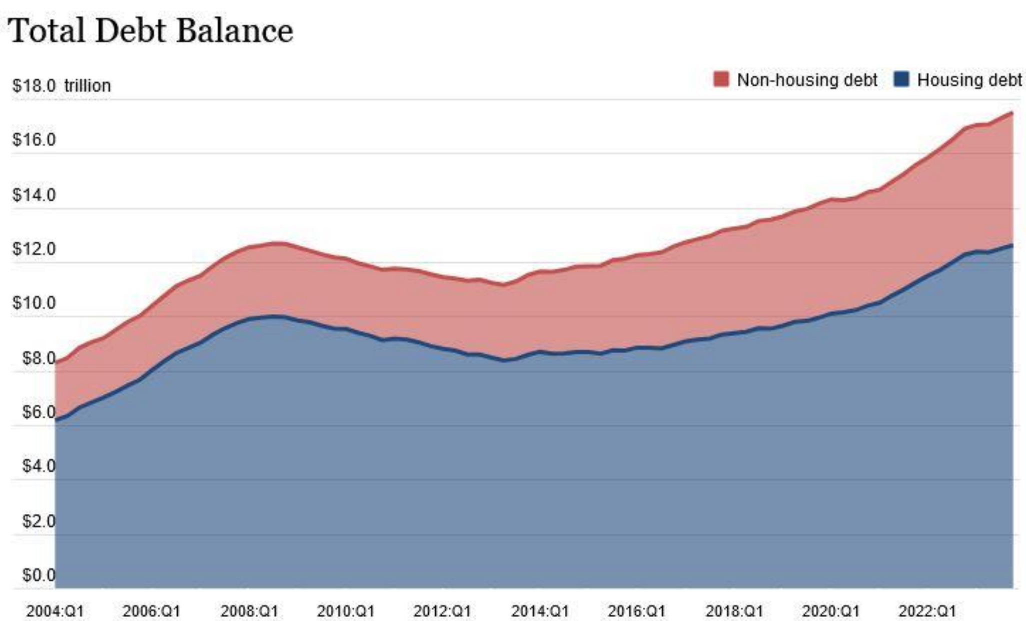
As stated in Part 1, the U.S. is a nation of debtors: persons, corporations and governments. Debt is a part necessary thing, part good thing and part bad thing, and the following ***Rant*** will explore the bad side of personal debt.

Warning Signs

According to a new report published by the Center for Retirement Research at Boston College, older Americans have more debt when they reach retirement age than they used to. In fact, the share of Americans aged 65 and older with debt grew to 63% in 2019 from about 38% in 1989, putting those often-promised "golden years" in jeopardy. According to data in the Federal Reserve Bulletin Volume 106 No. 5, median *family* net worth for those in the 65 age group was approximately $240,000. However, a substantial portion of that was either pension or 401k money that will be reduced by taxes upon withdrawal. That's far from the amount of money needed to support a comfortable retirement.

This single disturbing fact is merely the tip of the iceberg of bourgeoning personal debt incurred by Americans seeking a lifestyle beyond their means, mirroring the conduct of their elected governments.

Total household debt reached $17.5 trillion in the fourth quarter of 2023, according to the latest *Quarterly Report on Household Debt and Credit* issued by the New York Federal Reserve as shown in the graph below.



While this is only half the amount of our Federal Government debt, it is still a staggering, sobering amount that should give us all pause, especially in light of increasing delinquency rates which will rise further when the eventual softening of the economy occurs.

There once was a time when people took great pride in being free of debt. Today, that is not the case.

Let's examine some of the more significant components of household debt.

Mortgage Debt

As you can see from the chart above, the largest component of household debt is housing-related debt, principally, mortgage debt. Now, mortgage debt is not necessarily bad, as few of us would be able to afford the American dream of owning one's own home without the vehicle of mortgage financing.

However, as housing prices have risen dramatically, Americans are taking on higher levels of mortgage debt and paying record percentages of their disposable income to finance that debt, not only to finance their principal residence, but also to finance vacation homes and boats (some of which are classified as vacation homes).

Not too many years ago, the model for purchasing a home was to take out a mortgage with the goal of having it paid off in, perhaps, twenty years prior to retirement. (Some of us of a certain age actually remember conducting a mortgage burning ceremony.) However, today, many Americans are taking on substantial mortgage debt later in life and carrying over significant mortgage balances well into their retirement years.

Another disturbing phenomenon is that of "taking cash out of your home." As home values are raising rapidly, folks are refinancing their homes with a greater mortgage amount than their current outstanding balance in order to generate an immediate cash payment. So instead of steadily reducing their debt, they have increased it.

Home Equity Loan Debt

Home equity loan debt is currently at a level of .36 trillion dollars. A home equity loan is a second mortgage based upon the current equity in the home. Many times the proceeds of these loans are used to finance weddings, vacations, debt consolidation, large purchases and even investment opportunities. Nonetheless, the money is often expended for a short term benefit at the expense of a long term obligation.

Student Loan Debt

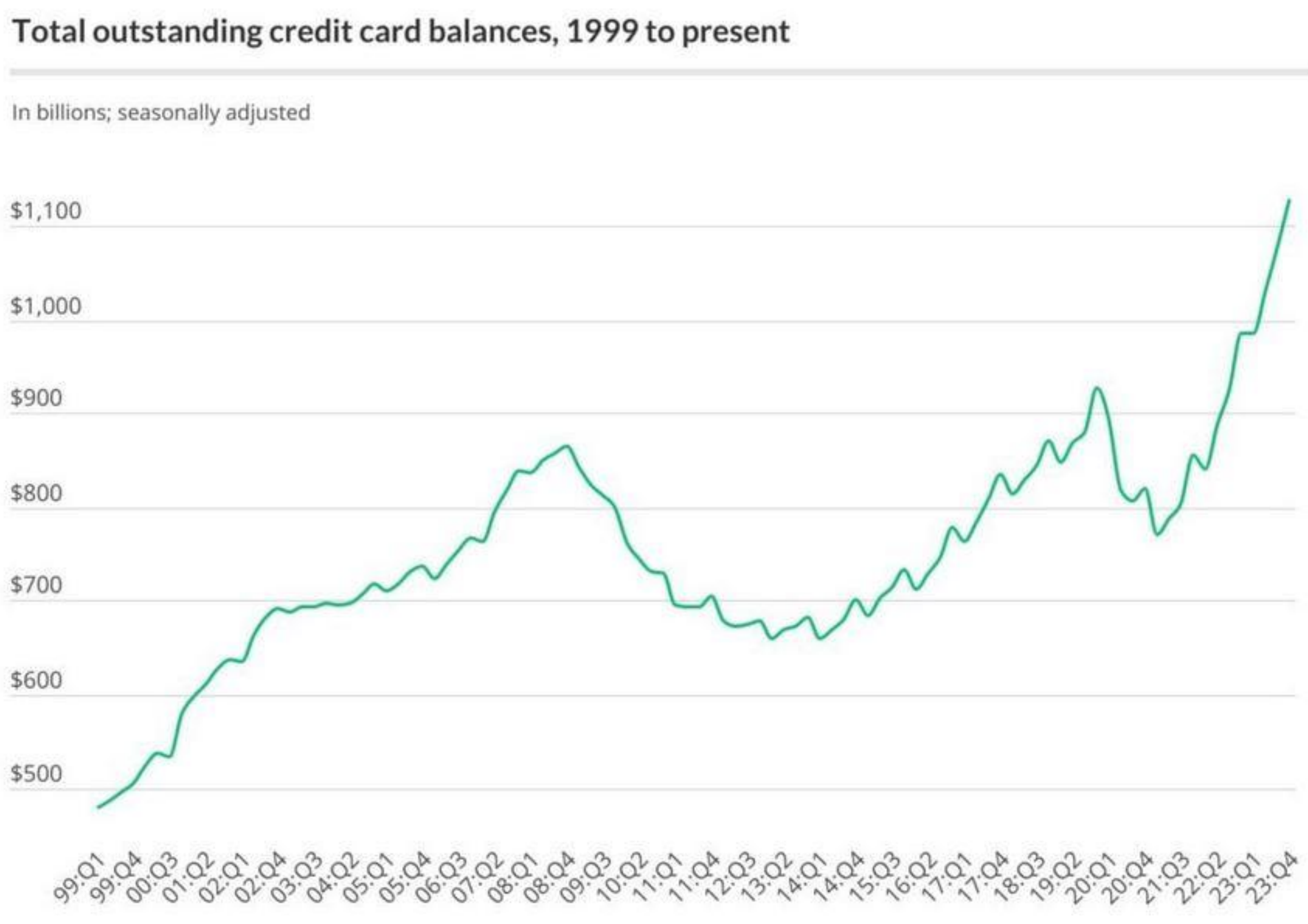
Student loan debt totaled $1.74 trillion as of September 2023. While investing in a college education can be a good investment, many young people are undertaking on extraordinary levels of debt without regard for their ability to pay it back. It was recently reported that a significant number of recent college graduates earn less than $35,000 per year. On today's radio news, I heard a story of a woman who incurred $5,000 in student load debt and somehow never got around to paying it back. Getting ready to retire, she is distressed to learn that she now owes $55,000. (Maybe she'll be one of the fortunate ones that Biden forgives her debt in his recent attempt to buy votes.)

Auto Loan Debt

According to the Federal Reserve Bank of New York, Americans owed $1.595 trillion in auto loan debt as of September 2023. Auto debt is the third-largest category, behind mortgages and nearly equal to student loans. The average car payment for new vehicles, according to third quarter 2023 data from Experian, was $726 and the average loan term was almost six years! All this debt is for “assets” that substantially depreciate faster than the loan balance is reduced.

Credit Card Debt

According to the latest consumer debt data from the Federal Reserve Bank of New York as of the fourth quarter of 2023, Americans’ total credit card balance is $1.129 trillion.



Overall, the national average credit card debt among cardholders with unpaid balances in the fourth quarter of 2023 was $6,864. According to data from the American Bankers Association, Americans carried a balance on 56% of all active credit card accounts in the third quarter of 2022, and for all accounts that accrue interest, the Average APR was 22.75%. (In the “good ‘ole days,” states used to have usury laws to protect people from loan sharks that charged less interest than that!)

Conclusion

In my not so humble opinion, a substantial portion of the spectacular growth in the American economy has been enabled by the proliferation of household and government debt.

Time will tell whether the next economic downturn, which is a “when” not an “if” probability, will produce a level of pain on the debtors that is unimaginable today.

Roger