

Americans drowning in red ink

An article from the Associated Press appeared in the Deseret News in Salt Lake City in January, 2004. The article indicated that as the bills arrived from the holiday spending spree, Americans found the mountain of debt grew even higher.

Consumer debt has more than doubled in the past 10 years to record levels, making it hard for many families to cope.

Consumer debt hit a record \$1.98 trillion in October 2003, according to the most recent figures from the Federal Reserve Bank. That debt, which includes credit cards and car loans, translated to an average of \$18,700 per household.

At the same time, the federal government says the nation's savings rate dropped to just two percent of after-tax income the first half of the year. That means many people lack the means to deal with financial emergencies, much less their eventual retirement.

How did American consumers get so deeply in debt?

Robert D. Manning, a sociology professor at the Rochester Institute of Technology who wrote "Credit Card Nation – The Consequences of America's Addiction to Credit," says the problem dates back to the 1980s. That's when financial institutions began issuing credit cards and making loans to people who wouldn't have qualified in the past.

"At the same time, people had this sense of entitlement based on the idea that this generation was expected to outperform the earlier generation," Manning said. "It was OK to buy yourself a better standard of living than your parents, and the banks would help you do it."

As of this date, the nation's credit card debt stands at \$735 billion, or nearly \$7,000 per household. Since about 40 percent of card users pay their balances in full every month, the per capita card debt of those who carry balances is closer to \$12,000.

In the same article, Joel Greenberg, chief executive officer of the non-profit Novadebt Credit Counseling Service in New Jersey said, "through the go-go 90s, the irrational exuberance wasn't just in the stock markets, it was throughout society. We became phenomenal consumers, and deplorable savers!"

What's surprising about the nation's debt is that it has continued to rise, despite record numbers of mortgage refinancing from 2001 to 2003, many of them yielding cash that consumers have used to pay down credit card balances.

Mark Zandi, chief economist at Economy.com, points out that the rate of growth of card debt has slowed "because people are using their homes as cash machines." But while refinancings have allowed upper-income households to put their balance sheets in order, lower income families without that option are finding it harder to cope, he said.

“They are the folks filing for bankruptcy in record numbers; they’re the ones facing repossession and foreclosures,” Zandi said.

Consumer bankruptcies have exceeded 1 million a year since 1996, hitting a record of 1.54 million in 2002. Bankruptcy filings totaled 1.25 million during the first nine months of 2003 and could set a new record when full-year tabulations are done by the Washington-based American Bankruptcy Institute.

There’s debate about how the high debt levels and demanding repayment schedules will affect the economy.

Americans currently spend a near-record 18.1 percent of their after-tax income to cover debts, including mortgages. That limits their ability to borrow more to spend more, and consumer spending accounts for about two-thirds of the economy.

Federal Reserve Chairman Alan Greenspan has pointed out that because of low interest rates, consumers can more easily handle their debt so the level is “not a significant cause of concern.”

Americans Get a “D”

The August 2003 edition of USAA Magazine carried an item in their “Personal Finances” column.

The headline was “Americans Not Making Grade in Financial Literacy.”

According to a survey conducted by marketing research firm RoperASW, Americans get a “D” in financial literacy. Bankrate.com, a web-based aggregator of financial data, awarded a grade to those surveyed, based on how well they applied 12 steps considered basic to the average American’s financial well-being.

Timeliness of bill paying, rate comparison shopping, budgeting and short- and long-term financial planning were some of the measures used in the scoring. Respondents received an average score of 67 out of a possible 100 points. Only 10 percent got an “A!”

Bankruptcies nearly double in past decade

An Associated Press story, appeared in the Deseret Morning News on November 15, 2003, indicating bankruptcies have nearly doubled in the past decade. That includes more than 1.6 million people who filed for personal bankruptcy because of debt from the free-spending 1990s.

The filings “are being overwhelmingly driven by individuals with household debt,” said Samuel Gerdano, executive director of the American Bankruptcy Institute, bankruptcy judges and other experts. “They do reflect the buildup of heavy consumer debt.”

The total number of bankruptcy filings, including personal and business, grew by 98 percent, to this year’s 1,661,996 from 837,797 in fiscal 1994.

“It’s not surprising to see some sort of ongoing clean up of credit problems even when the economy is on the mend,” said economist Ken Mayland, president of ClearView Economics in Cleveland.

Mayland noted that credit standards were particularly lenient in the mid-1990s, a factor that has had an impact for years afterward.

Legislation making it harder for consumers to erase their debts in bankruptcy court won overwhelming House approval in March of 2003 and was endorsed by the White House. Proponents of the legislation said it is needed to stop abuse of the bankruptcy system by people who can afford to repay their debts. Banks, credit card companies and retailers, who have pushed for such legislation since 1997, contend that abuse creates a hidden tax of about \$400 a year on every American family through higher interest rates and other charges passed on to consumers.

Consumer and civil rights groups and unions oppose the legislation, saying it is unfair to low-income working people, single mothers, minorities and the elderly and would remove a safety net for those who have lost their jobs or face mounting medical bills. Opponents blame the credit card industry for much of the rise in personal bankruptcies, saying the issuers make credit too easily available and flood consumers with solicitations to open new accounts.

Bankruptcy Statistics for Utah

At the end of 2001, Utah ranked 3rd in the U.S. in personal bankruptcy filings.

At the end of 2002, the number rose to 22,052, placing Utah 1st in the U. S.

During 2003, there were 11,345 filings in the first six months.

That was six percent over the same period in 2002.

That was 20 percent over the same period in 2001.

That was 55 percent over the same period in 2000.

At the end of 2003, the total number was down by 135; however, those figures still left Utah in the No. 1 spot.

In Utah, bankruptcies are filed at the rate of one in every 37 homes!

The national average is one in every 73 homes!

Sixty-eight percent of the filings are Chapter 7, meaning the filer is asking the Bankruptcy Court to forgive as many debts as possible, with no intention or obligation to make payments on them. (Chapter 13 involves an agreement to re-pay and for a set period of time.)

During January and February of 2004, filings were down 13 percent.



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FINANCIAL LITERACY JUST FOR KIDS

Car debt up more and more

CNN/Money published an article in January 2004, indicating nearly three in 10 car owners are discovering they are “upside down.” They owe more money on their current cars than they are worth in trade.

Buyers are putting less money down and taking longer-term loans to get classier cars. That move is not all bad, but if you have had the car for just a little while and want the newer or fancier model, then you have little built up in real equity. That means you simply roll the outstanding debt into another car loan.

Used-car values do play a role in all this. They are below traditional levels and remain critical in figuring long-term ownership costs.

So pay off the loan, regardless of the model. No debt. An asset owned in full.

Upside-down buyers are rolling an average of \$3,700 in old debt into their new car. In California, where even the pool boys drive BMWs, 40 percent are upside down and by an average of \$4,700.

Small down payments make the picture worse. Historically, car buyers would put down 10 to 15 percent. Now the “down” averages five percent.

Big incentives and endless loans helped cut the average monthly payment to \$453 last November, down from \$470 a year earlier, even as the price of the average car rose slightly to \$25,523.

Bob Kurilko of the auto web site Edmunds.com, said “Consumers are just delaying the time bomb for a couple of years. This bomb has one long fuse. Nearly 40 percent of new-car buyers took loans longer than 60 months last fall, up from 24 percent the year before. The average term now stands at 63 months, but almost 30 percent opt for 72 months. Some banks are floating 96-month car loans!”

Credit Card Delinquency High – “bridge” for unemployed

Fox News presented a financial news report on March 23, 2004. It said the percentage of credit card payments that were past due shot up to a new record in the final quarter of last year. But delinquency rates for some other types of consumer loans dropped, painting a mixed picture of how Americans are handling their debt.

The seasonally adjusted percentage of credit card accounts 30 or more days past due rose to 4.43 percent in the fourth quarter of 2003, the American Bankers Association (ABA) reported. That surpassed the previous all-time quarterly high of 4.09 percent set in the third quarter of last year.

James Chessen, chief economist for the ABA, said that credit cards are often used as a “financial bridge” by those who lose their jobs. He said that credit card delinquencies have been at high levels even as the economy has turned around because job growth has been slow.

“Clearly the improving economy has not yet touched all individuals, particularly those who continue to look for work and may be relying on credit cards to meet their daily living expenses,” Chessen said.

In the latest employment report, there were some 8.2 million people unemployed in February, with the average of duration of 20.3 weeks without work. That marked the highest average duration of joblessness in over 20 years.

Chessen said it is unusual for credit card delinquencies to go up while other consumer lending delinquencies go down.

“Culture of Consumption”

The following is a summary of an article entitled “Culture of Consumption” written by Noel C. Paul. It was published in the Christian Science Monitor on June 12, 2003. We present this summary with permission of Mr. Paul.

Mark Brown wishes his clients would think more about the future. But when deciding whether to buy a new Chevy truck or set aside \$300 a month for retirement, they more often opt for a pickup over peace of mind.

Mr. Brown, owner of the Brown Insurance Agency in Maine, says even people who have struggled to make ends meet for most of the past century, have little instinct to save.

“My fear is we’ll continue to borrow and borrow and spend,” says Brown. “It’s not part of our political culture now to tell people to tighten their belts.”

And yet many experts believe the call to spend might be sounding increasingly hollow. With the U. S. boldly deciding the fate of nations overseas, and assuming record levels of debt at home, the temperament of the nation, say experts, seems more suited to a message of fiscal prudence.

“As a country, we also have an ethic of frugality, “ says Robert Bixby, director of the Concord Coalition, a non-profit group that advocates balanced budgets. “Americans always feel you should pay your bills, and I think the tax cut was pretty much forced on them.”

Without calling for an immediate downshift in spending, some observers are growing increasingly critical of what they describe as the nation’s knee-jerk culture of consumption.

Business and government have come to portray consumption as a panacea for a variety of public ills. Consumer-confidence data, which many economists say are at best ambiguous, are now examined like tea leaves by marketers and media.

More important, the spending boosterism has ensnared, in part, a record number of Americans in bankruptcy and debt.

In response, experts are re-examining the context in which the nation’s consumer culture was born, and asking whether it might be time to shape a more balanced ethic of saving and spending in America.

“This pattern isn’t sustainable even in the short term,” says Dean Baker, co-director of the Center for Economic and Policy Research. “There’s a lot more anxiety (among the public) over how consumers are spending their money.”

For the most part, they are spending too much, say some experts. Consider the drop in Americans’ personal savings. In the 1980s, consumers saved about 10 percent of their disposable income. Last year, they tucked away only 3.7 percent.

One consequence: Personal debt has soared. Consumers owed an average of \$8,940 in credit-card debt last year, up from \$3,275 in 1992. Overall, they owe more than \$1.7 trillion in credit-card bills, up from \$1.1 trillion in 1995.

Partly as a result of tax cuts to fuel spending, the government's debt is also growing dramatically. Between fiscal years 2003 and 2005, say observers, the government will accumulate about \$400 billion in added debt.

Western notions of frugality and fiscal prudence have held a significant place in American intellectual thought from the 17th century to present day. Adherents of the ethic often make their voices heard on the public stage in cycles. Many observers cite the 1992 presidential campaign of Ross Perot, fueled largely by public distress over government debt, as one of the most prominent contemporary examples.

This temperament of austerity intensifies during conflict. During the Vietnam War, Pres. Lyndon Johnson promised America could produce both guns and butter. The antiwar movement still took a strong anti-consumption turn.

"During war, people often don't want business as usual," says Lawrence Glickman, a professor of U. S. economic history at the University of South Carolina. Even during peace, Americans have never easily accepted the ethic of consumption. In a recent study of American literature, Prof. Glickman found very few examples of writers who celebrated spending money and buying products.

"You would think this would be a great American genre," says Glickman. "But there's a sense in America that consumption couldn't be an unmitigated good."

And yet the idea that steady and even rising spending by consumers is vital to the well-being of the nation has been generally accepted by many Americans for more than 50 years.

Stephen Moore, an economist at the Cato Institute, a free-market think tank, made this point. "Almost every newspaper you read about the economy implies that consumers have to keep spending or the economy will sink."

Experts points to theories of the early 20th century economist John Maynard Keynes to explain contemporary America's infatuation with consumer behavior.

Keynes said that the economic depressions that rocked the U. S. and Europe during the 1930s resulted from a lack of consumer demand. To keep the economy strong, he argued, governments should stoke consumption.

Once the nation's factories were at full strength following World War II, U. S. officials began implementing Keynes's theories, shaping a consumer culture in which families were capable of buying all that American factories could produce.

The new era of consumption, say experts, grew out of a coordinated effort on the part of leaders across a broad swath of American life, from Pennsylvania Avenue to Madison Avenue.

“Various groups in power and authority came together around the nation that they could build a prosperous economy based on the idea of mass consumption, says Elizabeth Cohen, a Harvard University historian and author of “A Consumers’ Republic” --- The Politics of Mass Consumption in Postwar America.” It was a strategic, concerted effort to get people to buy.

Spending as a patriotic duty

Professor Cohen found a post-war magazine ad, which employed text to convey the message that through spending, the buyer not only got the material goods wanted, but “you also help the nation.”

As tools for investment became more sophisticated, Americans devoted more of their income to buying goods and services. Vital assets like common stock, mutual funds and real estate have rendered traditional means of saving unfashionable.

Consumers have had little reason to let money sit in the bank, when buying a house enabled many to accumulate thousands of dollars in additional wealth.

“We had the peculiar situation when people would go further and further into debt (to buy a home), and at the same time their wealth was increasing, says Michael Lehmann, an economic historian at the University of San Francisco.

Many families have drawn on home equity to finance a slew of spending over the past decade. Since 2001, refinancing has put about \$300 billion into the economy, almost all of which consumers have spent, according to the Mortgage Bankers Association.

But the strength of the economy’s cash-growing tools appears to be waning. The stock market has flagged, and home values are already falling in some overheated markets, thereby cutting off most consumers’ primary source of extra cash.

Many experts thought the housing market would have begun to drop by now, prompting Americans to save more, according to Mr. Baker. But without that kind of drain on wealth, Americans seem to have little instinct to voluntarily cap their spending.

What if Americans cut spending?

Economists disagree on what effect a reduction of spending would have on the economy. Many agree it would be devastating.

“If consumers were to reduce spending for a sustained period of time, very little about that would be OK, says Milton Ezrat, senior economist with a firm in New Jersey. “Business would cut back spending, it would feed on itself, and that’s where recessions come from.”

Mark Brown does not want to see people stop spending money. Every year he sees clients go into serious debt because of a failure to save. He says he needs to work harder at convincing them to plan for the future.

“My job is to help people prepare for the unexpected,” he says, “and we all need to do a better job of that.”

Is America too deep in debt?

In an article in CNN/Money, dated April 4, 2004, Writer Mark Gongloff addressed this issue.

The Federal Reserve said outstanding credit, excluding mortgage debt, grew by just \$4.1 billion in February to \$2.02 trillion, after growing by a revised \$15.8 billion in January. Economists, on average, expected debt to grow by \$7.7 billion, according to Briefing.com

With personal bankruptcies hitting a record high in 2003 and credit-card delinquencies hitting a record high in the fourth quarter of 2003, now might seem like a good time for consumers to be easing up on the debt.

But economists haven't been worried. Fed Chairman Alan Greenspan waved aside debt concerns in a speech in late February, saying household net worth and incomes were rising to keep up with rising debt and that low interest rates had helped keep the ratio of debt to income stable in the past couple of years.

"Overall, the household sector seems to be in good shape," Greenspan said then, and most other economist agree, for now.

In fact, consumers having so much credit at their fingertips is a good thing for the broader economy right now, because it props up consumer spending, which makes up more than two-thirds of all U. S. economic activity.

But what happens when the tab comes in?

"When the economy goes back down again, years down the road, will consumer credit be a major problem, like it was in the 1990-91 recession?" asked Bank One Chief Economist Diane Swonk. "Yes, it could come back to haunt us."

Among the first to suffer will likely be those consumers who use credit cards to pay living expenses, according to Allen Grommet, senior economist for the Cambridge Consumer credit Index, a monthly survey of consumer credit demand.

"Of those planning to use additional credit in March, almost half were using it because they have to meet their everyday needs," Grommet said. "That, to me, says there is a large group of people right on the edge, having trouble...and when interest rates go up, that will really pinch them."

Is there a credit crunch coming?

Credit card delinquencies have hit a record level. The housing slowdown could mean more pain is coming.

An article appearing on CNNcom/Money in January of 2004 indicated the record percentage of consumers behind on their credit card payments could be the result of a weakening housing market. That could also be a sign of greater pain to come.

Some analysts suggested that the improving labor market would ease the sting of a softer housing market and help stop the bleeding on consumer balance sheets.

The American Bankers Association (ABA) reported that 4.09 percent of all credit card accounts were delinquent in the third quarter of 2003, the highest rate on record. The ABA felt the weak job market was probably to blame.

But Morgan Stanley Senior Economist Bill Sullivan suggested the other culprit might be the end of the mortgage-refinancing boom.

“It is no coincidence that households found it more difficult to maintain current payment schedules just as the volume of refinancing activity began to dry up as the second half of the calendar year got underway,” Sullivan wrote.

The refinancing boom offered homeowners a ready source of cash. Most consumers plowed that cash back into their houses, for new washers and dryers, carpeting or to build that new deck.

Others simply used it to pay bills, including their credit card bills.

How flush consumers are has big implications for the United States, since consumer spending fuels more than two-thirds of the economy. The housing market helped keep consumers spending despite a recession, rising unemployment, terror attacks, two wars and a three-year bear market in stocks.

ABA Senior Economist Keith Leggett acknowledged that the end of the refi boom has cut off one source of cash for consumers to pay off credit cards, exposing them to lingering weakness in the labor market.

Jump\$tart survey – U. S. and Utah

Earlier this year, the national Jump\$tart Coalition commissioned and administered a survey of financial questions among high school seniors.

The survey consisted of 52 questions, given to 4,074 high school seniors in 215 schools nationwide. Topics included insurance, debt and money management strategies.

In early April 2004, the results of the surveys were released. Nationwide, students answered 52.3 percent of the questions correctly. That score is up from 50.2 percent in 2002 and 50.9 percent in 2000.

Nearly 53 percent said they would have no liability if their credit card were stolen and a thief ran up a \$1,000 bill. Only 18 percent knew they would have to pay \$50. Nearly 79 percent were right in saying the primary sources of income for most people age 20 to 35 are salaries, wages and tips.

Only 17 percent correctly said that stocks likely would offer the higher growth over 18 years of saving for a child's education. Almost 80 percent thought a U. S. savings bond or a savings account would offer the highest growth.

A little more than 34 percent correctly said that retirement income paid by a company is called a pension. Nearly 63 percent thought it was called Social Security or a 401(k).

Previous surveys were done in 1997, 2000 and 2002 by the Coalition. The researcher for all four studies was Dr. Lewis Mandell, professor of finance at the University of Buffalo School of Management. Scores have dropped for each survey until this year's – some reason to be hopeful for students across the nation.

“I believe this improvement, as small as it is, is the beginning of something because I think people are finally beginning to pay attention,” Mandell said, “But it probably will take a long time to turn around.”

Results in Utah

Participants in Utah answered 48.8 percent of the questions correctly.

More details available soon.

Comment

Federal Reserve Chairman Alan Greenspan, has long advocated that Americans, especially, young people, get a better grip on fundamental money matters. Greater financial literacy in this country, he says, is especially important given the ever-expanding financial choices facing consumers.

Greenspan says improving basic financial education at the elementary and secondary school level would help give young people a foundation that could go a long way in allowing them to avoid financial pitfalls later in life.

The survey was underwritten by Merrill Lynch.

Magazine Surveys Students on Financial Literacy

Young Money magazine recently asked 745 current and former college students about money problems and personal financial skills at school.

The results?

Ninety percent said colleges do not teach personal financial skills. Forty-six percent said their parents did not teach them basic financial skills before they started college. Sixty-three percent believed credit card companies should be banned from soliciting on campuses.

Regarding the biggest money problems, 35 percent of the respondents listed not having enough income, 23 percent said the biggest problem was “credit card debt,” 16 percent, not enough savings; 14 percent, difficulty finding a job and 12 percent, student loan debt.

Retirement savings not likely to cut it

Jeanne Sadahi, senior writer for CNN/Money stated in a web article on April 4, 2004 the following:

“...since 2001, the number of U. S. workers who say they are currently saving for retirement hasn't grown. Only six out of 10 of us are setting aside money for tomorrow.

She cited a recent survey by the Employee Benefit Research Institute (EBRI) and the American Savings Council (ASEC). The survey found that 45 percent of all workers reported total household assets, excluding their homes, of less than \$25,000.

Why shrinking savings?

A bear market was eating growth in the stock market.

A lot of us are laboring under the false notion about how much money we need to finance a retirement, which for many of us will not include a company-paid pension with health benefits.

According to the survey, 10 percent of workers think they will need less than 50 percent of their pre-retirement income to live comfortably in their golden years; another 28 percent think they will need somewhere between 50 and 70 percent.

Six out of 10 do not expect their standard of living to decline, while nearly five out of 10 workers who have not saved at all feel at least somewhat confident about their ability to have a comfortable retirement.

Those survey respondents didn't confer with the retirees who took the survey. Thirty-nine percent of them said they are drawing an income that's the same as their pre-retirement income. While 13 percent said their current income is actually higher.

At the very least, retirement experts recommend you plan to live on 70 percent of your pre-retirement income.

Boosting your savings is one of the best ways to feather your nest egg. No matter how well you allocate your portfolio and no matter how fortunate you are in the stock and bond markets, the compounding on a little bit of savings, while impressive, won't yield nearly as much as the compounding on a little bit more.

Statistics from the Consumer Credit Counseling Service of Utah, 2002

Financial profile of most clients at the time they sought its services...

- Average balance on their credit cards was \$8,000.
- Average household had 10 credit cards.
- Average interest rate on the cards was 18.9 %.

NOTE: Half the families in the U. S. are having difficulty making any more than minimum payments on their credit cards.

NOTE: If your balance is \$8,000 and you make only minimum payments at the rate of 18%, it will take you 25 years AND seven months to pay off the debt, assuming you don't use that card again. Debt + interest = \$25,432. That's \$17,432 in interest!!

Utah still ranks 1st in bankruptcy

The number of bankruptcies filed by the end of 2003 went down in Utah, but only by 135. That number still leaves Utah in the No. 1 position.

According to an article in the Deseret News on March 26, 2004, at the end of 2003, one in every 36.6 households filed for bankruptcy, the highest households per filing rate in the nation, according to the American Bankruptcy Institute. The national rate is one in 73.1 households.

Tennessee took second place at one per 38.4 households. Georgia ranked third at one per 42.7. Alaska has the lowest rate, with one filing for every 189.3 households.

Habbo Fokena, U. S. bankruptcy trustee for seven states, said there are several factors, but “nationwide, the vast overwhelming majority of bankruptcies are driven by credit-card debt.”

Despite Utah’s high filing rate, bankruptcies in the State have started to slow. Filing fell .6 percent from 2002 to 2003, the first time since 1994 bankruptcies declined. For the first two months of 2004, filings are down 12.5 percent compared to the same period in 2003.

Among Utah’s filings, the percentage of Chapter 7 compared to Chapter 13 went up, meaning more Utahns were asking for total exoneration of all debts that can be eliminated by bankruptcy. A Chapter 13 filing means the filer agrees to a repayment plan for creditors. In Utah, only about 10 percent make the first payment under such arrangements. They then petition the Court to change the filing from a Chapter 13 to a Chapter 7.

Nationally, bankruptcy filings in 2003 broke a record as some 1.7 million individuals turned to the courts to absolve their debts.

According to the Federal Reserve, U. S. consumer credit rose at an annual rate of 8.6 percent in January. Revolving debt, or credit card debt, in January reached \$750 billion, up from \$744.6 billion in December.

The Cambridge Consumer Credit Index reports that 42 percent of Americans are making only the minimum or no payments at all on their credit-card balances.

Utahns behind on payments

According to an article in the Salt Lake Tribune on March 24, 2004, the number of Utahns behind on credit-card payments rose in December of 2003 to 2.55 percent of all accounts. That's up from just 1.15 in September, according to the American Bankers Association (ABA).

Nationally, the credit-card delinquency rates also increased, to 4.43 percent by the end of the fourth quarter, up from 4.09 percent at the end of the third quarter.

The rise in the percentage of credit-card accounts that are 30 or more days past due reflects the fact that some families are still struggling with unemployment and using credit cards to get by, stated the ABA.

Another measure of families' ability to handle their debt loads also shows some discouraging trends. While the number of Utah loans in foreclosure slipped in the fourth quarter to 1.73 percent from 1.81 percent in the third quarter, home-loan delinquencies are up, from 5.15 percent to 5.32 percent, according to the Mortgage Bankers Association.

Nationally, foreclosures rose slightly to 1.29 percent in the fourth quarter from 1.24 percent in the third quarter, while delinquencies rose slightly to 4.88 percent from 4.80 percent.

Delinquencies are loans in which payments are 30, 60 or 90 days past due. Loans in foreclosure are more seriously delinquent and homeowners are at great risk of losing their property.

December marked the end of the third year of economic downturn for Utah, which makes a jump in credit-card and mortgage delinquencies in the last part of last year no surprise.

What is Financial Literacy?

The Federal Reserve Bank of New York City uses these three definitions:

1. Basic personal financial management skills, including understanding of income, money management, saving, investing, spending and credit.
2. The ability to make critical financial decisions.
3. Knowing how to manage money, use credit effectively, build wealth and make good financial decisions.

Why is Financial Literacy important?

According to The Federal Reserve Bank of New York City,

1. The financial well-being of individuals is linked closely to the nation's economic progress.
2. Financial literacy among individuals results in more stable communities and a stronger, safer banking system for all.
3. Improved financial literacy, particularly early in life, results in a higher standard of living over the long term, even for retirement.
4. Gaining financial literacy is a long-term process that, for most people, requires the assistance of institutions outside the home.

Why So Much Bankruptcy in Utah...?

Utah was feeling a little better at the end of 2001, when the State ranked 3rd in the U. S. in per capita personal bankruptcy filings. But **by the end of 2002**, Utahns filed 22,052 times, taking over the No. 1 spot. **At the end of 2003**, Utahns filed 21,917 times, 135 lower than the year before, but **Utah retains the No. 1 ranking**.

The national average of family bankruptcies is one in every 77 homes. In Utah's very simply, it's one in 37!

Just over two-thirds of them are filed as Chapter 7, which means Utahns want to be relieved of all unsecured debts.

Why do so many Utahns file? Dr. Jean Loun, a professor at Utah State University, has done more research on this topic than anyone else in the State. She has made some interesting observations. Dr. Loun has difficulty drawing clear conclusions because there are no laws in Utah that require the filer to reveal gender, age, formal education, annual salary, county of residence and other factors normally wanted for demographic classification of a group in our society.

She does make the following observations:

- The cost of living in Utah is very close to the national average (Most people think it costs less to live in Utah.)
- The average per capita income in the U. S. is \$ 21,587. In Utah, the average is \$18,185.
- The average hourly wage rate in Utah 88 percent of the national average, so “we must do the same with less.”
- In the U.S., women earn 75 percent of what the men earn. In Utah, the rate is 62 percent, the largest gender gap in the U. S.
- On the average, Utahns have one more vehicle per household.
- Over 25 percent of the homes in Utah have eight or more rooms, well ahead of the U. S. average.
- Because of a rapidly growing population, Utah has an average of a half a person more in each home than in the U. S.
- The average cost to raise a child from the year 2000 to 2018 is just over \$230,000.
- In 1981, across the U. S., families owed an average of six weeks' worth of debt. In 1991, debt rose enough to require six months to pay it off.
- In the U. S., 80 percent of students graduate from high school. In Utah, the rate is nearly 88 percent.
- In the U. S., almost 25 percent of adults have a bachelor's degree. In Utah, the rate exceeds 25 percent. However, the higher the formal education level, the higher the propensity to spend and the higher debt level follows.
- The Salt Lake City area ranks first in the nation for charitable donations (to churches and other charities). That rate approaches 15 percent. In Utah County, the rate is 24 percent.

- States that do not have a requirement for a personal finance course in high school have higher bankruptcy rates.
- Greatest single factor seems to be uncontrolled spending with credit cards and incurring more debt than families can actually handle.

Conclusion: It costs about the same here, but we use less money per hour to do it, with larger homes and mortgages, another car, another child (every other address) while giving a lot of money away, while providing a comfortable living for ourselves and our children, often using credit cards with little regard to the ability to repay the loans.

Why worry about students and money?

Research has shown that young people determine their attitude about handling money by the time they finish the 5th grade.

From the Federal Reserve Bank:

- The majority of students, 7-13, continue to hold a view of money dominated by spending and saving just enough to spend again.
- 79% of students 16-22 have never taken a personal finance course at school.
- Kids ages 4-12 annually influence nearly \$570 Billion in parents' purchases.
- Kids under 14 spent \$55.7 Billion in 1999.

Future generations will inherit \$12 Trillion over the next 20 years! (What will they do with it?)

Teens over 14 spent nearly \$1.2 Billion on the Internet at the end of 2003, generally using a parent's credit card.

In Utah, more money is spent on "brand names" per capita, than in any other state.

National Center for Financial Education: Over 60 percent of kids 14 and under did not know the difference between cash, checks and credit cards.

Consumer Reports:

- 28% of 12-year-olds did not know credit cards are a form of borrowing money.
- 40% did not know banks charge interest on loans.
- One in five, ages 12 to 19, has his own credit card or access to a parent's credit card.

Recent study at the University of Wisconsin:

- 30% of teens never budget for personal expenses
- 20% never set personal goals for their money
- 15% use credit cards
- 18% said they do not save regularly
- 11% save money for college

Credit card offers: Most issuers send an introductory offer a minimum of seven times!!

