Americans Accumulate Historic $1 Trillion Credit Card Debt

August 25, 2023 - The Federal Reserve Bank of St. Louis has disclosed that Americans now collectively owe a staggering $1 trillion in credit card debt, something that is unprecedented. This alarming figure coincides with many credit card interest rates reaching their highest levels in the past 40 years.

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A recent study by WalletHub reveals that the average interest rate for new credit card offers, which are often initially discounted, has surged to 22.39 percent. This is a significant rise from the 18.89 percent seen just a year ago. Analysts attribute this increase to recent hikes in Federal Reserve rates. Experts warn that this credit card trend reflects real issues with broader economic health of consumers.

Credit card companies typically follow the Federal Reserve's lead, setting their interest rates based on the FED rate. And the FED rate has been rising consistently now for more than a year. Consequently, Americans find it harder to pay off their credit card balances, resulting in deeper debt. Presently, the average household holds over $10,000 in credit card debt, according to estimates by WalletHub. Another recent study from Northwestern Mutual found that, apart from mortgages, Americans owe an average of over $21,000 in debt, with credit card debt being the foremost source of this financial burden.

Unfortunately, consumers are using credit cards as a coping mechanism for high inflation and stagnant wages. The Q1 2023 Quarterly Credit Industry Insights Report from TransUnion, released in May, highlights that credit card holders are increasingly turning to credit to cover essential household expenses due to these factors impact on their household budgets.

A recent survey by NerdWallet also revealed some information that will only make matters worse for many American consumers. The study found that many consumers are so concerned about their debt levels that they aren't providing honest financial information to their spouses or significant-others. Nearly half of respondents admitted to hiding information or even lying to their partners about their debt. Surprisingly, around half believed it was acceptable to maintain secret savings unknown to their significant others. This trend was higher among younger respondents and it is unfortunate. A recent survey of divorce attorneys listed financial issues - including financial infidelity - as the third most common reason for divorce. Current estimates are that anywhere from 20% to 40% of divorces are caused by financial issues.

by Jim Malmberg

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