Household Credit and Debt Portfolios: Variation by Definition

This research effort uses data from the 1992 Survey of Consumer Finances to arrive at three measures of household credit and debt. The first measure quantifies the debt households carry in various debt categories and in total. Second, the amount of unused credit currently available through credit cards and home equity lines of credit is determined for each household. Finally, a variable is operationalized to measure how far into debt a household could go if it also tapped into specific assets as sources of credit.

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Introduction and Purpose

The present level of household debt and the general willingness of consumers to continue obligating future income to cover current consumption has met with a variety of reactions from those interested in this issue. The fact that consumer debt has been growing at twice the rate as the gain in salary and wages distresses family economists because of the potential impact on the financial well-being of families over their lifetime. Economic analysts worry that the heavy debt load carried by many families will eventually contribute to a stalled economy. In direct contrast, the credit industry shares little of this negative reaction to rising household debt. Thomas Layman, chief economist for Visa, U.S.A., views the current level of household debt as reasonable and thus dismisses the concern of those who are less positive about the situation. He contends that as long as borrowers are able to meet their debt obligations, the amount of that debt should not be of concern. He notes that even if the consumer were to experience difficulty in meeting current debt payments, there would be little need for distress because of the amount of untapped credit still available to consumers. In effect, he reflects the attitude of the credit industry that it is reasonable for consumers to borrow more in order to pay for previous borrowing (Bleakley, 1995).

Part of the difficulty in getting a clear picture of the actual debt load of households relates to the terminology which is used in referring to various types of credit/debt. Often statistics quantifying one type of debt are used as if they give a realistic picture of the total debt situation of American households. To compound the problem, researchers and writers on this topic do not make clear distinctions between the terms credit and debt, using the two terms as if they were synonymous. Indeed, the terms credit and debt are related but not interchangeable. Credit is the potential to acquire goods and services now and pay for them in the future. Credit is the potential for debt while debt is the actual financial obligation.

The purpose of this paper is two-fold. The first purpose is to determine the total debt level of American households and how that debt is distributed across the various categories of debt. Using Mr. Layman's comments as a guide, the second purpose of the paper is to determine just how far in debt American households could go if they tapped into the unused credit already available to them. A two-step process was used for this second purpose. First an intermediate variable was operationalized to determine the amount of credit for which the household has already qualified. This "qualified level" variable includes current debt plus other credit for which households have already qualified but not yet used. A final variable was operationalized to determine the potential for debt of households. This "potential level" variable includes the qualified level variable and adds to it those household assets which could be easily accessed as potential sources of credit.

Methodology

Data and Statistics

Data used in this study were from the 1992

Survey of Consumer Finances (SCF) cross-section data set. A total of 3906 households were used in the empirical analysis. Data were weighted and the RII technique was used to obtain statistical estimates.

The scope of this initial study is limited to descriptive statistics and measures of central tendency. Both means and the range of medians will be reported in the results. Since it did not seem logical to report a mean of the five median values across implicates in SCF, the range of medians is provided

Variables

Consumer Debt was operationalized as the dollar value of credit card debt (outstanding balance), household loans for vehicles, education and other loans (including home equity loans) which could be identified with a consumer purpose.

Mortgage Debt included household loans and home equity loans used for principal residence (purchase, home improvement and/or repairs).

Household Debt was the sum of Consumer Debt and Mortgage Debt.

Other Debt was the dollar value of business debt, investment debt and real estate debt other than for the principal residence. Also included was any debt where the loan purpose was not available in SCF.

Total Debt summed Consumer, Mortgage and Other Debt.

Qualified Credit was the dollar value of available credit on credit cards and home equity lines of credit. (Available credit is difference between the credit limit and the outstanding balance.)

Non-Qualified Credit was the dollar value of 90 percent of current home equity plus 50 percent of the funds available in pension accounts, and the cash value of life insurance policies less any current loans against these assets. This variable represents the amount of credit from specific assets that had not yet been tapped.

Potential Credit was the sum of Qualified and Non-Qualified Credit.

Qualified Level was the sum of Total Debt and Qualified Credit. The variable was designated as a level since it contained both credit and debt components.

Potential Level added Potential Credit and Total Debt.

Results

Sixty-two percent of households had some Consumer Debt as operationalized in this study. Mean Consumer Debt for the full sample was $4,706 with a median range of $245-$275. In the subsample of households with some Consumer Debt, the mean was $7,568 with a median range of $4,845-$4,950.

Almost 40 percent of households had Mortgage Debt on their principal residence with a mean of $22,828 and median of zero. In the subsample of households with Mortgage Debt, the mean was $57,278 and median was $59,000 to $60,000.

Seventy-two percent of the respondent households had some Household Debt. Mean Household Debt for the full sample stood at $27,545 with a median of $6,200-$6,320. When the sample was restricted to households with some Household Debt, the mean value increased to $38,467 with a median of $26,255-$27,000.

In the full sample, 16 percent of households had Other Debt with a mean of $8,493 and a median of zero. In the subsample of households with Other Debt, the mean was $52,341 with a median of $50,000-$52,000.

Almost 74 percent of households had some type of debt with a mean Total Debt of $36,038 and a median of $12,180 to $12,665. Taking out the 26 percent without debt, mean Total Debt increased to $48,937 with a median of $36,310 to $37,100.

In the full sample, Qualified Credit had a mean value of $7,183 with a median of $4,075-$4,170. In the subsample of households with some Total Debt, Qualified Credit had a mean of $7,659 and median range of $4,800-$4,830.

The mean value of Non-Qualified Credit for the full sample was $48,303 with the median at $40,400 to $40,500. In the restricted subsample, the mean was $50,432 with a median of $40,500-$41,750.

Potential Credit had a mean value of $55,486 and a median range of $50,725 to $50,925 for the full sample. The restricted sample had a mean of $58,091 and median of $51,500-$52,325.

In most cases households qualified for more credit than they were currently using. The Qualified Level variable captures the amount of untapped credit for which the household has already qualified and adds it to the debt already incurred. Mean Qualified Level was $43,221 and median was $21,925-$22,472. In the total sample, at the mean respondents were using 83 percent of the credit for which they had currently qualified. Focusing on respondents with some debt, at the mean households were using 86.5 percent of Qualified Level. While Qualified Level indicates the total amount of credit for which a household has already qualified, this variable actually understates the assured credit potential of many households. The Potential Level variable also includes assets which could be tapped for further credit without actually liquidating the asset. At the mean, the Potential Level variable was $91,524 with the median at $94,000 to $95,7756. Therefore, the Total Debt of households represented 39 percent of the potential for debt. Limiting the sample to households with some debt, the mean value of Potential Level was $107,029 and median was $109,810-$111,155. Their Total Debt represented 46 percent of Potential Level.

Summary

The debt situation of households varies considerably by the type of debt being quantified. While 62 percent of households had Consumer Debt, only 40 percent had Mortgage Debt and 16 percent carried Other Debt as it was operationalized for this study. While Consumer Debt receives much attention because of its growth over recent decades, it actually had the lowest mean value of the various types of debt. The fact that so much of consumer debt is unsecured and incurred to underwrite current consumption may justify the amount of attention it is given.

The full sample is using 83 percent of the credit for which it is currently qualified. However, they still have over $7,000 of untapped credit available to use for emergency purposes. While the subsample of households with some debt are using a slightly higher proportion (86.5 percent) of their Qualified Level, they also have a higher dollar amount available to them in the form of untapped credit ($7,659).

Of real concern is the dollar value of Potential Level. This variable quantifies how far in debt households could go, given their present level of approved credit and the assets they could tap as further sources of credit. Households could double and almost triple their present level of debt with little effort and with little need for approval from the credit industry. Not only is there concern for the high potential for debt but also for the impact of tapping into assets meant to provide financial security for the household.

In preparation for this research study, it became obvious to the researchers that individuals who write on the subject of credit and debt are somewhat casual in their use of these two terms. This study allowed the researchers to begin development on a conceptual framework which allows for quantification of both credit and debt as separate financial measures and then to bring them together to determine the potential for financial obligation if households took advantage of many of the sources of credit readily available to them.

References

Bleakley, F. R. (September 11, 1995). Consumer debt alarms some analysts. Wall Street Journal, p. A2.

Endnotes

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