**Wednesday, June 12, 2024 / CREDIT CARD DEBT**

**[HALF SECOND OF SILENCE]**

**[BILLBOARD]**

SCORING IN —

JQ HILL (GUEST HOST): There was this brief moment a couple years ago when it looked like Americans just might finally get their credit card spending in check. We were spending less during Covid, and those federal stimulus checks meant a lot of folks were actually making more money.

*<Tape> NICK WOLNY: But then when those ended and inflation reared its ugly head and came back around, it really caught people off guard and they're digging themselves deeper and deeper into debt in order to make ends meet.*

Over the past year and a half, as Americans were putting more on their credit cards than ever before, interest rates on those cards rose by nearly a third.

SCORING OUT

*<Tape> TODAY, EXPLAINED CALLER JP GRAVITT: I could put my entire paycheck toward paying it off for the entire year, and it would still take me 2 years to pay it off, plus interest…so*

SCORING IN

How Americans racked up over a trillion dollars in credit card debt, and what it’ll take to get us out of it… coming up on Today, Explained.

**[THEME]**

JQ: It’s Today, Explained. I’m Jonquilyn Hill filling in as host. And today, we’re talking to this guy:

NICK WOLNY (CNET EDITOR): I'm Nick Wolny, and I'm a managing editor at CNet and a finance journalist.

JQ: Nick’s been following the rapid growth of credit card debt, talking to banks and credit card companies and regular people dealing with debt. And he says the first thing you’ve got to understand about credit cards right now is interest rates:

NICK: In Q1 of 2024, the Federal Reserve reported that the average credit card rate is 21.59%, this is a record high, we've been above 20% for nearly a year. And for retail cards, Target or you go to wherever it is, and I'm just trying to buy dish soap and they're like, you know, do you want this card? You want the Red Card?? You know, all those retail cards, those tend to have an average closer to 30%. And so in the moment, if someone is is cash strapped or particularly there tends to be something like sign on bonus or perhaps a credit, an opportunity to save some extra money in the moment. And a lot of people will fall prey to that and not realize that they have this 30% interest charge that is is accruing on this. And they just have this lagging credit card debt that persists as a result.

JQ: I wonder, do people understand what they're getting into when they get these high limit, high interest credit cards and then don't pay off their balance every month? Do people even realize that they're getting a high limit, high interest credit card?

NICK: I don't think so. When I interviewed a financial planner at Northwestern Mutual last year, she pointed out that her clients would regularly say, oh, I'm good. I'm making the minimum payment. I'm good. Like I'm paying my credit card. And and she's like, no, that's the minimum payment. And these are the people who are probably more fiscally savvy if they've hired a financial advisor. Right. If you've hired a financial advisor at Northwestern Mutual, you're probably at least thinking about your money and about your expenses and things like that. And those people are saying, oh, I'm good. I'm making the minimum payment. I'm good. It's quite hard to to visualize how much something actually costs when you're just, you know, making these very, very small payments. And it's difficult for us, I think, to, to realize the total amount of interest and how much extra interest we would pay..

*<CLIP> GMA: So let's say you’re carrying a $1,000 balance on your credit card. Two years ago if you were making minimum payments it would cost you $729 in interest to pay it off. At today's rates, you’re paying almost $1200 in interest.*

SCORING IN, Frogs not hopping

NICK: You know, credit cards didn't used to be as profitable as they are right now. And it also used to be that the minimum monthly payment was 5% of your balance. In the 1980s, some some very smart mathematicians realized that if they made two tweaks to credit card culture, there'd be a lot more profit to be made. And those two tweaks were to lower the minimum monthly payment from 5% to 2%, and then to increase people's credit limit. And so it makes the consumer feel good in the moment because rather than being almost maxed out on your credit card if you have a much higher limit, you're not as maxed out. You've got a lot of wiggle room. And then if your minimum monthly payment is less, then it's like, oh, this is not so bad. It's only 2% of my balance, rather than 5% of my balance in terms of that required minimum monthly payment. What that all meant is that people were more likely to have higher balances…

*<CLIP>GMA: The average household is now carrying about $6500 in credit card debt, that is the highest in almost 4 decades.*

SCORING OUT

JQ: As you were doing that explanation, I couldn't help but hear the voice of my mom. Like, I remember the first time my credit card limit got raised and I didn't add they were just like, yeah, hey girl, you want some more? Thousands to spend. And my mom was like, “no, that's what they want. Like, don't do it.”

NICK: Someone I, someone I spoke to last year as well talked about, his name is, Josue Henriquez, lives in San Francisco. And he talked about how, you know, when he when he emigrated to the U.S., you know, he wanted to build his credit to eventually buy a house one day. And so he took out a credit card when he was 18, and he got a $500 limit, which, you know, like, does not exist anymore. But over time, as his limit increased as he got more credit card offers. You know, fast forward ten years, he's $25,000 in debt.

JQ: Oof!

NICK: He has to work with a debt consolidation company to pay it all down. Completely wrecks his credit score, because of what's needed in order to work with those creditors and things like that. And then during Covid, he lost his job. And so even though he had paid it all down, you know, after 7 or 8 months, he was back to $20,000 in credit card debt just to make ends meet. And I think that him sharing that story with me just felt like something that was is a paradigm for what a lot of people are experiencing with credit cards, ou know, they're just trying to make ends meet. They're just trying to survive. They're slowly trying to pay it down and pay a little bit extra every month or every other month. But because people have so little in savings, you know, you're one you're one car problem away from being knocked all the way back to the beginning, so to speak.

SCORING IN, A slow swirl to safety

*<TAPE> My name is Sam, calling from Greenville, South Carolina. I had to use credit cards to get me through college because the federal government would not loan me enough money to make ends meet. I am now working almost 80 hours a week just to make the minimum payments on my credit card.*

*<TAPE> Hi my name is Olena, I am from Atlanta, Georgia and I am actually about to file for bankruptcy because of just the high cost of living. It has put me into really deep credit card debt. I can’t even make the minimum payment anymore.*

*<TAPE> Hi, my name is Lillian, I'm 26-years-old I live in Nashville, Tennessee. I currently pay off my credit card every month at the end of the month but it has been a major problem with me saving money. Just not being able to save those extra $2000 a month because it's all going towards the credit card. So yeah, just trying to keep more in touch with what I'm spending every month, but it's hard to do when all of your spending including your groceries, your gas, your day to day expenses go on the credit card.*

SCORING OUT

JQ: Is credit card debt evenly distributed throughout demographics? Are there subsets of people in the country who are feeling this a lot more?

NICK: One group that’s having a hard time when it comes to credit card debt is Gen Z. A report from the federal reserve bank of New York found that one in every seven Gen Z credit card borrowers are completely maxed out on their balances. One factor to this is that Gen Z have much lower limits to begin with – so the median credit limit for Gen Z was $4,500, whereas it’s over $16,000 for all the other generations – but it illustrates how younger borrowers get trapped in this cycle right from the start, especially when they aren’t earning enough, or they’re using a card as their emergency fund since they don’t have that safety net established yet. There was also a recent study from TransUnion, which found that 84% of 22-24 year olds had a credit card in 2023. When that same age bracket was measured with millennials back in 2013, only 61% of them had a credit card. So it’s not really a “kids being kids“ argument. Whether they want to or need to, Gen Z consumers are opening up and using credit cards sooner than previous generations.

JQ: I want to talk about the almighty credit score, like, which is part of the reason people even get credit cards in the first place. You know, you need it to get a car. You need to get a house like you need it for all these things. What is this doing to people's credit scores?

NICK: Utilization is a pretty chunky part of credit score. It accounts for 30% of the overall Fico score. So in the moment, as long as people are paying their credit cards and they're not maxing themselves out in terms of their balances, it won't necessarily impact their credit score. Delinquency does impact a credit score, right? If you start missing payments, then you're going to get dinged for that. It's also a great point that that credit score culture in general… is it's kind of twisted. And for most people, when they're young, the easiest way to build up your credit history and to get a line of credit of some kind. Is the credit card. That’s the fastest way to open up a line of credit in most cases? And so we kind of had this culture that you I mean, not even just culture, it's just in terms of how people buy a house, how people buy a car, your credit score, it's very much your financial rating. You know, it's your track record And so it it's kind of difficult for us to divorce ourselves from credit card culture because of that.

JQ: Yeah. I guess it's like it's it's one of those things where it's like, okay, in the grand scheme, you probably need a credit card before your frontal lobe develops, but it's like, should you have a credit card before your frontal lobe develops? I don't know. I think of me at 21. No! Take that away from her.

NICK: Well, and I last year I spoke to a, a financial educator who teaches classes in high schools, teaches financial literacy classes in high schools, and something she pointed out, she said this happens in every single class. Kids will well, they won't raise their hand in the class, they'll come up to her afterwards, you know, and they'll say, you know, my parents give me this credit card. And it's just it feels like it's just. Free money. You know it. It's like, UGH you know, so this is the parent, you know, the parent is it feels like they're doing a good job in terms of opening up a credit card, helping their child with their credit history. But for many of those kids, they don't. They don't understand why they have the credit card and they don't understand how to use it. And, you know, I would assert that young people are perhaps more impulsive, you know, at times as they start to, come into adulthood and things like that. And so just having that financial literacy piece in place, you know, is really, really important.

SCORING IN — Bees, marble beat NO SYNTH, BMC

JQ: More with CNET’s Nick Wolny, when Today, Explained returns.

**[BREAK]**

**[BUMPER]**

JQ: Today Explained, we’re back with CNET’s Nick Wolny, talking credit cards. OK Nick, wasn’t there legislation post-financial crisis that was supposed to fix all this and ease the burden on credit card holders?

NICK: I mean, there was and it did ease some of the burden. But, you know, when you're 100ft down the rabbit hole and you get a law that gets passed and, you know, you come ten feet back up, you're still quite far down the rabbit hole.

SCORING IN, Melted Zebra, BMC

NICK: the CARD act…

*<CLIP> FORMER PRESIDENT BARACK OBAMA: The Credit Card Accountability Responsibility and Disclosure Ac*t

NICK: That was in 2009…

*statements will be required to tell credit card holders how long it will take to pay off a balance and what it will cost in interest if they only make the minimum monthly payments. We also put a stop to retroactive rate hikes that appear on a bill suddenly with no rhyme or reason.*

NICK: it gave consumers at least 21 days from the date of statement to actually pay their bill.

*And this law ends the practice of shifting payment dates. This always used to bug me. You know, when you’d get like.. Suddenly it was due on the 19th when it had been the 31st?*

NICK: It limited excessive marketing to young adults. There was a lot of marketing towards college students, right. That who might be more susceptible to, you know, to getting a credit card before they have, you know, a fully robust financial education, financial literacy. So it did make a little bit of a dent, but unfortunately we're dealing with quite a large boulder here. And so, you know, there's more work to be done, certainly.

SCORING OUT

JQ: how did we get to the point where where there can be these wild, wild interest rates?

NICK: Regulations have loosened on credit card interest rates and there are a few reasons why.

SCORING IN - Bouncing along, BMC

Some history here, there was a Supreme Court opinion that came out in 1978, Marquette National Bank versus First of Omaha Corp. And this opinion allowed national banks to be governed by the usury laws of the state that they are headquartered. And so, famously, in the late 70s, Citibank was just absolutely drowning. You know, inflation was extremely high circa 1980. It was actually so high that banks like Citibank were losing money on every single dollar that was on a credit card because they were capped on how much interest they could charge their consumers. So Citibank famously courted the governor of South Dakota, and said, hey, we'd love to move our headquarters to South Dakota. Will your legislature invite us to come to South Dakota? And they agreed. So they abolished the usury laws in South Dakota. Citibank moved there. Several other banks moved there. Delaware followed. Nevada followed. And so as a result, no matter what state you live in, if you have a credit card from that bank and that bank is headquartered in Delaware or South Dakota, that bank can charge whatever it wants to on on the credit card. And as a result, you are you have this very deregulated landscape, that allows national banks to jack up those credit card rates.

SCORING OUT

JQ: So we're at a record high right now. But have Americans always carried credit card debt since these cards have been available?

NICK: Of course. What else is it for? Right?

JQ: <<laughs>>

NICK: Like all the way back in the 1950s, you know that those very first credit cards that came out there was a card called Diners Club, which was one of the first forms of a credit card.

*<CLIP> DINERS CLUB COMMERCIAL, 1979: It’s easy to spot a member of the club. Last year, diner’s club members had over ten million fine meals, took over 500,000 vacations, and savored many helpings of chop suey!*

NICK: And it was really it was very much branded as this social club card. Right. You could go out and be in the Diners Club and things like that. And it was branded very much as an identity. That was also akin to just a lot of the marketing and branding in general in the 1950s.

JQ: Mmm like when you like when you put your Amex and the card and was like, ooh, it's so heavy. It’s metal!

*<CLIP> TIKTOK USER ceo.zairaa: You know you made it when your cards go from sound like this <<plastic hitting counter>> to sounding like this <<metal hitting counter>>*

NICK: Or do you see this is a trend on TikTok now…Gen Zers showing off their amex's as a flex

JQ: That sounds like a good way to get your credit card information stolen.

NICK: Right. That's what I thought. Like, don't flash your platinum Amex today, you know, and so and so it's that's kind of interesting for them as well. It's like the social clout of having the platinum Amex is worth the $695 annual fee. To that. But if you look at the total credit card debt, in America, it's just gone up and up and up and up and up. We had two corrections. We had a correction in the housing crisis. And then we also had a correction during Covid where people were like, oh, crap, I better pay this down in case I lose my job. And so we did see corrections there, but otherwise we have seen that number steadily go up. Another reason we're trying to sound the alarm now is that people are really struggling right now. Historically, in Q1 of each year, we see a little bit of a pay off. People come off the holidays, they're like, oh God, what have I done? And they're actually responsible for some of that New Year's resolution energy as well. People tend to pay down some of the balance. So we usually see a dimple in that line graph. And for the last two years, so Q1 of 2023 and this Q1 as well, people didn't really do that. So even most recently, we went from $1.13 trillion to $1.12 trillion. And this is the quarter where people are supposed to be, you know, really making a dent and paying down their balances. So it's concerning to some economists that people are not following that usual behavior, that people are actually needing their credit card in order to make ends meet. And there's also some concern that in terms of consumer spending, which accounts for a large part of overall GDP, that that is perhaps being propped up somewhat by people using their credit cards and spending money that they don't necessarily have.

JQ: Are there states or lawmakers who are advocating for capping these interest rates, right now?

NICK: Yeah, I mean it's happened multiple times. It tends to die and legislation or when it gets to a certain House committee or a Senate committee. We have we have a couple of different ones that have been introduced over the years. And the most recent one is, the Capping Credit Card Interest Rates Act that was introduced by Senator Hawley of Missouri, which was not on my bingo card, that he would be the one to introduce that.

*<CLIP> FOX NEWS*

*SENATOR JOSH HAWLEY, R-MO: 18% ought to be the cap, my bill would cap it across the board, all credit cards. Cap fees as well, so the credit card companies can’t come in the back door and charge you more. This is basic fairness for working people in this country.*

NICK: The last time it was introduced, it was introduced by Bernie Sanders and AOC. And these sometimes politicians will introduce these laws, even though they know they're going to die in a vote, because it's a good political gambit for them. Right. So, Senator Hawley, when he's out on the campaign trail, people say, like, you're not fighting for the little guy. He can be like, yeah, I did. You know, I introduced this bill. You know, even though, you know, there's a tremendous amount of lobbying money from banks, understandably, that is flowing through, flowing through DC at any given moment. So while we do see some of these different pieces of legislation emerge, you know, you go online to look at the status of the bill, and it's been introduced, you know, the stage that it's in. Okay. It's been introduced since with the committee. And, you know, it's unlikely that it's going to see the light of day again.

JQ: Is there a policy fix to this?

NICK: There is there is a policy fix.

JQ: <<laughs>>

NICK: You know, whether or not we can bring it to fruition, I think is is the challenge. So the most immediate policy fix would be to cap interest rates. You know, and to just allow, allow us to stop the bleeding in terms of consumers falling deeper and deeper into debt, taking a really good look at what are the limits that we are extending to consumers. we've got another, I'll just say it, we've got another villain in the picture, and that villain's name is buy now, pay later.

<CLIP> KLARNA AD: Explore your favorite stores in the Klarna app. Once you have chosen what you’d like to buy, or if you know how much you’d like to spend, choose “Pay with Klarna” to create a one-time card

JQ: Mmm! The Klarna of it all!

NICK: Yeah! And so we've you know it's tricky about buy now pay later is that those companies have been skirting reporting requirements. You know, and so, for many people, we can't even see how much that they have out on buy now, pay later. Bloomberg did a Harris Poll last month, where they found that a third of respondents said they have over $1,000 out on buy now, pay later. And this is four payments over six weeks. You know, it's purposely four payments so that they can skirt under the Truth in Lending Act, which once you get the five payments or more on any form of debt or any kind of loan, then you have a bunch of additional regulatory requirements that you have to adhere to. So that's why you almost always see it be four payments, usually over a six week period. And so it's sort of a cousin to the credit card. Right. So now people already have all their credit card debt. And you can use your credit card for buy now pay later as well.

JQ: Is there a way to get off this credit card ride? Like, is there a way you can just opt out and say, I'm not doing this? No, no.

NICK: If you have credit card debt, then it's just going back to the bones of personal finance, right? I like to say that when we come down to it, personal finance, it's just eight words: “make more money, lower expenses. Invest the difference.” And so if you're trying to pay down that debt and you want to put some extra money toward that debt, then taking a good look at your budget, seeing where you could lower expenses, perhaps bringing in some extra money into the picture, that's going to be the most impactful way to make a dent on those balances. You know, stop using the credit card. Maybe if you're someone who uses the digital wallet a lot, maybe it's time to take those cards out of your wallet just so that you're not tempted in the moment, to shop or to spend things like that. It could also be time to do some of those maybe more unsavory financial activities. You know, you call your cell phone company to see if you can get your bill lowered. You call the credit card company to see if you can get the APR lowered. There's plenty of free scripts and stuff like that online. I know it doesn't sound like much, but 50 or 100 bucks a month of savings. It really adds up to over $1,000 a year when you add it up. And for many people, that can help make the biggest difference.

SCORING IN – uptown scuffle, no drums, BMC

NICK: We need some policy change that is about the cost of living as well. Not just about the credit card as the instrument, because I think, you know, despite their best intentions, consumers are going to keep using that tool to make ends meet for as long as it's available to them. And for as long as prices are at where they're at right now.

JQ: That’s CNET’s Nick Wolny. You can read his latest on credit cards — “Maxed Out: Inside America's Credit Card Debt Crisis -- and What We Do Next” — over at CNET dot com.

Today’s episode was produced by Victoria Chamberlin, edited by Matt Collette, fact-checked by Laura Bullard and Amina Al-Sadi, and engineered by Andrea Kristinsdottir and Patrick Boyd. I’m Jonquilyn Hill, and this is Today, Explained.

I’m Jonquilyn Hill and when I’m not filling in for the very cool Today, Explained hosts, I host my own podcast for Vox. In the fall we’re launching a new show where we answer all your questions. You ask it, and we’ll find you an answer – no matter how big or how small your question is. Everything from how to redo the constitution to what makes jar lids so hard to open. You can email ask vox at vox dot com or call 1-800-618-8545. And we may reach out to you this summer while we’re working on a new show.

**[10 SECONDS OF SILENCE]**