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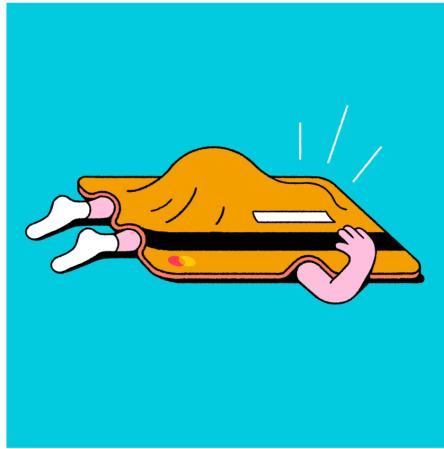
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YOUR MONEY ADVISER

## Credit Card Balances Hit New Peak

Debt rose to more than \$1 trillion in the second quarter, a report found — a sign of financial strain for some, even before student loan payments resume.

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Till Lauer



By Ann Carrns

Aug. 18, 2023, 9:00 a.m. ET

Americans' credit card balances rose briskly in the second quarter, hitting a sobering milestone of more than \$1 trillion, the Federal Reserve Bank of New York reported this month.

Credit cards are the most prevalent type of household debt, New York Fed researchers wrote in a [blog post](#), and saw the biggest increase of all debt types. More than two-thirds of Americans had a credit card in the second quarter, up from 59 percent roughly a decade earlier, the researchers found. And, they noted, card balances were more than 16 percent higher in the second three months of this year compared with a year earlier.

"It's easy to become overwhelmed by credit card debt, and \$1 trillion tells us that many Americans are making purchases with money they don't necessarily have," said Ben Alvarado, executive vice president and director of core banking at California Bank & Trust.

With prices of goods and services rising, consumers are increasingly using credit cards to cover expenses. Younger adults, in particular, are turning to credit to deal with tighter budgets, according to a [recent report](#) from the credit bureau TransUnion.

"Everybody is using credit a bit more to help make ends meet," said Michele Raneri, vice president of U.S. research and consulting at TransUnion.

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Even so, despite the higher prices and rising interest rates (as a result of the Federal Reserve's battle to [tame inflation](#)), there is "little evidence" so far of widespread financial distress among consumers, who have remained resilient, the Fed researchers said. The New York Fed found that card delinquencies, which were unusually low during the pandemic, have returned to prepandemic levels.

But rising balances could strain some borrowers, including those who are scheduled to begin repaying student loans [in October](#) after a three-year break, the researchers noted.

Credit counselors, who advise strapped borrowers on managing their debt, say that they are noticing worrisome trends and that the higher reported balances come as no surprise. "We are seeing that play out in real time," said Jeremy Lark, senior manager of program performance and quality assurance at GreenPath Financial Wellness, a national credit counseling agency in Farmington Hills, Mich. Of the clients GreenPath counseled in July who had card debt on their credit report, the agency said, the median card balance was \$7,717, up from \$4,298 in July 2022.

Inquiries from people citing student loans as a reason for their call to GreenPath rose 50 percent in July from June, the agency reported, adding that it expected a further increase in September as loan services start notifying borrowers of their repayment obligations.

A [recent survey](#) by the financial services company Empower found that a third of households with student debt expected their monthly loan payments to be at least \$1,000, and that many were preparing for "significant" lifestyle and budget changes when repayment begins. Those planned adjustments include cutting back on dining out, as well as taking on more credit card debt.

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That could prove expensive, especially for people who don't pay their card bill in full each month. The average interest rate charged on cards that carry balances was about [22 percent](#) in May, the New York Fed reported, while second-quarter data from the credit bureau TransUnion found the average card debt per borrower was almost \$6,000. Making just the minimum monthly payment, a borrower would take about 18 years and pay almost \$9,500 in interest to pay off the debt, said Ted Rossman, senior industry analyst with Bankrate.

What can consumers do if they are worried about a debt crunch? Borrowers with federal student loans should see if they qualify for income-driven repayment plans, which can lower monthly payments to a more affordable amount. There are several plans, with somewhat confusing criteria. Here is [a guide](#) to those plans, including details of the newest one, known as [SAVE](#).

A review of your spending habits and debts is a good idea, Mr. Alvarado said. He recommended tallying up how many cards you have and noting both their balances and the interest rate you are paying.

There are two popular strategies for paying down credit card debt. The first, often favored by financial planners, involves paying off the card with the highest interest rate first, to save the most money. (Check your card agreement or statement to see what rate you're paying.) With the second option, you pay down the card with the lowest balance first, to quickly build success. Whichever approach you prefer, funnel any extra money toward the targeted card and make minimum payments on the others, so you don't run up late fees or hurt your credit. Once one balance is paid, put the extra cash toward the next card, and so on.

After you pay off a credit card, it can help your credit score to leave the account open while minimally using it. The more unused credit you have, the better the effect on your credit score.

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Here are some questions and answers about credit card debt:

### **Can I transfer my card balance to a new card with a lower rate?**

Balance-transfer offers at zero percent interest are still available, Mr. Rossman of Bankrate said, and people with FICO credit scores of 670 or higher generally qualify. (The average [FICO score](#) since 2021 has been 716.) But before you open a new card, he said, make sure you can finish paying off the transferred balance in the allotted time — typically 15 to 18 months. You'll usually pay a fee of 3 to 5 percent of the balance transferred to the new card.

### **Should I consider consolidating my card debt with a**

## personal loan:

More borrowers are using personal loans, available from online or “fintech” lenders as well as banks and credit unions, as a way to pay off high-interest credit cards. But the benefits may be short-term unless borrowers rein in card spending after consolidating, according to [separate data from TransUnion](#). Personal loans, like credit cards, are “unsecured”—there’s no collateral at risk, as with a car or home loan—but have fixed monthly payments. People who used personal loans to consolidate card debt saw a 57 decrease in their card balances, on average. But 18 months later, the card balances had risen close to their previous levels, TransUnion found, based on data from April 2021 to September 2022.

## Can I use credit cards to repay my student loans?

In general, no, said the financial aid expert Mark Kantrowitz. Neither the federal government nor private student loan lenders allow it, he said, because card issuers charge them fees, and there is a delay in receiving the funds. It’s a bad idea anyway, he said. For one thing, credit cards typically charge much higher interest rates than student loans.

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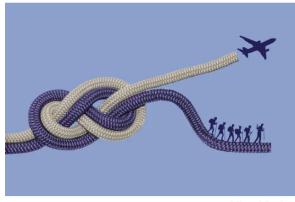
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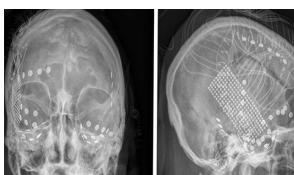
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