Title:
Americans in Debt

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543

Summary:
When it comes to debt relief, home equity is the only asset many people have.

Keywords:
debt relief, debt consolidation loan, mortgage refinancing, home equity loan

Article Body:
Debt is a fact of life in America, making debt relief a national obsession. A search for “debt relief” on Google pulls up over 34 million pages; on Yahoo and MSN, the total is over 12 million pages.

The average American household has $9,300 of credit card debt, but the share of income going to lower credit card debt has fallen to 0.3 percent.

The increase in personal debt can’t all be blamed on overspending. After adjusting for inflation, wages have been flat for the past five years while the cost of essential goods and services like housing, food, medical care and transportation have risen over 11 percent according to the Federal Reserve Board's most recent Survey of Consumer Finances.

Housing Debt
Based on this study, the Washington Post recently reported that,

The debt of the typical American family earning about $45,000 a year rose 33.1 percent from 2001 to 2004, after adjusting for inflation … Housing debt has climbed notably because home prices have risen and people have borrowed against the equity in their homes. From 1989 to 2004, for example, the median mortgage debt more than doubled, from $46,900 to $96,000.

This refinancing trend is one of the main strategies for debt relief. It takes several forms: first mortgage refinancing, second mortgages, debt consolidation loans and home equity lines of credit. These mortgages can be either fixed-interest or adjustable-interest loans.

Many websites keep abreast of current interest rates and offer a free mortgage refinancing application that matches potential borrowers with the best loans based on factors like credit history, FICO score, type of mortgage and size of loan. www.LowOwe.com is typical of sites that help clients reduce the monthly cost of home ownership through refinancing.

Debt Consolidation Loan
A debt consolidation loan converts a passive asset—home equity—into ready cash for debt relief. It is easier to get than other forms of borrowing because the loan is secured by tangible property. It makes better sense than borrowing against the cash value of a life insurance policy or pulling money out of a retirement or 401(k) account.

New or refinanced mortgages don't really reduce debt, but they can restructure it in beneficial ways. Benefits include: being able to pay off high-interest credit cards and other forms of revolving debt; making home improvements that increase the market value of the house; having a single monthly payment at a lower rate of interest. An added plus is that the interest on a home loan or mortgage is usually tax deductible.

But don't wait too long to refinance. CNNMoney.com reports that, "Real estate gains came to an abrupt halt in the first quarter of 2006, with the median price of a U.S. home falling 3.3 percent from the fourth quarter of 2005. … Prices were basically flat or lower during the quarter as inventories of houses for sale rose and their time spent on the market lengthened, according to a survey of 149 markets by the National Association of Realtors."

Even if the Feds keep raising interest rates, mortgage refinancing and home equity loans will still be the preferred form of debt relief for homeowners who find themselves in a financial pinch. At a time when the national savings rate is below zero, home equity is the only asset many people have.