Credit card debt in america assignment

Business

Inga Gudmundsson 15 October 2008 English 100 Analytical Essay Debt Credit card debt is one of this nation's leading internal problems, and it has been for around the last 3-4 decades. When credit was first introduced, and up until around the late 1970's up to today, the standards for getting a credit card were very high; so not everybody could get one. The bar got lowered and lowered to where, eventually, an 18 year-old college student with almost no income and nothing to base a credit score on previously could obtain a credit card (much like myself).

The national credit card debt for families residing in the United States alone is in the trillions (Maxed Out). The average American family has around $9, 000 in debt, and pays around $1, 3000 a year on interest payments (Maxed Out). Many people have the concern today that these interest rates and fees are skyrocketing; and many do not understand why. Most of these people have to try to avoid harassing collecting agents from different agencies, which takes an emotional and psychological toll on them.

While a lot of the newly recognized " risky" people (those with a doubted ability to make sufficient payments) are actually older people who have been customers of certain companies for decades, the credit card companies are actually consciously targeting a different, much more vulnerable group of people: college students. James Scurlock produced a documentary called Maxed Out on this growing problem, in which Senator Jack Reed of (Democrat) of Rhode Island emphasizes the targeting of college students in the Consumer Credit Hearings of 2005 James Scurlock strongly emphasizes this problem throughout the whole documentary.

Students, ranging in ages from 18-22 primarily, are young, and naive. They are out from under their parent’s rule and free to make decisions on their own. This means that many are going to take certain steps necessary to make themselves feel they are more adult-like. According to a study done by the Rutger’s University Senate, the average income of a college student is usually going to range from nothing to something little in substantiality; but their future potential for making money is larger than of those who do not attend college (Student financial…).

James Scurlock sheds light on the fact that these credit card companies are going to do anything they can to get these kids to sign up. The companies send students a lot of advertisements for credit cards in the mail, and they will even come to college campuses and set up booths where anybody can apply for a credit card; usually using free give-a-ways as a form of bribery. According to an article by CNNmoney. com, a survey done in 2008 by the U. S. Public Interest Research Group found that 80% of students received direct mail from card companies, and 22% said they received about four phone calls a month, on average, from these companies.

This extremely persistent marketing and extreme lack of financial experience and discipline leads many college students into serious debt. Students are also a large target because credit card companies know that they often hold onto their credit cards until adulthood; and this is how one builds loyalty to a company. Also, if they fall into severe debt, parents are more likely to help bail them out than parents are likely to bail their adult children out (Dickler). In a survey taken of college students, 66% said that they do own credit cards already, and more than half of that 66% say they use them for day-to-day expenses and books (Kovak).

One in four of these respondents said they have paid at least one late fee, and 15% said they have paid at least one over-the-limit fee. Around 6 percent had had at least one card canceled for nonpayment (Kovak). This is too heavy of a burden for people of this age and experience level to carry. On top of this, there is one factor that makes paying principle debt alone virtually impossible. Interest rates and fees have skyrocketed in the last decade as well, which is now the biggest reason people go into such deep debt, once any amount of debt is initiated.

These rates do not just do this on their own. They are caused by a factor called “ universal default. ” (Jaffe) The universal default, written in all of the small print that comes with every newly issued credit card, states that if one is more than 30 days late on a credit card payment, the rate of interest on these debts will increase dramatically (Jaffe). Ironically, the “ universal default” is not “ universally known and understood. ” This all really started in 1978, when the Supreme Court decided to leave the interest rates up to State Government (McGeehan).

This caused many banks to move their credit card operation stations to states that had removed caps on interest rates, such as South Dakota and Delaware (McGeehan). What has been happening lately, which is not quite yet illegal, is that credit card companies will apply this universal default rule to not only the 30-day late payment period, but will apply it to missing mortgage payments, utility or car payments, carrying too much debt in the first place, using over half of your credit limit for most of your credit cards, and many more things (Jaffe). This is causing people left and right to double their debt with interest rates.

For every $1 in principle spent by the average American, they are paying around $2-3 dollars in interest (Maxed Out). However, the aggressive tactics used by these lenders (in raising interest rates and charging unnecessary fees) have incurred many complaints and lawsuits and even a warning from the primary regulator of national banks in September of 2008 (McGeehan). In an advisory letter written to the lenders, the Office of the Comptroller of the Currency said that banks should not raise card rates without having fully and prominently disclosed the circumstances that might cause an increase (McGeehan).

People often do not think far enough ahead to budget themselves to cover these interest rate increases or these unnecessary fees. When the time comes that a payment is past due, a collector from a bank or a loan company will call the debtor to try to convince them to pay. These people are not quite as aggressive as a collector who works for an agency, because they work for a salary; so there is little or no competition. When these collectors fail to convince a debtor to pay up, a collection agency is there to handle the job.

These people have much more of a tendency to be harassing and ruthless in their attempts to make somebody pay their debt. Their job is to pry reasons out of people as to why they have not paid their bills. If their reasons are considered insufficient, the collector must try as hard as possible to reconvince them. They can call on the telephone all day long, they can show up at a person's front door, and they can even supervise repossession of merchandise that was not paid for, etc. In some ases, these collectors become so competitive in their commission-based jobs, that they will take a debtor's telephone number home and harass them while off the job. This is of course illegal, but it happens all of the time. People will often resort to things such as changing their telephone number, changing addresses; anything they can do to escape these collectors. In cases in which a person has to file bankruptcy, their debt is so high there is no way they could pay it off in their lifetime (with their interest rates and fees).

Tragically, the lives of two young college students were destroyed when they committed suicide due to overriding debt. Their mothers, Trisha and Janne, (last names unavailable) were interviewed in Maxed Out. Unfortunately, they are only two out of thousands of other people adversely affected. Maxed Out by James Scurlock did a really effective job on striking the emotional sides and the factual devastations of these companies. There is something that needs to be reformed in the whole process of giving and using credit.

The business makes most of it profit from the lower-middle class, because they are the largest population to make minimum payments. This is a dirty way of doing business, but since it is most profitable by the companies, it will be hard to change. Either credit card companies need to start screening their customers, and only issue credit to those who have the means to pay, or the ridiculous interest rates and fees need to have laws suppressing the constant rising rate and unnecessary fees. Both of these solutions could ultimately save the American population from a boulder’s size amount of stress, and even suicide. Works Cited

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