House of Cards

You thought the housing crisis was bad? You ain’t seen nothing yet.

By Danny Schechter

Nationwide, 2 million homes sit vacant. Home sales are at a nine-year low. Former Treasury Secretary Larry Summers says that housing finance has not been this bad since the Depression. We still don’t know the full extent of the colossal subprime rip-off, but a recent Bank of America study did some guesstimating on the scale of the consequences of the “credit crisis.” The meltdown in the US subprime real estate market, the bank said, had led to a global loss of $7.7 trillion dollars in stock market value since October.

While many eyes are focusing on the housing meltdown and its hugely negative effect on an economy clearly moving into recession, few are paying attention to the next bubble expected to burst: credit cards. Combined with the subprime losses, such a credit card nightmare has the potential, experts say, of bringing down the entire financial system and global economy. You and your credit card have become key players in the highly unstable financial crunch. Mortgage lender cupidity and bank credit card greed wedded to financial institution deregulation, supported by both political parties, have been made manifestly worse by Bush administration support-the-rich policies. It has brought us to a brink not seen since just before the Great Depression.

While campaigning in Edinburg, Texas, in February, Barack Obama met with students at the University of Texas-Pan American. “Just be careful about those credit cards, all right? Don’t eat out as much,” he said. After the foreclosure crisis, he warned, “the credit cards are next in line.”
The coupling of home equity debt and credit card debt has gone hand in glove for years. The homeowners at risk can no longer use their homes as ATM machines, thanks to their prior re-financings and equity loans, often used in the past to pay off their credit cards. Indeed, homeowners cashed out $1.2 trillion from their home equity from 2002 to 2007 to pay down credit card debts and to cover other costs of living, according to the public policy research organization Demos.

To compound the problem, fewer people are paying their credit card bills on time. And, to flip the old paradigm, more are using high-interest credit card cash to pay at least part of their mortgages instead of the other way around.

The credit card industry (Visa, MasterCard, American Express, etc.) and the 10 banks that dominate the industry as the primary card issuers, spend an estimated $2 billion a year in endless marketing worldwide. We are all bombarded with their solicitations and sales tie-ins and gimmicks. They know that they might only have a 2 to 3 percent return rate, but that more than pays the enormous costs. They have thus succeeded in supplying 1.5 billion cards to 158 million US card holders. That averages to 10 cards per person. In the last few years, retailers, banks, a wide range of companies, sports teams, unions and even universities have launched specialized card programs. Like the car companies that discovered that they made more money on car loans than automobiles, the benefits of what’s been called “financialization” is obvious to more business sectors.

Credit card advertising for new card holders is especially effective now as inflation drives costs up and consumers have less to spend. “Charging it” on yet another new credit card is for many the only option to meet their budgets or maintain their lifestyles, especially as gas prices rise. It’s become habit for many to spend more than they have. As a result, overall US credit card debt grew by 435 percent from 2002 to year-end 2007, from $211 billion to approximately $915 billion.

The relentless, continuing push by the credit card banks doesn’t target potential customers alone. Constant focus group studies and other research techniques are still being used to persuade retailers to encourage more credit card transactions. Increasingly, businesses simplify their use by “swiping” and other gimmicks, no signed receipt needed.

“More and more sectors of the American economy recognize that their financial success is based on the success of the credit card industry,” Robert Manning, the author of the definitive Credit Card Nation and a leading expert who has been sounding the alarm about the consequences of credit card debt, says.

“Everything is very clearly thought out and premeditated. Whether it’s having conferences and think tank sessions about how to encourage people to accept more debt [or] to work with merchants—for example, to persuade merchants with empirical information that…if customers use a credit card that they’ll buy 20 to 25 percent more.”

Manning notes that saving and thrift was historically a positive value in the US. As recently as the 1980s, the national savings rate was 10 to 11 percent. Since 2005, Americans have saved less than 1 percent of their disposable incomes. In fact, the most recent figures from March show that the savings rate is negative, below zero. And also in March the government reported that for the first time since the Depression, Americans owe more on their homes than they have in equity. Essentially, on average, America is broke and its credit cards played a dominant role in getting there.

Manning, who teaches at Rochester Institute of Technology, has taken on the issue with original research and financial literacy courses for students. He found that many of his students already had credit cards before they arrived on campus, some for years.
As we all know, the companies don’t tell about the downside when they are seducing customers. They offer low introductory or teaser rates, in the same way that mortgage brokers enticed sub-prime customers. They offer rewards, frequent flyer miles and other prizes. Students are especially targeted because they have little real-world financial experience. The US Public Interest Research Group, which is campaigning against student debt, says the average is $4,000 per student, but it easily climbs after four years to $15,000 to $20,000.