KEWANEE CREDIT BUREAU

206 1/2 W. 2nd St. / PO Box 93 / Kewanee IL 61443 309-852-2574 fax: 309-852-0995
11-B N. Sixth St. / PO Box 305 / Pekin IL 61555 309-856-6630 fax: 309-347-1351
Web page: www.kewaneecreditbureau.com e-mail: lnelson@ocslink.

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CREDIT CARD CHARGE-OFFS RISING BUT WHY?

The growing number of credit cards now available to consumers seems to be contributing to a steadily rising trend of credit card charge-offs, as more lenders write accounts off as being uncollectible.
The trend is not new, according to the Federal Reserve Board (FRB). Statistics indicate that since the early 1970's, the rate of charge-offs of all credit card debt has risen from just under 2% to 5% this year.
This trend has attracted some attention in recent months and many analysts attribute it to lenders who supply higher-risk borrowers with greater supply of credit cards without raising rates to compensate for the risk.
But researchers for the FRB of New York argue that it is not the supply of cards, but the demand for credit and other factors fueling this trend.
Writing in a recent issue of the FRBNY's "Current Issues in Economics and Finance," researchers Donald P. Morgan and Ian Toll report that they could find no evidence to link the rising charge-off rates on credit cards with the growing supply of credit cards. Just as credit card charge-offs have been on the rise, the researchers point out that the rate of charged-off consumer loans has equally risen.
Instead, Morgan and Toll argue that 2 other factors on the demand side of the equation are driving the charge-off trends - household wealth and the share of heavy borrowers in the population.
The level of household wealth and the number of heavy borrowers were moving in opposite directions until about 1983 and kept the demand of more credit in check, the researchers report. Since 1983, a larger segment of the population has reached the prime borrowing age, between age 25 and 54, just as the level of household wealth also began to rise.
The researchers argue that the convergence of increasing demands for credit and rising household wealth levels, not the availability of credit card loans, is what has fueled the increasing levels of debt burdens and charge-off trends.
The FRBNY's report, "Bad Debt Rising," is available through their web site on the Internet, at: hhttp://www.ny.frb.org (ACA-Credit-Alert, vol 26, #7)

WHY ARE SO MANY AMERICANS GOING BANKRUPT?

Boosters of Memphis will tell you that in their town, compared with the rest of the U.S., the music's sweeter, the barbecue's smokier, and the unemployment rate's lower. What they won't brag about, however, is the fact that the bankruptcy rate is higher, too-a lot higher-almost 4 times the national average. This year, a member of 1 in 23 Memphis households will go bankrupt, the highest rate in the U.S.
What's going on in Memphis matters because the rest of America is catching up: Although this may be the best economy in the U.S. history, record numbers of Americans are going bankrupt. Nationwide, personal bankruptcies since 1994 have risen 44% to 1.1 million, while filings in the Memphis metropolitan area rose 32%. At this rate, warns Mark Zandi, chief economist of Regional Financial Associates, there's a danger of a painful chain reaction. Rising consumer defaults could strain the financial system, lead to tighter credit, and ultimately cause a recession.
The roots of the problem in Memphis are tangled and deep. One problem is Tennessee's debt collection law, which makes it easy for creditors to collect overdue bills directly from the borrowers' paychecks - "garnishment" in legal terms. George Stevenson, a Memphis bankruptcy trustee, says perhaps as much as a third of petitioners want to stop a garnishment. Another problem is simple over borrowing. The average Memphian owes $10,137 in non-mortgage debt, 18% more the the typical American, according the debt rating agency Equifax. A third problem is an apparent propensity for personal misfortune. Studies have shown that the three main life disasters tend to push people into bankruptcy: job loss, illness, and divorce. Memphis' divorce rate is about 10% above the national average.
But all these put together aren't enough to explain the tremendously high bankruptcy rate in Memphis. A visitor soon concludes that this boomtown has a culture of bankruptcy. The city itself went bankrupt in 1879, and so have many of its leading citizens, from the founder of Piggly Wiggly grocery chain to rock & roll legend Jerry Lee Lewis. Because so many people have lived through bankruptcy, there's a strong informal support network for anyone in financial trouble.
There are serious costs to being the No. 1 deadbeat, of course. It's almost impossible to cash checks in Memphis. Used car dealers charge their wholesale cost as a down payment. And lenders are either tightening or giving up. First Enterprise Financial Group, for instance, an Illinois-based sub-prime lender, closed it Memphis operations in May.
These consequences of the bankruptcy situation in Memphis serve as a warning for the rest of the country. So far this year, personal bankruptcies nationwide are up about 20%, and they are likely to set a new record of more than 1.3 million filings.
Eventually, a rising bankruptcy rate leads to tighter credit. Credit-card solicitations for the first quarter of 1997, for example were 5% below the year-ago period. (by Kim Clark, Fortune, June 1997)

KEWANEE CREDIT BUREAU HOURS

Monday - Friday 9:00am to 4:30pm
Kewanee office: 206 1/2 W Second 309-852-2574
Pekin office: 11-B N 6th Street 309-353-6630

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