Vermont Legislative Research Shop

Vermont Credit Card Debt

Background on Credit Card Debt

Over the past decade, the problem of credit card debt within U.S. households has dramatically increased. Currently, the average U.S. household has a credit card debt of $6,429.[1] While it is clear that credit card debt is an issue across the United States, households in Vermont have an average debt well above the national average at $17,000.[2] There are a number of known factors that contribute to credit card debt including cost of living, income, poverty, unemployment, divorce, family size, home ownership, and education.

One of the most obvious reasons people fall into credit card debt is a significant disparity between their household income and the cost of living in their area.[3] Interestingly, a study done by the University of Michigan showed that low-income families with an average debt of $2,900 in 1994 had their debt grow to an average of $18,500 by 1999.[4] According to a 1999 study by the Morgan Quitno Corporation, Vermont ranks twelfth in the U.S. in cost of living.[5] A similar study done in 2001, listed Vermont as twenty-sixth in per capita income with the average income being $28,594.[6]

Closely associated with these ideas is the concept of poverty. According to the Vermont Livable Wage Campaign, when people do not make livable wage, when their incomes

have credit card debts over $7,000.[17] When students graduate with large credit card debts, it becomes very difficult to pay them off in combination with their student loans. In 2001, Vermont was ranked seventh in the U.S. in percentage of population with a Bachelor's degree or higher at 29.9%.[18] Furthermore, Vermont ranked first in the nation with an average state tuition of $7,134 well over the U.S. average of $3,506.[19]

Aside from the reasons listed above, some studies have also discovered that optimism towards paying off credit card debt often leads to further debt.[20] Basically, people who believe that they will make their payments on time and get out of debt are the ones who find themselves in the deepest debt. Unfortunately, we were unable to complete a study on this aspect of debt in relation to Vermont.

Research and Analysis

We conducted a multiple regression analysis to further examine the characteristics that predict credit card debt.[21] Consistent with previous literature, the multiple regression analysis found that state characteristics important in predicting credit card debt were average income per capita, the divorce rate, home ownership rate, poverty rate, percentage of the population with a bachelor degree, and the average cost of state tuition (See Appendix 1 for complete results). The re

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Services, having consumer friendly laws will not necessarily result in lower interest rates for consumers. There is currently no federal cap on interest rates.[24]

Appendix

Table 2: Credit Card De